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# Accrual Accounting and the Australian Public Sector – A Legitimation Explanation

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## **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 an event of historical significance. The aim of this paper is to identify 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. These critical historical events are then analysed according to Habermas (1976). The central argument expressed within this paper is that accrual accounting can be seen to be a device used by different levels of government in the APS in an attempt 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; Literature; Accounting history



# Accrual Accounting and the Australian Public Sector – A Legitimation Explanation

Nicholas Davis<sup>a</sup>

## 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 an event of historical significance. The aim of this paper is to identify 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. These critical historical events are then analysed according Habermas (1976). The central argument expressed within this paper is that accrual accounting can be seen to be a device used by different levels of government in the APS in an 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; Literature; Accounting history.

**JEL Classification:** M400

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## 1. Introduction

In line with the profound wave of reforms to the Australian public sector (APS), public sector accounting in Australia has experienced a significant degree of change across the past 30 years. Arguably, the largest single reform to public sector accounting was the introduction between 1988 and 2000 of the accrual basis of accounting as a replacement for, or a complement to, the cash basis of accounting. Accrual accounting in Australia involves accrual financial reporting, accrual management systems, whole of government reporting, and accrual budgeting (Funnell & Cooper 1998).

Commensurate with the historical significance of this reform, a number of researchers have attempted to analyse this period of change, often with the use of theoretical frameworks, in the hope of reaching new understandings of the events that transpired. Examples of such analyses include Ryan (1998), Christensen (2002), and Potter (2002). There is, however, a paucity of theoretically informed literature, particularly when compared to the body of 'official' guidance publications concerning the implementation of accrual accounting. The academic literature concerning this reform has also tended to focus on discussions of the merits of the change (for example, Guthrie 1998), technical issues associated with the change (for example, Walker, Clarke & Dean 1999), and potential unforeseen consequences of change (for example, Potter, 1999), without necessarily providing theoretically informed accounts or adopting an approach that is explicitly historical in nature (Christensen 2002).

The purpose of this paper is to inform the historical debate concerning public sector accounting reforms in Australia. An approach consistent with the notions of 'new' history is utilised in constructing this paper, meaning that emphasis is placed on the interpretation of events via a critical interpretive theoretical framework (Carnegie & Napier 1996; Funnell 1996; Miller, Hopper & Laughlin 1991; Tinker & Neimark 1987). Using Habermas' Theory of legitimation (1976), the salient historical events concerning the implementation of accrual accounting in the APS are identified and analysed. The main jurisdictions referred to are the State of New South Wales (NSW) and the Commonwealth Government of Australia, although the actions of other States within the Commonwealth are referred to throughout.

## 2. Accrual Accounting

The essential technical difference between the cash and accrual methods exists in the timing of the recording of an event. However, this technical focus belies the argument that accrual accounting reforms are much broader in context and import than a mere change in the timing of recognition. As argued by Conn (1996), accrual accounting can be seen as being 'code for a wider ranging set of reforms'. Guthrie (1998) linked public sector accrual accounting with Hines' (1988) notion that accounting can go beyond passively reflecting reality, by constructing reality. As alluded to by Conn (1996), accounting reform was the impetus for broader changes to the public sector that included the use of a corporatised model influenced heavily by private sector practices. In other words, accrual accounting can be viewed as a means through which corporate approaches to administration were transferred on the public sector. It is, however, essential to acknowledge that the history of public sector accounting in Australia is not, in reality, a simple case of one exclusive method (cash) being replaced with another (accrual) at various levels of government within the APS. While Scott, McKinnon and Harrison (2003) discuss the use of accrual accounting techniques within specific hospitals in NSW

between the 1930's and the 1970's, the adoption of accrual accounting by the NSW Government in 1988 was nevertheless claimed to be the first such application of accrual accounting to the inner budget sector outside of New Zealand (NSW Government, 1990).

The literature concerning the introduction of accrual accounting in Australia is dominated by a number of 'official-style' publications. These have largely endorsed the use of accrual accounting and recommended its implementation and include, but are by no means limited to, the New South Wales Commission of Audit (1988), Barrett (1991), Carpenter (1991), Scullion (1992), the Victorian Commission of Audit (1993) and the Joint Committee of Public Accounts (1995) report no.338 *Accrual Accounting, A cultural change*. Each of these publications 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 such implementation, such as the NSW Greiner Government and the Victorian Kennett Government.

This 'official-style' literature has been critiqued in studies that have sought to examine the overall worthiness of the reforms, issues related to some of the technical elements of the implementation, and the veracity of the claims made by the advocates of accrual accounting. The worthiness of accrual accounting reforms have been assessed by Shand (1990), Aiken (1994), Jones and Puglishi, (1997) and Robinson (1998) and the issue as to whether accrual accounting can cope with the more specific requirements of the public sector has been addressed by Carnegie and Wolnizer (1996, 1999) and Ng and Shead (1999). Further, Guthrie (1998) sought to test the rhetoric of the 'official-style' publications concerning accrual accounting, and Potter (1999) discussed the use of rhetorical devices to align the 'needs' of the public sector with the key traits of accrual accounting.

Of particular 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. Ryan (1998) explicated accrual accounting changes in terms of an 'agenda setting explanation' – which is to say that political and economic factors, beginning in the 1970's, created an environment in Australia that favoured the reporting of accrual financial performance information in the APS. 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. This process was described as 'institutional thinking' in that any thinking that was outside the conceptual framework was deemed irrelevant and not considered by those involved in the standard setting process. Finally, Christensen (2002) used 'Luder's contingency model' to present five hypotheses concerning the interactions between the users of accounting information, the producers of information, and the promoters of accounting change.

This paper aims to add to these theoretically informed explanations for the implementation of accrual accounting by applying the lens of Habermas' theory of legitimation (1976). Likewise, this paper also aims to contribute to the historical literature regarding this event and which is presently only explicitly served by Christensens' (2002) study.

### 3. Approach to Historical Enquiry – New History

The historiography of this paper adheres to the general type referred to as 'new' history (Carnegie & Napier 1996; Fleischman, Mills and Tyson 1996; Funnell 1996; Miller, Hopper & Laughlin 1991; Tinker & Neimark 1987). This approach means that, rather than merely gathering 'facts' and providing a narrative essentially based on passive rendition and presentation of these 'facts' garnered from primary source material, the

focus of study is instead on the interpretation of the historical evidence gathered. The evidence gathered and used in this paper is confined to secondary data that already exists within the literature. Therefore, this paper represents a reinterpretation of existing evidence, as opposed to an exercise in gathering and discussing new evidence.

A key element of 'new' history includes the rejection of the idea that the history of accounting represents a set of evolutionary improvements that have led to modern practices acquiring the status of being the 'best' (Funnell 1998). 'New' history also metaphorically views 'accounting as politics', in the sense that accounting favours the needs of specific interest groups, and 'accounting as mythology' in the sense that accounting can be used to legitimise, rationalise and justify decisions that are being made for the benefit of specific groups (Morgan 1988).

Other key elements that differentiate the 'new' approach from the 'old, or 'traditional' approach include 'historical subjectivity', where 'new' accounting historians embrace and accept the subjective nature of historical enquiry (Fleischman et al. 1996). Interpretations are often fuelled by theoretical perspectives such as those provided by Michel Foucault (such as in Miller & O'Leary 1987) or Marxist theory (as in Tinker & Neimark 1988). Furthermore, "critical historians have been more 'eclectic' in examining the social, politic, cultural, and ideological contexts within which organisations have evolved" (Fleischman et al. 1996). The theoretical framework adopted for the purpose of this study is Habermas' theory of legitimation (1976).

#### *Habermas' Legitimation Crisis (1976)*

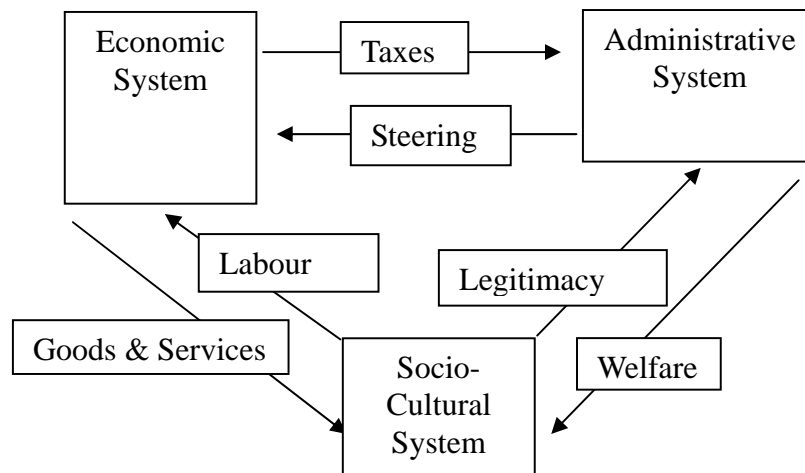
Habermas' Legitimation Crisis (1976) is a social theory that attempts to explain the behaviour of the modern welfare state as it grapples with a number of prevailing difficulties and crises that are commensurate with this type of societal organisation. It is what Llewelyn (2003) would describe as a 'grand 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, Lawrence and Roper (2004) as the 'political sphere', which refers to government administration and its interactions with the economy and society; 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.

Dillard & Yuthas (2006, pp 202-223)

Figure 1 models the interactions between the three sub-systems as discussed in Habermas (1976). The socio-cultural system and the economic system interact via the exchange of labour for goods and services. The economic system and the administrative system interact via taxes and 'steering', which is economic policy such as industry policy, tariffs, and subsidies. Meanwhile the socio-cultural system interacts with the administrative system via welfare and the provision of legitimacy to the administrative system.

**Figure 1: Habermas' Theory of Legitimation**  
Adapted from Habermas (1976)



To use Habermas' terms, within this societal structure there are four potential sources of difficulty that may ultimately lead to crises - economic, rationality, legitimacy and motivation (Dillard & Yuthas 2006). The causes of economic crises stem from a Marxist explanation and the inherent instability of the market economy. Rationality crises develop when the administrative system, which is forced to intervene in the economic system, is faced with conflicting goals (rationalities) which stem from the need to derive tax revenues sparingly from the economic system, while providing for the unlimited demands from the socio-cultural system. This lack of a clear rationality in the administrative system's operations may then lead to a loss of legitimacy (legitimacy crisis) from the perspective of the socio-cultural system when society's 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 (1976) 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.

### Prior Use and Relevance of Habermas' Legitimation Crisis

In the accounting literature, Habermas' Theory of legitimation has been used in at least three prior studies – Rahaman, et al. (2004), Watkins and Arrington (2005) and Dillard and Yuthas (2006). Watkins and Arrington (2005), in particular, provided a discussion of the New Public Management (NPM) as being a product of the need for governments of western welfare states to deal with the various tendencies for crisis. Watkins and Arrington (2005) identified that the pursuit of public sector reforms (such as NPM) is due to the need to reduce taxation and government spending and hence the tendency for perpetuating crisis tendencies. Watkins and Arrington (2005) suggest that accounting is the communication mechanism through which the incentive-based framework (NPM) is implemented.

In addition to these limited instances within the accounting literature using the Theory of legitimation, the theory also has a number of other elements that render it

relevant for application within the context of accrual accounting reforms within the APS. Firstly, it is a theory of societal evolution that is useful in historical research in accounting. Secondly, the theory provides a number of insights into administrative behaviour during times of economic and budgetary difficulty, such as those faced in Australia during the 1970's to 1990's. Finally, while the existence of alternative explanatory theoretical frameworks is acknowledged, for example, Legitimacy Theory (Dowling & Pfeffer 1975), Coercive and Mimetic Isomorphism (DiMaggio & Powell 1983) and Capture Theory (e.g. Walker 1987), it can also be argued that Habermas (1976) is able to provide complimentary insights to all of these theories, but within one common framework. For example, Capture theory may explain elements of the behaviour of professional accountants, involvement in the standard setting process, and the subsequent behaviour of regulators, but it says little about broader economic and social circumstances. Habermas (1976), however, follows the behaviour of government administrations back the broader capitalist economic system and is thus inherently more critical than the above 'bourgeois' political economy theories. Essentially, the Habermas' (1976) theory of legitimation has the potential to place administrative actions and events within a broader societal and economic framework where further causes, underlying motivations and effects can be understood. However, it should be acknowledged that the insights provided by this theory do not rule out the existence of alternative explanations, nor is it being claimed that the theory and related insights represent a complete account of the phenomena under analysis.

#### 4. Salient Events

##### *Economic and Political Context of the Times: 1974-1999*

The context within which the early period of reviews into public sector administration occurred was one in which the national economy was performing poorly, culminating in the 1982 recession which shrunk the national economy by 2.1%, resulted in unemployment of 10%, inflation of 12%, and interest rates of 21%. This underperforming economy also 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 & 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. Later, the demise of the Hawke/Keating Governments (1983-1996) occurred in the wake of a recession (1990-91) and budget deficit, followed by the Howard Government (1996-2007) which continued the public sector reform program. During this period, a number of State Governments also faced significant economic woes and electoral routs, such as those in NSW in 1988, Victoria in 1992, and South Australia in 1993, where each had burgeoning debt and elected governments that claimed to be able to 'fix' public administration (Parkinson 2000).

The history of the implementation of accrual accounting can be traced back the Royal Commission on Australian Government Administration (RCAGA) in 1976, which called for more accountability, devolved management, and better performance measurement in the APS. Prior to (and for a period immediately after) the RCAGA, the APS was organised along traditional bureaucratic lines. Considine (2001) described this unquestioned approach to public sector administration as being 'procedural governance', with its key components comprising a traditional bureaucratic/hierarchical administrative



structure involving accountability via chains of command and a high level of rigidity. Another parliamentary committee to investigate public administration was the Senate Standing Committee on Finance and Government Operations (SSCFGO). The SSCFGO was formed to investigate the lack of reporting standards for statutory authorities and in the five reports that it published between 1978 and 1982 it argued in favour of accrual accounting. In NSW, the Wilenski Review of Government Administration (RNSWGA 1977) and the NSW Joint Committees of the Legislative Council and Assembly, (1980, 1981) recommended accrual accounting, while similar reports were also brought down in Victoria (Ryan 1998).

Shortly after these initial inquiries, a number of Auditors General 'courted' the wider accounting profession into setting up of the Public Sector Accounting Standards Board (PSASB) as a means of promoting the use of accrual accounting standards in the public sector. The purpose being to deal with the 'accountability problem' that was seen to exist within the APS (Ryan 1998 & Christensen 2002). For example, the Commonwealth's Auditor General set up a working party to formulate an exposure draft that would identify to the accounting profession the weaknesses of corporate accounting standards for use in the public sector - the idea being to amend/supplement corporate accounting practices to make them suitable for the public sector. The effect of these activities (and others – see Ryan 1998), which took place between 1980 and 1983, was to stimulate the accounting profession to take an interest in public sector accounting. This ultimately resulted in the formation of the PSASB in 1983. According to Ryan (1998), the lack of accounting standards for the APS represented a 'policy vacuum' which enabled those with accounting backgrounds (namely, Commonwealth and State Auditors General) to argue for the use of commercial accounting practices as a way of remedying the 'accountability problem' identified within the RCAGA and other state based reviews of public administration. Essentially, traditional administrative (cash) accounting practices were vulnerable to takeover by certain interested parties because they had never been formally rationalised in the form of comprehensive accounting standards.

Following the election of the reformist Hawke Government in 1983, accrual accounting continued to be promoted by Public Accounts Committees (PAC) and Auditors General as a way of highlighting asset replacement issues and measuring performance of recently devolved management in the APS. 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).

According to Ryan (1998), it was the biennial conferences between PAC's and Auditors General in 1987 where the seriousness of the calls of proponents of accrual accounting was first made obvious to those involved with government accounting. In previous years, accounting had not been a major issue at this conference, but by 1987 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 early drafts of what was to become AAS27 – *Financial Reporting by Local Governments*. At this time, governments were also taking steps to improve public sector accounting by employing accountants in departments of treasury. Ryan (1998) discussed how, by 1988, with further fiscal constraints coming to the fore, accountants now had a presence in most of the nation's departments of treasuries, which were formerly the realm of economists. Ryan (1998) also identified the links between these accountants in departments of treasury and the PSASB, and how 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.

While various Auditors General and accountants in treasury departments were involved in the promotion of accrual accounting, it 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 closely followed by commissions of audit that then recommend the use of accrual accounting. For example, the NSW Greiner Government was elected in 1988, the Victorian Kennett Government was elected in 1992, and the Howard Commonwealth Government in 1996. Each of these Governments introduced commissions of audit that 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 the policies they already had in mind. Supporting this view, these commissions of audit wholeheartedly recommended accrual accounting for all government departments and statutory authorities. This represented a shift from accrual accounting being merely something that was 'recommended' and lobbied for, into something that enjoyed a significant level of support within executive arms of government across Australia. Christensen (2002) provides particular detail on this process in NSW. The key findings of this study were that while the NSW Auditor General was in favour of accrual accounting, the real impetus for it came from Nick Greiner's "NSW Incorporated" election campaign. Christensen (2002) pointed out the importance of the audit commission and how the NSW commission included many members of the accounting profession who heavily promoted the use of accrual accounting. There was a natural marriage between the commission of audit and the policies that were about to be implemented by the Greiner Government and that the cost of the implementation of accrual accounting was not a major concern to that Government. Christensen (2003) also discussed the role of consultants, who had the effect of ensuring that commercial accounting practices were implemented with minimal consideration of public sector specific accounting issues, due to a desire to avoid 'reinventing the wheel'. Therefore, it can be posited that it was only after executive governments themselves pursued accrual accounting as a part of their specific policy agenda that the move to accrual accounting happened.

## 5. Habermasian Analysis

### *Economic and Rationality Difficulties and Accrual Accounting*

Within a Habermasian (1976) framework the economic phenomena outlined in the previous section (recessions, unemployment and budget deficits) can be viewed as economic difficulties causing rationality difficulties. A common theme within the literature that addresses the early period of accrual accounting adoption in Australia is that economic problems, and subsequent fiscal/rationality issues, were a determining factor in the motivation for the move to NPM, of which accrual accounting was arguably the key component (Christensen 2002, Chua & Sinclair 1994; Funnell & Cooper 1998; Ryan 1998). Economic difficulties that have then exacerbated fiscal troubles not only seem to have dislodged governments, but they also provided a platform for alternative governments, such as Nick Greiner and 'NSW Incorporated', which was essentially a slogan for a NPM agenda and accrual accounting. Ryan (1998) and Potter (2002) also argued that the NSW debt situation provided the context in which accrual accounting moved from being something that was on the wish list of influential accountants to a policy priority of executive government. Therefore, a situation exists where, using Habermas (1976), it is possible to trace the impetus for accrual accounting to the

economic difficulties of the 1970's and 1980's.

Furthermore, accrual accounting possessed a practical appeal and capability in terms of relieving the rationality (budget) crisis and therefore freeing up the economic system via reduced taxation. Reduction of the size of government was a major goal of Australian Governments throughout the accrual implementation period and this obviously required cost cutting as well as outsourcing and privatisation. Guthrie (1998) has argued that accrual accounting, relative to cash accounting, highlights 'full costs' of government activities because items such as depreciation and goodwill are made manifest in the accrual system. One effect of accrual accounting was, therefore, to make public sector entities appear to be more expensive to operate relative to their previous cash-based costing positions. Guthrie (1998) also went on to discuss how the budgetary allocation system for many government activities remained on a cash basis and hence was relatively understated. This further created the impression that public sector entities were relatively more costly and/or less profitable, thereby justifying privatisation initiatives and a reduction to the overall size of government.

Guthrie (1998) also highlighted Hines (1988) assertion that accounting is not merely reflective of reality, but that it has an ability to construct reality. Accrual accounting was able to construct the traditional public sector as being relatively less cost efficient, whilst also being able to justify a new 'managerialist' public sector (Guthrie 1998). With these potentialities in mind, it can be suggested that accrual accounting was implemented not for its obvious stated purpose, but as a means of dealing with fiscal deficits and government debt, which in turn could alleviate the pressure on the economic system in terms of its propensity to move into 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 constructing the 'true' - the 'costliness' and 'inefficiency' of government activity. A link between dealing with rationality and, therefore, economic crises, can be seen.

## 6. 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. 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. For example, prolonged periods of unemployment or inflation, followed by a need to either increase taxes or reduce spending, can lead to legitimacy issues within the administrative system as the administrative system is seen to be behaving in a manner that is contrary to the desires of the socio-cultural system.

The inherent problem for administrative systems, according to Habermas (1996), is that they operate according to 'instrumental' as opposed to 'communicative' rationality. Administrations inevitably have problems properly reflecting the values and norms of the socio-cultural system effectively, or in attempting to do so, may cause damage to those norms and values. This 'instrumental' mentality arguably causes governments to be more interested in the implementation of their programs, as opposed to having a 'proper discussion' with society about the 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 administrative and socio-cultural 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 trying to manufacture legitimacy that is not otherwise forthcoming, administrations may make direct appeals to the values and norms of the socio-cultural system. However, because of this misalignment of rationalities, in order to 'tap into' a source of legitimacy administrations must first clearly articulate or 'rationalise' the source. Habermas (1976) argues that the appropriation of values can destroy the values. There are a number of examples of administrations embroiled in legitimisation difficulties in the literature and five of these are dealt with in the following discussion.

Firstly, the literature addressed in this paper highlights a pattern whereby newly elected governments initiated commissions of audit that recommended the implementation of accrual accounting. Christensen (2002) suggests that the commission in NSW was a foregone conclusion and that it did little more than provide further justification for policies that the newly elected governments planned to implement in any case. Habermas (1976) suggested 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 an 'expert judgment' to bypass the value formation process. Arguably, the commissions of audit were utilised by the administrative system for this purpose since the socio-cultural system is more inclined to follow their administration if the relevant expertise of a respected group, such as a commission of audit, is used to support the administration's argument. Further evidence of 'bypassing' the consensus building process is provided by Christensen (2003), who contended that the NSW Government was motivated by a desire to avoid 'reinventing the wheel' and that this meant that there was minimal consideration of the unique nature of public sector imperatives, operations and structure, or voices beyond those provided by the accounting profession.

Secondly, Habermas (1976) can be used to interpret tactics of administrations in justifying NPM reforms and accrual accounting. Habermas suggests that administrations, when faced with legitimacy difficulties, will seek to:

...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)

For example, Christensen (2002) suggested that in NSW the 'problem', according to the ideology of the Greiner Government, was the size of Government (in particular, government debt) and that the solution was private sector 'discipline' that was essentially

manifested in practices like accrual accounting. Greiner was elected using a slogan of 'NSW Incorporated', which was a very clear way of appealing to the public's sympathy for private sector discipline whilst also demonstrating a clear contempt for existing public administration arrangements. Christensen (2002) also argued those who promoted accrual accounting in NSW operated from a neo-liberal perspective, and were informed by theoretical frameworks such as public choice theory. There was thus a clear attempt to frame accrual accounting reforms as being part of a program of policies that would make government smaller and more disciplined.

Walker and Walker (2000) also provide an example of how such prejudices against public administration exist within the community and how they have been used to legitimise administrative 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. The reasonable point was made 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 public workers are indolent 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 to privatise, outsource, corporatise, or at the very least adopt private sector practices, has been pervasive throughout justifications (see Christensen, 2002). This type of rhetoric concerning the evils of 'big government' has also been used to push for accrual accounting in almost every government review of accounting practices since the 1980's – that is, private sector accounting practices are needed to show the 'true' costliness of the public sector and to force it to adopt a leaner, more efficient form.

The result is exploitation by administrations of a prejudice against traditional public sector administration in order to derive legitimacy for the administration's own instrumental purposes. However, Habermas (1976) suggests 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)

It is acknowledged that it is difficult to substantiate whether the appeals and exploitations of public prejudices have actually damaged the original societal values that concern the inherent superiority of private enterprise and/or the inferiority of government. 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 the new array of 'commercial' priorities. Carnegie and Wolnizer (1996) also suggested that accrual accounting does not necessarily provide accountability for factors such as customer satisfaction or quality of service, and therefore an exclusive focus on accrual accounting may in fact lead to a decline of standards in these areas.

Furthermore, it may also be argued that accrual accounting, NPM, and the touted merits of 'small thrifty governments' are not the fertile sources of legitimacy that they once were, which itself may be indicative that public disillusionment with public sector performance has not been cured by the sustained period of reform and change. This observation is discerned from an apparent lack of interest in administrative reform as a political issue since 2000, the rise of terms like the 'post NPM era', and the decline in importance of other NPM innovations like outsourcing (see Bisman 2008). This,

according to Habermas (1976), is the consequence of administrative behaviours that seek to exploit societal norms and values for their own ends – the values will be damaged and will no longer be able to be utilised as a source of legitimacy.

A third example of legitimacy difficulties can be found in connection with the work of Ryan (1998), who noted the pattern whereby accrual accounting was pursued with somewhat more vigour after elections that resulted in changes of government. The move to accrual accounting in NSW, Victoria, and the Commonwealth was preceded by the elections of the Greiner, Kennett, and Howard Governments, respectively. Indeed, just about every government elected in Australia in the period between 1972 and 2000 included administrative reform as a plank in their policy platforms. For example, significant cuts were made to the public service with the Hawke Government trimming the number of government departments from 27 to 19 in 1987, and the Howard Government 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 and reduction in the size of Government has been an issue that has been a key area of competition between rival parties in terms of who can run the 'smallest', most effective administration.

In respect to the linkage of this pattern and the implementation of accrual accounting, it is a matter of fact that accrual accounting was not actually mentioned in the RCAGA, nor was it an immediate priority of the Commonwealth Government. Given that NPM reforms arguably began in 1976, and that full implementation of accrual accounting only occurred in 2000, this illustrates that accrual accounting was only implemented after some degree of 'one-upmanship' or 'auctioneering' in rival policy manifestos had taken place.

Habermas (1976) would suggest that the pattern identified here of opposing parties competing based on 'better public administration' actually contributes to the legitimacy issues faced by administrations. Not only does this contribute to the undermining of existing practices, thus causing legitimacy problems for incumbent administrations, but it may also cause disillusionment when expectations are raised in the socio-cultural system that cannot possibly be met. On this point there is a section of the literature (see Guthrie 1998) that has sought to highlight the failure of accrual reforms to live up to the rhetoric inherent within the literature that is supportive of accrual accounting in the public sector. Essentially, when Habermas (1976) is applied to the historical record, the implementation of accrual accounting can be viewed as a specific policy program that was the product of political parties competing with each other and, in the process, escalating expectations and thus planting the seeds of disappointment and future legitimacy problems.

The fourth example of administrations grappling with legitimacy issues focuses more on the use of rhetoric inherent within one of the 'debates' concerning accrual accounting. As discussed by Potter (2002), those who followed the debate between Carnegie and Wolnizer (1996, 1999) and Micallef and Peirson (1997) 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 at loggerheads (also see Carmen, Carnegie & Wolnizer 1996; Hone 1997; Newberry 2001).

Of particular note for Potter (2002) was the situation where Carnegie and Wolnizer (1996) posed four specific questions to Micallef and Peirson. Micallef and Peirson's (1997) response was to ignore these 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) identified the uncritical

acceptance of accrual accounting principles by Micallef and Peirson (1997) as being particularly exceptional given the lack of:

...rigorous research, both empirical and otherwise in support and despite 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, using Habermas (1976) as a theoretical lens, Micallef and Pierson can be seen as members of the administrative system, given their links to policy development, and are hence only able to operate with instrumental rationality. In light of their inability or perhaps disinterest in addressing a number of reasonable questions, it would appear as though this analysis has some merit. Habermas (1976) cites the misalignment of rationalities (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. Christensen's (2002) discussion of the NSW Government's heavy use of accounting professionals as consultants and lack of interest in 'reinventing the wheel' provides further evidence of administrative disinterest in generating a broad and proper discussion about the relative merits of the commercial accounting practices adopted for use in the public sector.

Finally, Habermas (1976) can be used to provide some thoughts on the underlying nature and genesis of both cash accounting and accrual accounting techniques, and about how the commercial nature of the latter may lead to an increased tendency for legitimisation crisis. The genesis of cash accounting can be traced back to the origins of the Westminster system of government, and 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' (Habermas 1976) to accommodate the imperatives of the public sector. Accrual accounting practices, however, were developed to suit the needs of commercial profit making entities. Lapsley (1999) contended that the increased use of commercial accounting practices was a symptom of the expanded rationalisation of the public sector and that this process had the potential to lead to a decline in public sector service delivery. Here, Habermas (1976) can provide some insights on potential side effects of the impact of accrual accounting. Lapsley (1999) suggested that many public sector accounting and bureaucratic practices that had existed unquestioned came under attack with the advent of the NPM. He then went onto to argue that this rationalisation was like 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 easily measured are ignored or deemphasised. This 'McDonaldisation' of the public sector is similar to Habermas's (1976) discussion of the

loss of meaning that can take place when traditions that have developed over long periods are rationalised in discourse by the administration, which itself is confined to instrumental rationality. Guthrie (1998) supports the assertion that cash accounting possessed an ability to accommodate public sector imperatives. This would be due to the nature of the development of cash accounting, which was to accommodate and not hamper public sector imperatives such as service delivery (Habermas 1976).

However, many authors have made the opposite statement about accrual accounting and the public sector. Ma and Matthews (1992, 1994) highlighted the irrelevance of accrual accounting for public sector departments as such departments have no profit making goal, no vulnerability in terms of gearing or solvency, and no capacity for adaptation. 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 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, may promote a loss of quality as administrators pursue imperatives which are of little interest to public sector entities. This drop in quality suggested by Lapsley (1999) may then do more damage to the standing of the administration in the eyes of the socio-cultural system and therefore contribute to perpetuate the series of difficulties and crises that have been previously discussed in the current paper. Habermas (1976) goes on to identify a motivation crisis – where members of the socio-cultural system cease to participate in the value creation process due to disillusionment with the administration's appropriation of values for the purpose of dealing with their own legitimacy difficulties. If this thesis is applied in APS and accrual accounting scenario it can be proposed that the use of 'private sector superiority' arguments to justify effectively techniques that have actually damaged public sector service delivery may result in creating a society that is further disenfranchised, disillusioned and politically apathetic.

## 7. Conclusion

This study has sought to shed some light on changes that have taken place in accounting within the APS between 1974 and 1999 by utilising Habermas' (1976) Theory of legitimation. In relation to the use of this theory, it is acknowledged that there are alternative frameworks and that Habermas (1976) is but one perspective among many. However, it is argued that this Habermasian (1976) theory facilitated the provision of a number of insights within one framework, including the underlying role of the capitalist economy. 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 via 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 reducing government outlays and legitimising these activities by making appeals to the values and norms of the socio-cultural system. The argument presented is that accrual accounting facilitated both of these roles. It did this by overstating the costs of public services (relative to the former cash basis of accounting), thus providing 'objective' evidence of the need to cut costs, while also representing a tangible manifestation of the NPM agenda that appeals to the anti-government/pro-private sector prejudice that was stoked by various administrations as means of deriving legitimacy, albeit, in the short term.



Further insights into administrative behaviour in the context of legitimacy issues were provided in five areas. It is suggested that the expertise of the commissions of audit was used as a means for bypassing the complicated process of value formation required by the socio-cultural system. The bipartisan nature of the reform program was seen to result in a certain degree of 'one-upmanship', which resulted in a 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, and the heavy use of consultants, was then used to identify an example of the forms of goal orientated, instrumental communications used by administrations. Finally, based on Lapsley (1999), it was argued that while cash accounting better reflected and accommodated the complex role of the public service, accrual accounting represented a shift to a new set of priorities that may not necessarily have relevance for the public sector. 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. Given this starting point of the theory, it can be asserted that it is in fact the private economy that is the genesis of crises that occur in the administrative and socio-cultural systems. This assertion is opposed to the conventional rhetoric of NPM advocates who argue that the inherent inefficiency of the public sector causes much 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 governments' and society's needs – as opposed to merely adopting a set of techniques that were not originally developed for public sector purposes and that can at best only be justified using rhetoric that is unable to address a number of specific concerns.

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