Accrual Accounting and the Australian Public Sector – A Legitimation Explanation

Nicholas Davis
Charles Sturt University

Nicholas Davis
Charles Sturt University
Panorama Avenue
Fax: 02 6338 4649
Email: ndavis@csu.edu.au

Keywords: accrual, accounting, public sector, Habermas, legitimation
Abstract

The move from the cash basis to the accrual basis of accounting in the Australian Public Sector (APS) was a key element of the New Public Management (NPM) reform program and a development of particular historical significance. The aim of this paper is to identify the key events in this transition and to analyse them through the theoretical lens of Habermas' (1976) Theory of Legitimation. Key elements of the literature concerning accrual accounting in the APS are reviewed, together with a discussion of the relevance of Habermas (1976) to this study. Critical historical events, both leading up to, and during the implementation of accrual accounting are canvassed and areas identified in which Habermas (1976) can be used to shed light on the events that have taken place. The central argument expressed within this paper is that accrual accounting can be seen to be a device through which various administrations throughout the Commonwealth have attempted to combat the tendencies for economic, rationality and legitimacy difficulties that are commensurate with welfare state societies such as Australia.

Keywords: accrual, accounting, public sector, Habermas, legitimation, Australia
### Table of Contents

Abstract

1. Introduction
2. Relevant prior literature
3. Habermas’ Theory of Legitimation
4. Historical context
5. Habermasian analysis
6. Conclusions final thoughts.
7. References
Accrual Accounting and the Australian Public Sector – A Legitimation

Explanation

1. Introduction

In line with the large wave of reforms to the Australian public sector (APS) as a whole, public sector accounting in Australia has experienced a significant degree of change in the past 30 years. Arguably the largest single reform to public sector accounting was the introduction of accrual accounting as a replacement for, or a complement to, cash accounting. According to Guthrie (1998), accrual accounting in Australia involves accrual financial reporting, accrual management systems, whole of government reporting and accrual budgeting. Guthrie (1998) also points out that the essential difference between the cash and accrual methods exists in the timing of the recording of an event. Under cash accounting a transaction is recorded at the time of cash changing hands, while under accrual accounting a transaction is recorded when an event takes place, such as the earning of revenue or the incurring of an expense. This specific reform was, of itself, commensurate with the broader change in the ethos of the public sector from one of traditional government, characterised by bureaucratic administration, to one of a corporatised model influenced heavily by private sector practices.

In-line with the historical significance of this reform, there have been a number of researchers that have attempted to analyse, often with the use of theoretical frameworks, this period of change in the hope of raising new understandings of the events that transpired. Examples of such analyses include Christensen (2002), Potter (2002) and Ryan (1998). However, there is a paucity of such literature, particularly when compared to the body of ‘official’ guidance publications concerning the implementation of accrual accounting. Also, as noted by Christensen (2002), the academic literature concerning this reform has tended to focus on discussions of the merits of this change (for example, Guthrie, 1998) technical issues (for example, Walker et al. 1999) and potential unforeseen consequences (for example, Potter, 1999).

The purpose of this paper is to weigh into the historical debate concerning the reforms to public sector accounting in Australia. Using Habermas Theory of Legitimation (1976) the salient historical events that led to the implementation of accrual accounting in the APS are identified and analysed. The Commonwealth Governments’ reforms and relevant State reforms are addressed throughout. These events, and the period under consideration, begin with the Coombs Royal Commission (RCAGA) in 1976 and end with the full implementation of accrual accounting by Commonwealth
Government in the 1999-00 financial year. This paper commences with a review of relevant prior literature concerning the implementation of accrual accounting. This review is followed by a discussion and justification of the use of a particular theoretical perspective – Habermas’ Theory of Legitimation (1976). The main focus of the paper is on the identification of the salient, key historical developments, beginning with the RCAGA in 1976, and insights provided by Habermas’ theory of Legitimation (1976) into these events.

2. Relevant prior literature

The literature concerning the introduction of accrual accounting in Australia has included a number of ‘official style’ publications that have largely endorsed the use of accrual accounting and recommended its implementation. These include, but are by no means limited to, the Joint Committee of Public Accounts (1995) - report no.338 Accrual Accounting, A cultural change; Barrett (1991), Carpenter (1991), Scullion (1992), the New South Wales Commission of Audit, (1988) and the Victorian Commission of Audit (1993). Each of these publication was produced by bodies or members of bodies that can be deemed to have a vested interest in the implementation of accrual accounting given their obvious links to governments that have championed its implementation.

The academic literature is, however, less supportive. For example, Aiken (1994), Conn (1996), Jones and Puglishi, (1997), Robinson (1998) and Shand (1990) have all discussed whether or not the implementations have been worthwhile. For example, Robinson (1998) argued that accrual accounting was beneficial in terms of measuring intergenerational efficiency, but was limited in measuring the core efficiency of the public sector.

Another branch of the literature concerns some of the more technical elements of accrual accounting. For example, Ng and Shead (1999) discussed issues related to the use of net worth measurements for the public sector. Also of note are studies by Guthrie (1998), who sought to test the rhetoric of the ‘official-style’ publications concerning accrual accounting, and Potter (1999), who discusssed the use of rhetoric to align the ‘needs’ of the public sector with the key traits of accrual accounting, such as its ability to better measure performance, position and efficiency.

In terms of the body of research that has attempted to provide a theoretically informed account of changes to the nature of public sector accounting in Australia, Ryan (1998,1999), Ryan et al. (1999) Christensen (2002), Potter (1999) and Potter (2002) have all made contributions. Ryan (1998) explicated these accounting changes in terms of an ‘agenda setting explanation’ – which is to say
that it was political and economic factors beginning in the 1970's that created an environment in Australia that has favoured the reporting of accrual financial performance information in the public sector. Potter (2002) discussed how the conceptual framework was used as a means of connecting the properties of accrual accounting practices with the reporting and accounting needs of the public sector. Potter (2002) argued that once the conceptual framework was accepted, it created something of a set of rules in terms of the types of language that could be used in discussing the attributes and purpose of public sector accounting and that this ensured the legitimacy of accrual accounting and its concepts of accountability and performance. Potter (2002) explained this practice as 'institutional thinking', which is to say that any thinking that was outside of the conceptual framework was deemed irrelevant and not considered by those involved in the standard setting process.

From this brief overview of the literature, it is apparent that the literature concerning accrual accounting includes official type publications such as governmental reviews, which have been more or less uniform in their support for accrual accounting. This literature has been critiqued by studies that have sought to examine both the rhetoric, as well as some of the more technical elements, of the claims made by the advocates of accrual accounting. Finally, and of greater relevance to this paper, are a set of studies that have attempted to apply some sort of theoretical lens to the implementation of accrual accounting. These include Potter's (2002) use of 'institutional thinking', Christensen's (2002) use of Luders' 'governmental innovation model' and Ryan's (1998) 'agenda setting explanation'. This paper aims to add to these theoretically informed explanations for the implementation of accrual accounting by applying the theoretical lens of Habermas' theory of Legitimation (1976).

3.1 Habermas’ Theory of Legitimation (1976)

Habermas’ Legitimation Crisis (1976) is a social theory that attempts to explain the evolution of the modern welfare state and a number of prevailing issues and problems of this form of societal organisation. It is what Llewelyn (2003) has described as a ‘grand theory’. Habermas (1976) views western society as comprising three distinct subsystems - the economic system in which goods and services are exchanged for money, the administrative system (also referred to by Rahaman, et al. (2004) as the 'political sphere') which refers to government administration, and the socio cultural system, which is defined as:

"the social system dimension within which cultural norms and values are discursively formulated by the participants and ideally, provides the legitimating grounds for the actions taken by the administrators of the mode of production as well as the distribution of the
wealth generated by the economic system”.


As can be seen from the above diagram there are a number of interactions between the three subsystems as discussed in Habermas (1976). The socio-cultural system and the economic system interact via the exchange of labour for goods and services. Unfortunately, the tendency of the capitalist economic system to distribute wealth disproportionately has negative consequences for the integration of the socio-cultural system. The tendency of the economic system to suffer from boom-bust business cycles can also mean that there are times when unemployment and lack of relevant goods and services can exist. Because of this tendency, the administrative system is required to steer the economic system in a manner that is more commensurate with the values and norms of the socio-cultural system. This ‘steering’ can be seen in the form of economic management. This is done through taxes and through the provision of welfare to the socio-cultural system. Unfortunately for the administration, it is faced with an inevitable resource deficiency when the unlimited welfare demands of society are met with the limited tax revenues generated by the economy. This short-fall may then result in a falling away of the legitimacy that the administration requires from the society for its continued function. In times where there is a lack of legitimacy the administration will have to take steps to shore up its support. Habermas (1976) argues that this can be done through a variety of means, for example, the use of expert reviews and ‘judicial
incantations’, or appeals to values and norms held within the socio-cultural system, for example, national pride or ‘the work ethic’. The problem with these appeals, however, is that they have the ultimate effect of damaging the values and norms of the socio-cultural system once the motivation for their use by the administration (i.e. shoring up their own legitimacy) becomes clear. This happens because, according to Habermas (1976), the values and norms of the socio-cultural system are generated communicatively over time in a process of mutual agreement. The ‘bringing to light’ of these values by government can put them in a place where they are open to criticism and rationalisation and hence damage. This damage to the values of the socio-cultural system can then be seen in the form of a lack of motivation in the participants in the socio-cultural system to either provide their labour for the economic system (they may simply live off welfare) or to participate in the legitimation process of government (they become politically disinterested or apathetic).

Therefore, to use Habermas’s terms, within this societal structure there are four potential possibilities for crisis: economic, rationality, legitimacy and motivation (Dillard and Yuthas 2006). The causes of economic crises can be seen to stem from a Marxist explanation of economic crises and are believed to be due to the inherent instability of the market economy. Rationality crises develop when the administrative system is faced with conflicting goals (rationalities) which stem from the need to derive tax revenues from the economic system sparingly, while providing for the unlimited demands from the socio-cultural system. This lack of apparent rationality in the administrative system’s operations may lead to a loss of legitimacy (legitimacy crisis) from the perspective of the socio-cultural system when their needs are not met and the economy continues to be unstable (Rahaman et al. 2004). This may then be followed by a lack of motivation (motivation crisis) on the part of the socio-cultural system to continue to provide its labour to the economic system and its legitimation to the administrative system. Habermas argues that while each of these crises can be dealt with, dealing with one crisis will lead to increased potential for the occurrence of another type of crisis (Habermas 1976).

3.2 Prior use and relevance of this theory

In terms of use within the accounting literature, Habermas’ Theory of Legitimation has been used in at least three prior studies – Dillard and Yuthas (2006), Rahaman, et al. (2004), and Watkins and Arrington (2005). Of particular note are Rahaman et al. (2004) and Watkins and Arrington (2005) as both of these studies involved government accounting practices. Watkins and Arrington (2005) provide a discussion of the New Public Management (NPM) as being a product of the need of the governments of western welfare states to deal with the various tendencies for crisis. They identify that a dominant train of thought within western welfare states has been the pursuit of broad
programs of economic reform, of which the NPM is one, due to the need to reduce taxation and government spending and hence the tendency toward perpetuating various crises. This has meant that public sector organisations have had to replace (or at least complement) ideals such as serving the public, and ensuring freedom, human rights, entitlements and civic virtue, with ideals such as value-added, productivity and efficiency. The authors suggest that accounting is the communication mechanism through which this incentive based framework has been implemented and that this has since created legitimacy, motivation and rationality crises (Watkins and Arrington, 2005). A number of these ideas will be discussed in relation to the implementation of accrual accounting in Australia.

Aside from prior usage within the accounting literature this theory also has a number of other elements that make it relevant for use within the context of accrual accounting in the APS. Firstly, it is a theory of societal evolution which is useful as this paper is by its nature, historical. Also, as this paper aims to analyse Australian Government in the context of prevailing economic and social conditions, this theory provides a useful framework that attempts to explain the interactions between each of these elements. Finally, at the core of this theory is the concept of governmental legitimacy. For example Potter (2002) contended that NPM (of which accrual accounting is one part) was implemented in New South Wales by the Greiner Government, which itself was elected on a platform to reform government administration. This indicates an explicit appeal was made to the socio-cultural system to run the public sector more like a corporation, coining the euphemistic term ‘NSW inc.’. Guthrie (1993, 1998) notes a similar theme concerning the Hawke Government’s election at a Commonwealth level in 1983, in that it too was elected on a platform of reforming government administration. It is therefore worth examining in more detail the prevalence of administrative behaviours that can be interpreted as being means of deriving legitimation. Further to this, Ryan (1998) has also noted that much of the motivation for government reform has been due to prevailing economic circumstances that have gnawed away at governments budgets. This theme is also dealt with by Habermas (1976). Essentially, this theory is useful because it allows a number of historical events to be analysed within a common framework.

A chain of events led to accrual accounting going from something that was merely lobbied for by influential accountants within government to finally being considered as serious policy imperative. These events are discussed in the next section of this paper within the context of the prevailing economic and political circumstances. Habermas (1976) is then used as the lens through which to interpret governmental (administrative) action, using the existing literature as the key source of data.
4. Historical context

4.1 The beginnings of the reform program: accrual accounting is first mentioned

Funnell and Cooper (1998) have noted that between 1900 and the early 1970’s public sector administration in Australia was largely unquestioned. Considine (2001) described this unquestioned approach to public sector administration as being ‘procedural governance’, with its key components being a traditional bureaucratic/hierarchical administrative structure involving accountability via chains of command and a high level of rigidity. However, according to Day (2008), during the mid 1970’s the world experienced a sharp rise in the price of oil, as well as a decline in demand for Australian exports due to the end of the Vietnam war and that:

“After enjoying three decades of mostly low inflation and full employment, Australia was now faced with the twin ogres of inflation and unemployment”

Day (2008, p.414)

Ryan (1998) has also stated that 1976 was a time when the fiscal situation was dire with the cause of this being the aforementioned economic issues of rising oil prices and lower demand for Australian commodities. Because of this, it can be argued that public sector administration, and government in general, came under increased scrutiny and that it was this scrutiny that motivated the initiation of the RCAGA. Parker and Guthrie (1990) provide a thorough summary of the accounting impacts of the RCAGA and while it is fair to say that the immediate impacts of this commission on accounting were indirect, the findings did initiate the move towards the NPM model of public administration, which in turn opened the door for accrual accounting to be proposed as a solution to many of the issues that were identified in connection with the traditional ‘procedural’ approach to public administration.

The RCAGA called for, amongst other things, politicians to become more involved in the running of their departments, the devolution of decision making responsibility to lower levels of management within the administration, enhancement of the accountability of lower levels of management for performance, and reduction of the power held by central coordinating departments (Funnell and Cooper, 1998). In particular, the RCAGA found a lack of accountability in the public sector for outcomes due to the hierarchical administrative structure where public servants were merely accountable to the hierarchy, as opposed to producing outcomes for the public whom they were supposed to be serving.

The RCAGA was the first of many of other parliamentary committees to investigate public
administration at this time. The Senate Standing Committee on Finance and Government Operations (SSCFG0) was formed to investigate the lack of reporting standards (and therefore lack of accountability) for statutory authorities and, in the five reports that it published between 1978 and 1982, argued in favour of accrual accounting as the preferred approach to accounting. In New South Wales, three reports identified reporting shortcomings (e.g., The Wilenski Review of Government Administration – RNSWGA 1977 and the NSW Joint Committees the Legislative Council and Assembly, 1980 & 1981), while similar reports were also brought down in Victoria (Ryan, 1998). Aligning with the Commonwealth recommendations, accrual accounting was also the preferred approach to dealing with the ‘loose’ administrative reporting and accountability practices of the statutory authorities of these states. Furthermore, while the reporting practices of statutory authorities were the first target of scrutiny, the reporting practices of government departments were facing calls for reform as well.

4.2 The influence of Auditors' General and other Government Accountants

According to Ryan (1998), the push for the use of accrual accounting as a solution to the accountability problem was helped along, to some degree, by various Auditors General who had accounting backgrounds (for example, both the Commonwealth and NSW Auditors General called for accrual reporting frameworks in 1980). The Commonwealth Auditor General set up a working party to identify to the accounting profession the weaknesses of accounting standards for use in the public sector in the form of an exposure draft. Meanwhile, the Joint Committee of Public Accounts (JCPA) set about responding to the Auditor General’s exposure draft by recommending seminars with government accountants, a survey of government financial reporting to gather a full understanding of government accounting practices, and the authoring of another discussion paper. The effect of this, according to Ryan (1998), was to stimulate the accounting profession to take an interest in public sector accounting that they had not previously had and this ultimately resulted in the formation of the Public Sector Accounting Standards Board (PSASB) which was to be located within the Australian Accounting Research Foundation (AARF). Ryan (1998) argues that the lack of accounting standards in the APS enabled those with accounting backgrounds (namely, Auditors General from the Commonwealth and States) to argue for the use of accrual accounting as a way of fixing the ‘accountability problem’ identified within the RCAGA and other state based reviews of public sector administration.

4.3 Change to the public administration ethos

Considine (2001) described the new public administration model that existed by the mid 1980's as being ‘Corporate Governance’ which essentially meant that the focus was moved from control of
inputs to control of and accountability for outputs. It also represented the first shifts in the devolution of accountability and a new ‘corporate’ ethos that involved implementing ‘best practices’ from the corporate sector.

The mid 1980’s also saw a change of Commonwealth Government with the Fraser Government (1975-83) voted out and replaced by the Hawke Government. The Hawke Government had been elected on a platform comprising of (amongst other things) a resolve to reform government administration. The Hawke Government set about reducing the budget deficit through a number of measures including the Financial Management Improvement Plan (FMIP) (Guthrie et al. 2003). The FMIP fostered the change of focus from control of inputs to measurement of and accountability for outputs and outcomes. Guthrie et al. (2003) also noted that by the 1980’s the nature of discourse within the APS had become focused on financial measures or other market based ‘best practices’ adopted from the private sector. It was within this environment that accrual accounting was promoted by a number of Public Accounts Committees and Auditors General as a way of measuring performance of the newly devolved public sector management, while a number of other corporate practices, such as risk management and cash management, were also implemented (Ryan, 1998). Also by the mid 1980’s, a number of Public Accounts Committees were highlighting some of the technical benefits of accrual accounting, such as the ability to highlight asset replacement. The committees also identified some specific shortcomings associated with the contemporaneous cash based accounting practices (Ryan, 1998), such as a ‘narrow view of efficiency’ (Guthrie, 1998), 1998).

According to Ryan (1998) it was the biennial conferences between PAC’s and Auditors General in 1987 where the importance of accrual accounting was first made obvious. This prevalence was noteworthy because in previous years accounting had not been a major issue. By 1987, however, a number of state Auditors General were making specific reference to accrual accounting techniques in their annual reports. Meanwhile, the PSASB was working on a conceptual framework as well as the early drafts of what was to become AAS27 – Financial Reporting by Local Governments.

Ryan (1998) discusses how, by 1988 with further fiscal constraints coming to the fore, accountants were now given a presence in most of the nations departments of treasuries – which used to be the realm of economists. Ryan (1998) also makes a point of identifying the links between these accountants in departments of treasury and the PSASB, and that this gave the PSASB a certain amount of influence in formal policy development whereas up until this point their actions had been more of a lobbying nature.
Following on from this came a period where there was a large array of commissions of audit, usually following a change of government. For example, the NSW Greiner Government of 1988, the Victorian Kennett Government in 1992, the Queensland Borbige Government in 1996, and the Howard Commonwealth Government in 1996, all introduced commissions of audit. These commissions were comprised of members of the public accounting profession, as well as accountants who were in departments of treasury. Walsh (1995) argued that often commissions of audit were little more than a mechanism through which incoming governments legitimised policies they already had in mind. In any case, these commissions of audit wholeheartedly recommended accrual accounting for all government departments and statutory authorities and, as Ryan (1998) argued, this represented a real shift from accrual accounting merely being something that was being ‘recommended’ and lobbied for, into something that took on a significant level of support within executive arms of government across Australia.

Despite this level of support, there were still no standards that the public sector could implement as the PSASB had focused mainly on the development of a conceptual framework – with the output of the PSASB being described as somewhat disappointing by commentators such as Walker (1989). Because of this it can be deduced that the various departments of treasury felt compelled to fund the PSASB as a means of speeding up the standards development process and this funding also formally linked the PSASB and executive government. This period also represented a time when the various governments in Australia were co-operating with each other, via working parties, for the harmonisation of public sector accounting standards. It was in this environment that the funding of the PSASB, and hence the development of accounting standards for the public sector, was pursued with more haste than had been the case previously (Ryan, 1998).

Once this formal linkage was made between the PSASB and executive government, the development of standards moved forward. This resulted in the discussion and exposure drafts, and the subsequent development of AAS 29 - Financial Reporting by Government Departments and AAS 31 - Financial Reporting by Governments. According to Ryan (1998) there was a mutual dependency on those accountants within the various departments of treasury and the PSASB, with frequent discussions, formal channels for communication, and a common belief in the superiority of accrual accounting over cash accounting. It was argued by Micaleff (1997) that the publication of AAS 31 filled the last gap in public sector accounting standards, while the full implementation of accrual accounting at a Commonwealth level in 1999-00 essentially completed the process.
Christensen (2002) also sheds some light on the reforms that took place during this period, with particular focus being placed on New South Wales. The key findings of this study were that the initial impetus for accrual accounting came from the NPM agenda (in particular, Nick Greiner’s “NSW inc.” campaign) and the need to handle the accumulated debts the state faced. As with Ryan (1998), Christensen (2002) points out the importance of the audit commission, which was comprised largely of members of the accounting profession, including Arthur Andersen, and how this commission heavily promoted the use of accrual accounting. Christensen (2002) also suggested that there was a natural marriage between the commission of audit and the policies that were about to implemented by the Greiner Government – namely, accrual accounting. Although there was some resistance from account preparers, they soon saw the ‘merits’ that existed with its implementation – not the least of which being internal harmony with the executive government and the ease of recruiting future staff (who presumably would already understand accrual accounting). Christensen (2002) also made the point that the cost of implementing accrual accounting was not a major concern, even though the costs were considerable, and that growing costs were seen, if anything, as a reason to speed up the process. The lack of consideration of any impediments to accrual accounting in the public sector, as well as the questionable ability of accrual accounting to live up to its rhetoric, was something that was of concern in Christensen (2002).

Potter (2002) makes similar remarks in terms of the ‘deductively derived assumption’ that accrual accounting concepts were relevant to the new NPM based goals and functions of the public sector. Potter (2002) also highlighted how the conceptual framework was repeatedly used by promoters of accrual accounting (for example, Micallef and Peirson, (1997)) as a means of inextricably linking the functions of accrual accounting to the accountability and performance measurement requirements of public sector, even in spite of complaints of the specific inappropriateness of this practice, such as those mentioned by Carnegie and Wolnizer (1999) in relation to heritage, cultural and scientific assets.

4.4 Summary of salient events
The history of the implementation of accrual accounting can be traced back the RCAGA in 1976 which called for more accountability, devolved management, and better performance measurement in the public sector. Shortly after this, a number of auditors general ‘courted’ the wider accounting profession into setting up of the PSASB as a means of promoting the use of accrual accounting standards in the public sector. Governments also took steps to improve public sector accounting by putting accountants into departments of treasury. While various Auditors General and accountants in treasury departments were involved in the promotion of accrual accounting it also seems to be
the case that executive government was not entirely receptive to the idea of accrual accounting until changes of government occurred. A pattern appears to exist with changes of government being closely followed by commissions of audit that then recommend the use of accrual accounting. It can therefore be said that it was only after executive governments themselves pursued accrual accounting as a part of their specific policy agendas that real development and better funding of the PSASB took place and the move to accrual accounting in government departments happened. It is also interesting to note that during and since implementation there have been a number of studies - such as Potter (2002) and Guthrie (1998) - that have criticised accrual accounting, but that these criticisms are often met with reference to rhetorical devices – namely, conceptual frameworks that link the goals of the public sector to the functions of accrual accounting – without necessarily addressing the specific issues that are being raised. Carnegie and Wolnizer (1999) made this point in their exchange with Micallef and Peirson (1997). These are the main issues that are addressed in the following section through the analytical lens of Habermas (1976) and supplemented by additional information concerning the nature of the national of economic and political circumstances at a given time.

5. Habermasian Analysis

5.1 Economic context of the times – 1974 - 1999

The context within which the early period of reviews into public sector administration are, firstly, that the national economy was performing poorly, culminating in the 1982 recession which shrank the national economy by 2.1%, resulted in unemployment of 10%, inflation of 12%, 21% interest rates and secondly, that this underperforming economy created a Commonwealth Budget deficit in the region of 3.5% of GDP (Gruen & Sayegh, 2005). The economic turbulence arguably ended the Whitlam Government’s reign (1972-1975) and the inaction of the subsequent Fraser Government (1975-83) to make any significant reforms likewise ended their period in office (Funnell and Cooper, 1998). Chua and Sinclair (1994) make a similar point in identifying that between 1974 and 1983 economic growth averaged 2.2% compared to 5% in the previous decade. Also, the demise of the Hawke/Keating Governments (1983-1996) came in light of a recession (1990-91) and a budget deficit and were followed by the Howard Government (1996-2007) that continued to further the public sector reform program. During this period a number of State Governments also faced significant economic woes – for example, New South Wales in 1988, Victoria in 1992 and South Australia in 1993 - each had burgeoning debts and each elected Governments that claimed to be able to ‘fix’ public administration (Parkinson, 2000).

5.2 Economic and Rationality difficulties and Accrual Accounting

15
Within a Habermasian (1976) framework these phenomena can be viewed as economic difficulties, such as the inevitable boom/bust cycle and the associated unemployment, and how such difficulties lead to issues for continuing societal integration when the economic system ceases to provide a livelihood for many of those dependent on the sale of their labour. Habermas (1976) discusses how western governments have to intervene in market economies in order to ensure societal integration that the capitalist economy inevitably undermines. However, this intervention merely moves the problem of the dysfunctional economic system into the administrative system as the administration then assumes responsibility for management of the economy. Therefore, the administration will also face times of difficulty – referred to as rationality difficulties when government is faced with demands that exceed the resources it can legitimately call upon (i.e. taxes). Habermas (1976) cites fiscal deficits as being one of the key symptoms of a rationality crisis.

A common theme within the literature that addresses the early period of the adoption of accrual accounting in Australia (for example, Chua and Sinclair (1994), Ryan (1998), Funnell and Cooper (1998) and Christensen (2002)) is that fiscal issues were a determining factor in the motivation for the move to NPM, of which accrual accounting was a major element. Economic difficulties that have then manifested fiscal constraints not only seem to have dislodged governments, but they also provided a platform for alternative governments to campaign (for example, Nick Greiner and ‘NSW Inc’), as well as a means of justifying certain policies, of which NPM and therefore accrual accounting have been a part. Ryan (1998) and Potter (2002), for example, highlighted that it was the NSW debt situation that provided the context in which accrual accounting moved from being merely something that was being lobbied for by a number of influential accountants (such as Auditors General and those within treasury) to something that was able to be feasibly justified by executive government. Therefore, a situation exists where, using Habermas (1976), it is possible to trace the initial motivation behind accrual accounting to the economic difficulties of the 1970’s and 1980’s. These economic difficulties caused rationality difficulties which, if Habermas (1976) is looked at further, can be used to identify potential legitimacy difficulties and also potentially some motivational difficulties in the socio-cultural system.

It can therefore be deduced that the implementation of accrual accounting represented an approach that satisfied the need for administrations to deal with economic and rationality difficulties - relieving the rationality (budget) crisis, therefore freeing up the economic system in the form of reduced taxation, whilst also reflecting the values and norms of the socio-cultural system.

Reduction of the size of government was seen as a major goal of the NPM reforms and this
obviously required cost cutting. This fits in with the need for administrative systems to both deal with the rationality difficulties being facing in terms of budget deficits of the early 1980's and 1990's. Guthrie (1998) has argued that accrual accounting, relative to cash accounting, highlights 'full costs' of government activities because items such as depreciation, goodwill and other accrual based measures are not included in cash accounting in the same way. The effect of accrual accounting therefore was to make public sector entities appear to be relatively more expensive, thus justifying expenditure cuts or moves to privatisation and outsourcing. Guthrie (1998) also went on to discuss how the budgetary allocation of many Government activities was still allocated on a cash basis and hence was relatively understated. This went further in creating the impression that, next to a private sector operator, public sector entities were relatively more costly and/or less profitable. Guthrie (1998) also highlighted Hines (1988) assertion that accounting is not merely reflective of reality but that it had an ability to construct reality. In this case, accrual accounting is able to construct the traditional public sector as being relatively inefficient whilst being also able to justify a new 'managerialist' public sector where the important targets are measured in terms of outputs, efficiency, results and outcomes (Guthrie, 1998). With these observations in mind, it can be suggested that accrual accounting was implemented as a means of dealing with fiscal deficits which in turn could be used to alleviate the pressure on the economic system in terms of its propensity to move into a crisis due to an overburden of taxes. With 'small government' at the forefront of government agendas on both sides of politics in Australia, accrual accounting provided a means of demonstrating in full the 'costliness' and 'inefficiency' of government activity and hence the justification for cuts. A link between dealing with rationality and, therefore, economic crises can be seen.

It is, however, in the exploration of legitimation difficulties that more light can be shed on the move from cash to accrual accounting. Habermas (1976) provides a number of other insights into why events may have transpired in the manner evidenced.

5.3 Legitimation difficulties and accrual accounting

Legitimacy difficulties, according to Habermas (1976), follow directly as a consequence of economic and rationality difficulties. Legitimacy difficulties develop when the administration, having assumed the responsibility for the economic system, is unable to align their policies and programs with the values and norms of the socio-economic system. For example, prolonged periods of unemployment or inflation followed by a need to either increase tax or reduce spending can lead to legitimacy issues within the administrative system as they are contrary to the desires of the society and may also result in an inadequate amount of goods and services being produced by the
economic system or a shortfall in welfare provisions. As mentioned earlier, the period between 1974 and 1982 saw two changes of Government at the Commonwealth level, and this can be seen as a prolonged period of economic difficulties leading to rationality difficulties leading to legitimacy difficulties.

Therefore, following Habermas (1976), administrations have to operate in a manner that corresponds to the values and norms present within the socio-cultural system or else suffer a legitimation crisis, either because they are not providing the appropriate amount of resources or because their actions do not reflect the socio-cultural system's values, or both. The problem for administrative systems is that they operate according to 'instrumental' as opposed to 'communicative' rationality and therefore inevitably will have problems properly reflecting the values and norms of the socio-cultural system effectively. This 'instrumental' mentality arguably causes governments to be more interested in the implementation of their programs as opposed to having a 'proper discussion' with a society over issues (Edgar, 2006).

Habermas (1976) argues that the ability of the administrative system to derive legitimacy is limited, and possibly damaging, because of the different ways in which the two systems reproduce their values and norms. Habermas (1976) asserts that socio-cultural values and norms 'have their own vulnerable conditions of reproduction' (Habermas, 1976, p. 70) and that they:

"remain “living” as long as they take shape in an unplanned nature-like manner, or are shaped with hermeneutic consciousness. The critical appropriation of tradition destroys this nature-like character in discourse"

Habermas, (1976, p. 70)

In the process of deriving legitimacy, administrations may make direct appeals to the values and norms of the socio-cultural system. However, because of this misalignment of rationalities, to 'tap into' a source of legitimacy, administrations must first clearly articulate, or 'rationalise' the value. Habermas (1976) argues that the appropriation of values can destroy them. There are a number of examples of governments attempting to deal with legitimation difficulties in the literature.

Firstly, the literature discussed earlier highlights in some detail the role of the accounting profession in the creation of the PSASB, the creation of the public sector conceptual framework for accounting, public sector accounting standards, the use of consultants when accrual accounting was rolled out in NSW, and the increasing presence of accounting professionals in Departments of Treasury across Australia. Habermas (1976) argued that administrations will make 'symbolic use of hearings, expert judgments and juridical incantations' Habermas, 1976, p.70) in order to ensure the
readiness of the socio-cultural system to follow their policies. In other words, rather than painstakingly arguing the specific merits of a policy change or grappling with the different approaches to value formation (communicative versus instrumental approaches), administrations may use the accumulated expertise of a respected group in society to bypass the value formation process. Arguably the accounting profession was procured by the administrative system for this purpose as the socio-cultural system is more inclined to unquestionably follow their administration if the relevant expertise of a respected group such as the accounting profession is being utilised to support the administration's argument.

Secondly, Habermas (1976) refers to the need for administrations to tap into the values of a socio-cultural system in order for their policies to be legitimate. The implementation of accrual accounting can be seen to symptomatic of this process and to illustrate this an example provided by Walker and Walker (2000) is provided. In a discussion of public sector reform Walker and Walker (2000) discussed the stereotype of government workers (roadside workers in this case) being lazy due to the impression that while one worker was digging five or six were standing around watching and chatting. Walker and Walker (2000) make the reasonable point that digging is hard work and that even a fit person can only dig for a short period non-stop before needing a rest, and that the workers were probably just cycling the work around. Nonetheless, the impression given to passers-by is that the workers are lazy and that, if they worked in the private sector, they would be working in a more efficient manner. Such rhetoric regarding the efficiency of the private sector and the need for the public sector either to privatise, outsource, corporatise, or at the very least adopt private sector practices, is pervasive throughout the NPM and 'official type' accrual accounting literature. These arguments have also been used to push for accrual accounting in just about every government review of accounting practices since the 1980's – that is, private sector accounting practices are needed for the public sector to demonstrate its accountability for the efficient use of public monies. Perhaps then what can seen here is a direct appeal through these reviews to, as Habermas (1976) has put it:

"... confirm and exploit existing structures of prejudice and... garnish certain contents positively, others negatively through appeals to feeling, stimulation of unconscious motives etc"

Habermas (1976. p.70)

What can be seen to exist then is an exploitation by administrations of a prejudice against traditional public sector administration in order to deal with legitimacy difficulties that they may be facing (which in themselves flow from economic and rationality difficulties). Unfortunately for
administrations, however, Habermas (1976) goes on to suggest that such appeals have negative consequences because:

“A cultural tradition loses ... force as soon as it is objectivistically prepared and strategically employed”

Habermas (1976, p.71)

While it is difficult to substantiate whether appeals to public prejudices have actually damaged the original societal values that concern the ‘inferiority’ of traditional public sector administrations, Lapsley (1999) has commented that this could in fact be the case should the quality of public sector service delivery decline as a result of public sector rationalisations that are commensurate with the NPM agenda. It has been argued that another element of the NPM agenda, outsourcing, experienced a ‘golden era’ (Bisman, 2008) that ended around the turn of the millennia – which similarly, is when the last substantial reforms to public sector accounting were made. The point here is that the pursuit of reforms to the public sector is perhaps not the source of legitimacy that it once was, given the apparent lack of change since 2000.

A third example of legitimacy difficulties can be found with Ryan (1998), who made note of the pattern whereby accrual accounting was pursued with somewhat more vigour after elections that resulted in changes of government. The election of the Howard Government (1996), the Greiner Government (1988) and the Kennett Government (1992) all resulted in committees of audit that recommended a move to accrual accounting which was then pursued by each of these Governments. It can also be observed that just about every Government elected in the period between 1975 and 2000 included administrative reform as some plank in their policy platforms. This is just as true of the Hawke Labor Government in 1983 as it is of the Howard Conservative Government in 1996. Also, in both cases significant cuts were made to the public service, with, for example, Hawke trimming the number of government departments from 27 to 19 in 1987, and Howard cutting the number of public sector jobs by 14,000 between 1996 and 1998, with a further 8,000 cut in 1999 (Curtin, 2000). In other words, reform of the public sector has shared bipartisan support. Habermas (1976) would suggest that the pattern identified here of opposition parties campaigning on the basis of ‘better public administration’ actually contributes to the legitimacy issues faced by administrations. Not only does this contribute to the undermining of existing practices, but it may cause disillusionment when expectations are raised in the socio-cultural system that cannot possibly be met. On this point there is a significant sub section of the literature that has been cited earlier (Aiken, 1994; Conn, 1996; Guthrie, 1998; Jones and Puglisi, 1997; Robinson, 1998 and Shand, 1990) which has sought to highlight some of the technical issues, misapplications, and the use of
rhetoric over rational argument inherent within the literature that is supportive of accrual accounting in the public sector. When Habermas (1976) is applied to this historical period, accrual accounting can be viewed as a convenient manifestation of ‘private sector’ technologies that have been a part of the political manifestos as a way of assisting in the process of getting elected. Ultimately, however, the failure of touted policies to live up to expectations will also result in flagging legitimacy – flagging legitimacy that can be traced back (according to Habermas, 1976) to the very private market that has been used as some sort of idol of best practice.

The fourth example of legitimacy issues focuses more on the use of rhetoric inherent within one of the ‘debates’ concerning accrual accounting. Potter (2002) suggested that those who observed an exchange between Carnegie and Wolnizer (1995, 1997) and Micallef and Peirson (1997), as well as others (Carmen et al., 1996; Hone, 1997; Newberry, 2001), concerning the relevance of accrual accounting for cultural, heritage and scientific collections became quickly aware that those involved (specifically, Carnegie and Wolnizer on the one hand and Micallef and Peirson on the other) were not going to agree. Of particular note for Potter (2002) was the situation where Carnegie and Wolnizer (1995) posed four specific questions to Micallef and Peirson whose response, in Micallef and Peirson (1997), was to ignore the specific questions and to fill the body of their reply with a retelling of the linkages between the accountability concerns of the public sector, the conceptual framework, and accrual accounting. Potter (2002) also noted the uncritical acceptance of accrual accounting principles by Micallef and Peirson (1997) given the lack of ‘rigorous research, both empirical and otherwise in support of a range of compelling arguments put forward by Carnegie and Wolnizer’ (Potter, 2002, p. 83). Another observation of note was that Micallef and Peirson were both involved with development of accounting regulations, with the former involved with AARF and the later with the PSASB. Once again, if Habermas (1976) is used as a theoretical lens, then Micallef and Pierson can be seen as members of the administrative system, given their links to policy development. They are hence only able to operate with instrumental rationality, which is aimed at ensuring a particular policy imperative is achieved, rather than ensuring that the better argument wins the day. In light of their inability or perhaps disinterest in addressing a number of reasonable questions, and their apparent focus on merely reiterating the same arguments that had been already expressed in any number of official publications, it would appear as though this observation has some merit. Habermas (1976) cites this misalignment of imperatives (better argument versus a specific goal) as being a key reason why administrative systems will always ultimately struggle for legitimacy in the eyes of the socio-cultural system.

Finally, Habermas (1976) can be used to provide some thoughts on the broader nature of the two
types of accounting in question (cash and accrual) and the side effects of the move to accrual accounting in terms of flagging legitimacy for administrative systems. The genesis of cash accounting, according to Funnell and Cooper (1998), can be traced back to the origins of the Westminster system of government where there was a requirement for branches of government to provide an account for expenditures. This was done on a cash basis as this met the traditional accountability of the public sector which included stewardship and accountability for the monies acquired through taxation. This point is made in Funnell and Cooper (1998) where they highlight the following quote:

"Governments have historically operated on annual cash basis because this is fundamental to democratic constitutional safeguards which have been evolving since the days of King Charles I in England. The basic safeguard is that no monies shall be collected or spent except in ways and amounts approved by the Parliament through Budget appropriations."

Commonwealth Joint Committee of Public Accountings (1982, pp. 9-10)

It would therefore appear that as far as accounting in the public sector is concerned, cash accounting has developed in a 'nature like way' to meet the needs of the public sector over time and it went unquestioned in some form for as long as the Westminster form of government has existed. This changed when public administration as a whole came under question and this consequently provided the opportunity for various accountants in public administrative positions (such as Auditors General – see Ryan, 1998) who had identified a 'vacuum' in the public sector in terms of a lack of accounting policy, to fill this vacuum with a discourse (largely rhetorical – see Guthrie, 1998) that highlighted the apparent flaws of public administration, of which cash based accounting was one and the apparent benefits of accrual accounting to interlock with the new, lean, efficient public sector. Since this time there has been much debate over the benefits of accrual accounting to deliver on what it has promised and much justification for accrual accounting is reliant on the Statement of Accounting Concepts (SAC) - a document that was written for the exact purpose of linking the goals of the public sector with the 'attributes' of accrual accounting – these being its ability to deal with the 'new' expanded accountability within the public sector. According to Funnell and Cooper (1998) these include financial viability, fiscal compliance, management performance and full costs of services. Put simply, the 'new public service' is now accountable for a wider array of matters and accrual accounting is, according to its promoters, particularly well equipped at measuring the public service in terms of each of these matters for which it is now accountable.

Lapsley (1999), however, made the point that the greater use of accounting was a symptom of the expanded rationalisation of the public sector and it is this new expanded form of measurement
where Habermas (1976) can be used to elucidate some of the potential unforeseen side effects. Lapsley (1999) suggested that many public sector practices that had existed unquestioned and apparently with minimal disagreement had all of sudden been analysed and broken down into each of their functional components. Lapsley (1999) then went onto to argue that this rationalisation was like the Ritzer's (1996) 'McDonaldisation' – where the focus is placed on things that can be quantified to the extent that quantity replaces quality and all experiences that cannot be conveniently measured are ignored or de-emphasized. This 'McDonaldisation' of the public sector can be seen to conceptually similar to Habermas's (1976) discussion of the loss of meaning that can take place when traditions that have been developed over long periods are rationalised in discourse by the administration, which itself is confined to instrumental rationality. In support of this, many authors (for example, Guthrie, 1998) have highlighted the natural linkage between cash accounting to the traditional role of the public sector, while Ma and Matthews (1992, 1994) have highlighted the irrelevance of accrual accounting for public sector departments due to the fact that they have no profit making goal, no vulnerability in terms of gearing or solvency, and no capacity for adaptation. Meanwhile, Barton (1999, 2005) highlighted the fundamental differences between the nature of the two 'sectors', such as the communal nature of the public sector, its inability to choose which services to deliver, its focus on helping the needy in society, and that it provides a number of public goods for which no functional private market could exist. These arguments would support the case that accrual accounting may be forcing the public sector to focus on elements that may not necessarily be reflective of its traditional role and, in the process, some areas (Lapsley (1999) refers to health and education) may in fact lose quality as administrators pursue easily quantifiable measurements. This drop in quality suggested by Lapsley (1999) may then, if Habermas (1976) is used to analyse the situation, actually do more to damage to the standing of the administration in the eyes of the socio-cultural system and therefore contribute to perpetuating the series of difficulties and crises that have been discussed thus far. Habermas (1976) goes onto to identify a fourth crisis tendency – a motivation crisis – where members of the socio-cultural system cease to participate in the value creation process due to a disillusionment with the administration's appropriation of values for the purpose of dealing with their own legitimacy difficulties. If this thesis is applied in this scenario it can be proposed that the use of 'private sector superiority' arguments to effectively justify techniques that have actually damaged public sector service delivery may result in creating a society that is further disenfranchised and disillusioned with the standard of public administration.

6. Final thoughts and conclusion

This paper has sought to shed some light onto the changes that have taken place to accounting within the APS between 1974 and 1999 by utilising Habermas's (1976) Theory of Legitimation. The
key findings of this paper are that due to the nature of Australia's welfare state, economic crises during the period of analysis inevitably manifested themselves in terms of a rationality crisis within the administrative system – the main symptoms of which were fiscal deficits and increasing levels of debt. These rationality difficulties then led to shortfalls of legitimacy for governments and this in turn had to be dealt with by both addressing the amount of funds available, by reducing government outlays, as well as making appeals to the values and norms of the socio-cultural system. The argument presented in this paper is that accrual accounting was able to perform both of these roles, as it is able to, relative to the cash basis of accounting, overstate the costs of public services, thus providing 'objective' evidence of the need to cut costs, whilst also representing the broader NPM agenda that appeals to the anti-government/pro private sector prejudice that arguably resides within the socio-cultural system. Further evidence of legitimation difficulties was also provided in a number of areas. It was suggested that the accumulated expertise of the accounting profession was used as a source of legitimacy by the administration, as well as a means for by-passing the complicated process of value formation in the socio-cultural system. The bipartisan nature of the reform program that was manifested in a certain degree of 'one-upmanship' was then cited as a source of legitimation difficulties as the two party system naturally raises the bar for incoming governments and makes the achievement of goals that much more difficult, thus leading to further disillusionment within the socio-cultural system. It can be suggested that this process has added to the ramping up of the rhetoric in terms of what can be achieved by accrual accounting. The nature of the debate concerning heritage, cultural and scientific assets was then used to identify an example of the forms of instrumental communications used by the administration which is focused on the achievement of a particular policy outcome as opposed to having an open discussion where the better argument can win the day. Finally, and with the use of Lapsley (1999), it was argued that cash accounting better suited the traditional role of the public service, while accrual accounting represented a shift to a new rationalisation where only things that can easily be measured are valued. It was argued that this in itself would only lead to further legitimacy issues, as well as possible motivation issues, when the socio-cultural system realises that the existing 'anti government' sentiment has been used as an excuse to run down public service delivery.

One final observation in terms of the implications of Habermas (1976) is that this theory traces each of these crisis tendencies back to the nature of the economic system and its inability to spread wealth evenly or consistently over time, thus leading to periods of unemployment and a decline in living standards for those within the socio-cultural system. Given this starting point of the theory, it can therefore be asserted that it is in fact the private economy that is the genesis of crises that occur in the administrative and socio-cultural system. This assertion is opposed to the conventional
rhetoric of NPM advocates, who argue that it is in fact the inherent inefficiency of the public sector that is the cause of society's woes. From the point of view of Habermas (1976), it seems odd that the public sector would embrace a set of guiding principles that, when applied to the private sector, have a habit of being associated with regular economic catastrophes thus inevitably making it the task of government administrations to attempt to reintegrate society. Perhaps the time has come for governments to forge a new way – one that suits their own needs – as opposed to merely adopting a set of techniques that were not originally developed for public sector purposes and that can only at best be justified using rhetoric that is unable to address any specific concerns.

7. References


