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by

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Accounting issues are currently at the centre of debates and discussions of the Swedish public sector. Recent reforms have been pursued with expectations that extended and more advanced accounting systems will help politicians gain 'better' control over public operations and finances in a large (and, today, questioned) welfare state. In this paper we trace the background to the present reforms and debate. We provide a short historical review of the shape of the public sector in Sweden, subsequently identifying three phases in the development of the welfare state and three corresponding phases of transformation in public sector accounting. The paper's analysis seeks to explain the pattern of development, the motives for change and implications for the future control of public activities and expenditures. Several questions are posed and answered, including why and how this accounting transformation developed in Sweden? Is it a typical Swedish development? Will the 'advanced' and extended accounting systems provide politicians with the means of 'control' which they seek?

Accounting issues are central to many contemporary debates and discussions on the Swedish public sector. Great hopes have been expressed that an improved organisation and management of public sector would increase the efficiency of the public operations and help to diminish the national debt. Extensive financial management and accounting reforms have been carried out with this expressed aim.

Public sector accounting regulation in Sweden is a relatively modern concept. Historically, different accounting systems were developed in central government and in counties and municipalities, meaning that public sector accounting was quite heterogeneous for many years. However, when the existing accounting recommendations for counties and municipalities were issued in 1987, they were constructed in terms of accrual accounting. Central government subsequently adopted such a system of accounting in 1993, giving almost total harmonisation within the public sector and between the private and public sectors.

This transformation of public sector accounting in Sweden, however, has had no obvious centre. Instead new forms of accounting and financial management have been developed in a highly decentralised fashion with municipalities exhibiting close co-operation between local administrators and scholars. Even though the Swedish case exhibits many similarities with developments in other countries, and Swedish reformers have imported models from the private sector, from other countries and from the global financial management debate, accounting in the Swedish public sector still retains some distinct features.

In order to explain this transformation of accounting, we first provide a short historical background to the shape of the public sector and the rise of the welfare state in Sweden. We then examine the contemporary shape of the Swedish public sector and related modes of public administration. We identify three phases in the development of the welfare state and three corresponding phases of transformation in Swedish public sector accounting. The advanced Swedish welfare state was constructed at a time when accounting was of little importance. The main problem then was to implement service reforms, not to calculate their costs. As the welfare state was consolidated and, subsequently, questioned, large investments were made in financial

management and accounting systems - the result being that public sector accounting today is very similar to corporate financial accounting. In the final section we seek to explain this historical pattern of development, the motives for change and the implications for the future control of public activities and expenditures.

Characteristics of the Swedish Public Sector

The foundations of the Swedish national state were laid during the reign of Gustav Vasa in the 16th century. The church was turned into a national institution, its estates were confiscated by the state and the Protestant Reformation was gradually introduced. The main role of the church was to educate the people according to Protestant codes of behaviour and especially to teach them how to read. Power was concentrated in the hands of the King and an hereditary monarchy was introduced. In the 16th century, accounting was viewed as an instrument to support the King when he claimed resources from the regions and national accounts were structured so that the King could understand what resources he had available¹ (Sandin, 1991). Gustav Vasa also had ambitions to form a central national administration but it was not until the 17th century, when the King and the nobility developed a community of interests, that such an administration was formed. In the meantime, the Swedish administration had assumed a highly decentralised form, with independent local governments and a tradition of self-organised local movements.

By the beginning of the 19th century, Sweden had become a comparatively peaceful location. Most of its people, though, were very poor with a small upper class (primarily the nobility), a small middle class and a large working class. Poverty was a reality for most people, but something many wanted to change. One such way was by self-organising in small local groups (which could stand up better to the authorities - i.e. the state and land owners) and another solution was to emigrate (primarily to the USA). Sweden as a nation, however, had large natural resources, (e.g. water, wood and minerals). In the late 19th century, these resources became the basis for a growing industry, which developed significantly between 1880-1920 - a period of urbanisation which saw several new industries established in the countryside (close to natural resources) and the formation of a few large cities. However, extensive geographical distances between people still existed, emphasising the importance of local communities. It was in this early period of industrialisation that the Social Democratic Workers' Party (SDP) and the labour unions were organised. The labour union was heavily influenced by political agitation and the desire to secure better living standards for the working class. It was also related to other popular movements, such as the temperance movement, which also drew on local communities as a base for support (see Papakostas, 1995).

Sweden gradually became a more democratic society, but general suffrage was not established in law until 1921 (1909 for men). The SDP became the dominant party. One of its main tasks was to eradicate poverty in Sweden and the party began a close co-operation with labour unions and large companies. With Sweden remaining neutral during the Two World Wars, Swedish companies were able to develop their products and markets relatively undisturbed by competitors - enabling the nation to pay off its foreign debt after the First World War and encouraging technological investment. Today Sweden has a comparatively large industrial sector, with many well-known, internationally successful companies (e.g. ABB, Ericsson and Volvo).

¹ At that time Sweden had imperialistic ambitions, and was involved in aggressive wars for the whole of the period, 1600-1721.

Dimensions of the Swedish Model - An Overview

Sweden is often assumed to be different politically. Some claim that it has constructed a unique middle way, between capitalism and socialism. This "Swedish model" is sometimes argued to have three main components (Thullberg and Östberg, 1994), namely: co-operation between political parties (even though the SDP has been in power for most of the period since general suffrage was legislated in 1921); an institutionalised form of co-operation between employers' associations and labour unions in the private sector; and a strong welfare state.

The Swedish Social Democratic Party is fairly unique in terms of international comparison. Its parliamentary position of power is not matched by any other labour or socialist party in any other modern democracy (Therborn, 1994) and has given Sweden a unique political stability. The SDP has come to be characterised by careful planning, a willingness to negotiate, obstinacy and perseverance. Its local roots served to establish a strong coupling between social democratic ideas and the traditions of Swedish local communities (Therborn, 1994). Co-operation between labour unions and employers, a strong characteristic of the Swedish model (Korpi, 1994; Olsson, 1993), has aimed at minimising unemployment, maximising corporate efficiency and equalising salaries for the same type of work. This latter aim meant that companies with low efficiency and profitability had to pay higher salaries than they could afford, leading to whole lines of trade being closed. Re-training the unemployed became a task of the central government, meaning that the Swedish system not only encompassed co-operation between labour unions and employers, but also with central and local government. The cost of this labour market policy has been high but the result, until recently, has been low levels of unemployment in Sweden. Traditionally, labour has been subject to a high indirect social tax, paid by employers (currently standing at about 40% of salary) which has been used to help finance the welfare system. This has increased pressure for more efficient use of labour and is a key factor in explaining why Swedish industry is a world-leader in the use of new technology and robots in the industry (as it seeks to substitute labour for machines).

A third aspect of the Swedish model is an extensive welfare system. According to Marshall (1964), modern states include three types of rights for citizens: civil, political and social. It is the last right which in this century has created the welfare state, demanding that each citizen has the right to basic financial security and to live a material and cultural life comparable to that of other citizens in society. There are, however, different types of welfare states. Rothstein (1993), inspired by Sainsbury (1991) distinguished between two welfare-state models - the residual model and the institutional (or general) model. A more extended reference to various ideologies was made by Kuhnle and Solheim (1991), who identified four main ideological thoughts about the welfare state: anti-collectivism; bourgeois collectivism, democratic socialism and Marxism. In terms of these models, Sweden may be viewed as a general democratic socialist welfare state, with a high proportion of national income devoted to social purposes and a welfare system offering extensive and significant benefits and covering a majority of the population. Taxation is the main source of financing and there is a high degree of state intervention. Such characteristics fit virtually all the Scandinavian countries, although differences exist in the percentage of gross national product (GNP) consumed by public expenditure (see Table 1).

**Table 1. Public expenditure as a percentage of Gross National Product (GNP).
Source: OECD (1995a)**

	1960 %	1992 %
Sweden	31	67
Norway	30	57
Denmark	25	60
Scandinavian average	29	61
European average	31	51
Great Britain	32	44
World average (OECD-countries)	28	41

Table 1 shows that Scandinavian countries have the largest proportion of GNP devoted to public expenditure, and that this proportion has increased much more in Scandinavia than elsewhere since 1960. Public expenditure includes not only public consumption but also cash transfers to individual persons and families (for example, family allowances). In recent years, such transfers (often universal) have been the largest growing element of public expenditure - especially unemployment benefit payments given the high rate of Swedish unemployment.

The modern ideas of the welfare state were primarily shaped in the 1920s and 1930s. At that time Sweden was still in the process of being industrialised and urbanised. It was also in a state of economic depression and one reaction to such circumstances was the social democrat's promotion of the concept of "*folkhem*" (peoples' home) - a home in which all ("*folk*") are included. With this concept, the class struggle was subordinated to matters of national welfare (Stråth, 1996). The home was used as a metaphor for the nation as a whole, implying that the public sector should absorb the imperfections of the family and that the government should be responsible for peoples' welfare. Consequently, much of the work that had earlier been carried out in families by women (e.g. taking care of children and older people) became a responsibility of the public sector. According to Lægreid (1993), who primarily discusses Norway, this represented the largest change in the role of the public sector. It is noteworthy that those who constructed the "*folkhem*", (among others, Alva and Gunnar Myrdal) were highly regarded scholars², committed to 'science' and 'rationalism' (Peterson and Söderlind, 1993; Sandmo, 1994). The extensive connections between economists and the SDP led to the public sector being portrayed as a mechanism which could absorb market imperfections - and Keynesian theory provided theoretical legitimacy for such political ideas (see Stråth, 1996).

Since the beginning of the 1980s the discussion seems to have turned, with the idea of the market becoming a much used metaphor for analysing the public sector's (in)efficiency. Keynesian economics has lost influence and neo-liberal economists have gained more power, not least through participation in a number of official reports and (since 1981) in the "Group of Expert Studies in Public Economics", headed by the Ministry of Finance. There has been a decline in the influence of political scientists - who had been highly involved in the consolidation of the welfare state in the 1960s and 1970s. At that time the problem was how to implement the reforms successfully, while by the 1980s the problem had become one of handling the economic consequences of such reforms. Hugemark (1994) observed, that instead of political science, the language of the market came to dominate the debate about the public sector. She concluded that the growing influence of economists had much to do with their earlier historical ties with the Social Democratic party. The tie between the SDP and economists has certainly lasted for many years, but the dominating ideas of the economists has changed from Keynesianism (which included the idea of market failures) to neo-liberalism (which

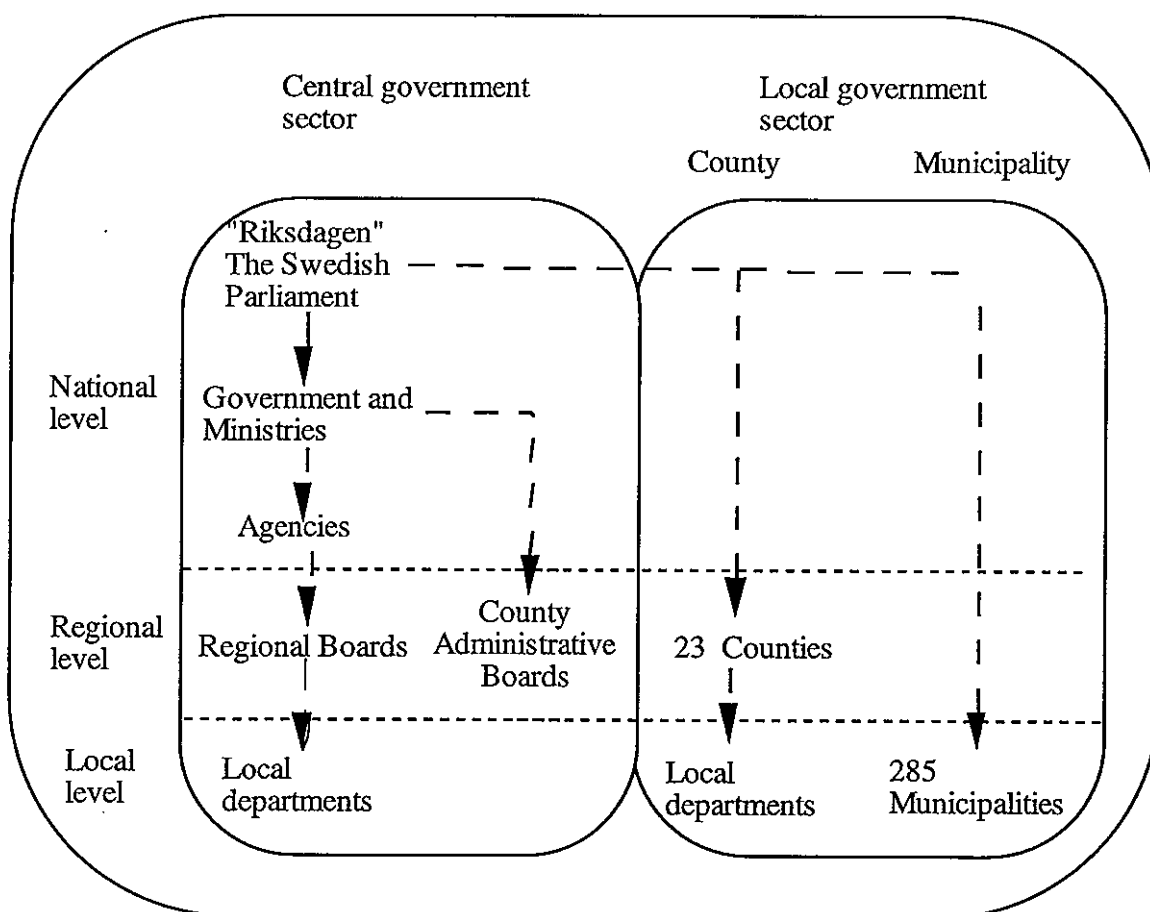
² Gunnar Myrdal received the Nobel prize in economics.

included the idea of market as an ideal) and this, in turn, has influenced social democratic politics. The significance for the public sector was that it had conceptually moved from being a solution for market failure to being in need of reform via market solutions, and it is in this neo-liberal context that financial management and accounting has developed since the beginning of the 1980s.

Contemporary organisation and economy of the Swedish public sector

The public sector in Sweden is divided into central and local government sectors. The latter includes both counties and municipalities. The public sector operates at three different levels - the national, regional and local level. All sectors have their own functions and all have representation at the local level. See Figure 1 for an illustration.

Figure 1: The structure of the Swedish public sector



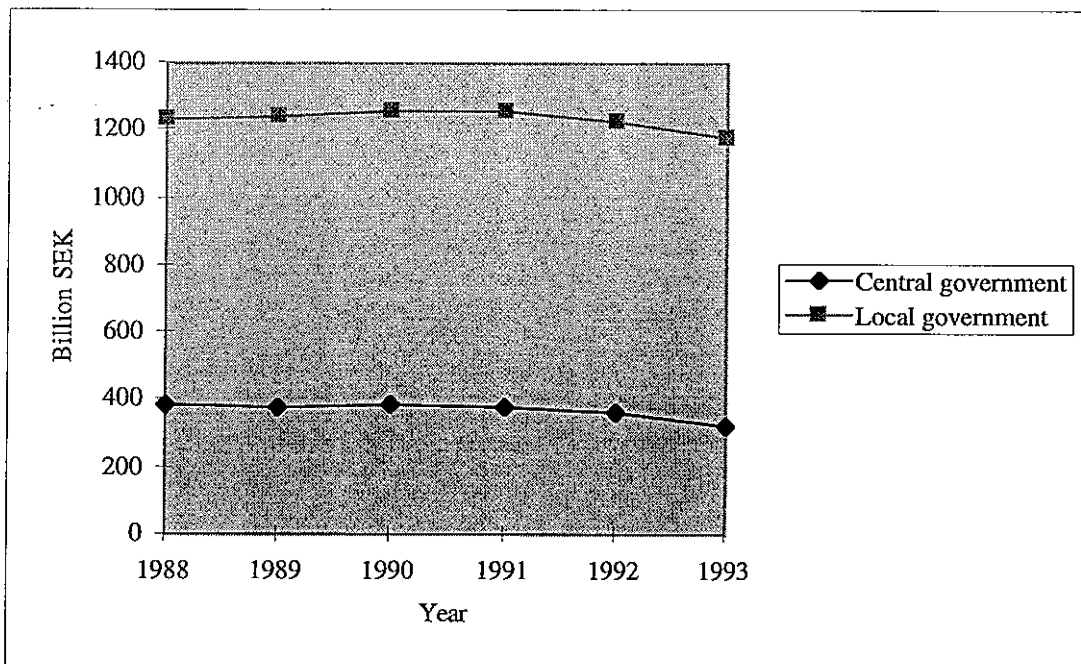
Even though the Swedish public sector is large, the central government at the national level in terms of Government and its Ministries is small. Its main role is to formulate policies and to finance operations. Governmental agencies are quite independent of the Ministries. With a philosophy of separating politics from administration, ministries are rather small policy setting bodies, with agencies carrying out the specified policies. The County Administrative boards are the central government's representative in the regions, their main function being to co-ordinate and inspect regional public services. The counties and municipalities are nevertheless quite independent of the central Parliament and Government. County and municipal politicians are elected in separate elections (although these are held on the same day as the national elections).

At the time of the first legislation covering counties and municipalities (the Local Government Ordinances of 1862), there were about 2,500 municipalities - although the municipal sector, economically, was relatively small. The merging of municipalities was a process that started in the 1950s and ended in the early 1970s, coinciding with the launching of the largest welfare reforms in Sweden. It became a principal task of the municipalities to implement such reforms (with state agencies retaining responsibility for managing the transfer system allocating funds to local government). An important reason why the municipalities were trusted to implement such reforms was that many politicians in the national parliament were also politically active at the municipal level. The new welfare reforms demanded considerable discretionary power in order to implement them and were financed through specially designated state transfers for the various types of service to be delivered by the municipalities. Such an arrangement had a paradoxical element in that the municipalities were acting as agents of the state in terms of the welfare reforms, but were being organised in order to manage themselves. During this period, the number of politicians in the municipalities decreased from about 200,000 in 1950 to about 80,000 in 1980 (and the number of local politicians has since decreased further). Professor Jörgen Westerståhl (who led a team of political scientists charged with reporting to the government on the reform movement) argued that the reliance on larger municipalities would not improve democracy but his views were displaced by the emergence of "managerial capacity" as the leading star of reform.

By 1996, there were 23 counties and 285 municipalities in Sweden. Municipalities have populations ranging from 5,000 to 700,000 (Sweden currently has about 8.5 million citizens). Counties and municipalities are responsible for about 65 % of total governmental consumption in Sweden. Counties and local governments are large employers, often the largest within their geographical domain. In 1995, the City of Stockholm employed 53,000 people; the county of Stockholm, 54,000 people. Swedish local governments view themselves as rather independent of central government (Pierre, 1994). Among other things, local governments have the power to decide about rates of local income tax (even though this power is reducing). Their independence is also illustrated through the Swedish concept of '*staten*' (the State). This usually refers only to central government and local government representatives are very careful in making a distinction between '*staten*' and their own local government.

The major elements of public services are carried out in counties and municipalities. Municipalities are responsible for a wide range of activities, including schooling, social services and electricity. Initially, counties were mainly concerned with farming related issues. However, in 1928, a new law obliged them to provide health care for those living in the county. Currently, about 80% of a County's budget is spent on health care, with the rest being spent on public transport. In 1988, a year when public sector expenditure peaked, counties and municipalities were respectively raising 67% and 46% of their revenues from local taxes (with state transfers accounting for a further 22% and 26%). Since then, their financial independence has decreased, with Parliamentary legislation preventing increases in local income taxes and central government reducing the level of transfers. Local government consumption has consequently reduced every year since 1992 (see Table 3), although it remains approximately three times higher than central government consumption, which indicates that the main part of the welfare state operates through local government.

Table 2. The level of consumption in central and local government



The above mentioned central government interventions were stimulated in part by the large size of the budgetary deficit of the Swedish central government. In 1996, the national debt stood at 1.300bn. SEK (approximately £130bn.) and both the last Conservative and the existing Social Democratic governments have made cuts in the welfare state in order to reduce. Moreover, a number of financial management and accounting reforms have been carried out with the expressed aim of increasing the efficiency of the public operations and thereby help to diminish the national debt.

The next three sections of this chapter examine the process of accounting reform - dividing it into three, twentieth century, phases, each related to stages of development in the Swedish welfare state. The first phase ends in the early 1950s when the basic construction of the welfare state had been set. The second phase, lasting until the early 1980s, was when the welfare state was developed and consolidated and the third phase, from the early 1980s, when the size, efficiency and bureaucracy of the public sector was questioned/criticised.

Accounting During the Basic Construction of the Welfare State: The First Half of the Twentieth Century

During the construction of the welfare state, both the central and local government sectors grew, bringing increased financial transactions and accounting records. There were, however, no large changes in accounting practice in the whole of this period of development.

In central government, some changes were made in order to make the accounting systems less complex and costly (Sandin, 1991). The provision of accounting guidance for local governments was delegated to the Swedish Association of Local Authorities (or more correctly its forerunners - the Swedish Association of Towns and the Swedish Associations of Rural Districts). This left the central government with limited means through which to regulate local government accounting, but it was, nevertheless, an action undertaken by central government - and local governments still retain this regulatory power.

Arguments for tighter local government accounting regulation at the beginning of the twentieth century came from the National Statistics Bureau, who demanded uniform data about local governments to facilitate the preparation of national statistics (Bergevörn and Olson, 1987). It was also suggested that regulation would increase financial control and reduce the large number of frauds which had taken place in local governments in recent³. The central government duly told the Association of Local Authorities to regulate or face central government legislation. This pressure led to the Association issuing sets of accounting recommendations in 1912 and 1930, although neither of these had any impact on practice (Bergevörn and Olson, 1987).

The recommendations of 1930 were based on two important ideas. First, no generation should be allowed to consume the wealth built by an earlier generation - necessitating an accounting system which could measure wealth. Second, taxpayers should not finance services which could be financed by fees paid by users of the services, and fees paid by users should not finance services that were supposed to be financed by taxes. These principles created a demand for full cost-accounting, i.e. full cost measurement of the various activities - with costs including fixed asset depreciation and interest allocations. Technical accounting solutions in the form of 'accrual accounting' and 'full costing' were picked up from the Swedish private sector. However, the 1930 recommendations were largely adopted from an accounting model implemented by the city of Malmö in the 1920s. No central government pressure was placed on individual municipalities to implement the accounting recommendations. They proved to be ambiguous and poorly specified, giving municipalities (who employed few accounting or administrative staff) considerable problems of interpretation and implementation. Consequently, municipal accounting remained quite heterogeneous well into the 1950s (Bergevörn and Olson, 1987).

In summary, the Swedish welfare state was constructed in a time when public sector accounting was heterogeneous both between and within sectors. This created ambiguity in the interpretation of government accounts and meant that those who constructed the welfare state did not have to think and make decisions in terms of prearranged accounting structures, e.g. cost measures. This suggests a very favourable context for making large and expensive reforms, especially if Rothstein's (1994) argument is accepted that ambiguity is a prerequisite for the implementation of reforms (also see Sahlin-Andersson, 1989 who argued that a "strategy of ambiguity" is often used in the planning and creation of large projects).

Accounting and the Consolidation of the Welfare State: The Early 1950s to the Early 1980s

During the consolidation phase of the welfare state, local governments were assigned the task of implementing and operating the main welfare services (e.g. education for children, child care and social security). Municipalities were merged (their numbers coming to stand at 10% of 1950 levels) and they were given more administrative and financial discretion to pursue the new reforms.

This period saw no initiatives to co-ordinate accounting practices across the different sectors of government, although effort was put into co-ordinating accounting within each sector. The National Audit Bureau performed such a task in central government, while efforts in the municipal sector were led (in a different fashion) by the Swedish Association of Local Authorities (and the Association of County Councils in the counties sector). Central government in fact began the reform initiative in local government accounting, passing the Local Government Act of 1953 which prescribed the necessity of measuring "the wealth" of local governments (accepting the previously mentioned principle of not allowing one generation to consume the wealth of earlier generations). How such wealth should be measured was left up to

³ The fact that local government book-keepers had committed such frauds tended to question what would be achieved by such regulation.

the two local government associations to decide, with Parliament again using the tacit threat of legislation if nothing was done.

The associations responded by setting up a committee to revise local government accounting recommendations. At this time, the City of Stockholm was experimenting with its accounting system and some of its experiences became important elements in the revision process. The associations sought to learn from Stockholm's experiences and also began to co-operate with one of the period's most prominent accounting scholars in Sweden - Nils Västhagen. His doctoral thesis, published in 1950, concerned the relationship between revenue and cost concepts in the private and public sectors (Västhagen, 1950). Västhagen's task in the development process lay in the construction of a theoretical framework for accounting recommendations. The results of this process were presented in 1956. The proposed recommendation focused on measuring wealth via full accruals accounting (although the system did not include an income statement) in a system which integrated budgets and ex-post data⁴. Municipalities were legally required to measure the wealth and the only way to do that was to follow the recommendations (Bergevörn and Olson, 1987, 1988), meaning that local government financial accounting became homogeneous for the first time in its history - at least in terms of its structure. It is interesting to note that some of the main components of accrual accounting, e.g. depreciation, were implemented by this reform.

A subsequent round of reforms generated the 1962 recommendations focusing on cost accounting (the 1956 recommendations dealt only with financial accounting). These recommendations sought to introduce full costing, in order to improve pricing decisions. Accordingly, fixed asset depreciation, interest based on the book value of fixed assets, and indirect costs were included in the cost calculations. The 1962 recommendations also included two standard charts of account - one for counties (the L-chart) and one for municipalities (the K-chart). Once again, an experimenting municipality (this time the City of Gothenburg) served as a prototype for the Swedish Association of Local Authorities. The Gothenburg model had been originally based on the standard chart of accounts for the Swedish mechanical engineering industry, which, in turn had derived from 1920's German accounting practices. A leading academic (Walter Goldberg) again participated in the development process⁵.

Even though the Swedish Association of Local Authorities was unable to control municipal behaviour overtly, the 1956 and 1962 recommendations did mean that both municipal financial and cost accounting moved gradually, in a pragmatic fashion, to a more homogeneous position. The successive reduction of the number of municipalities made it a lot easier for the Association to disseminate the recommendations. The Association linked the rhetoric of municipal accounting to social debates on uniformity and justice. It commissioned books and articles on the subject and courses were arranged to teach the 'new' municipal accounting. It also acted as consultants to the municipalities, supplying accounting software and computer support systems. The Association encouraged the introduction of the recommendations into the curriculum taught to public administration and business students - schools of public administration and social work, especially focusing on local government, existed in Stockholm (since 1921), Gothenburg (since 1944) and Lund (since 1947)⁶ and the accounting discipline was gradually growing in academic strength.

⁴ The wealth was based only on fixed assets and the accumulated amount which once had been budgeted for investments could not decrease.

⁵ Goldberg later became the first professor in administration at the University of Gothenburg. One of his colleagues there was Albert ter Vehn, professor in accounting, who was the leading academic in the development of the standard chart of accounts for the mechanical industry, the M-chart (see ter Vehn, 1945). This chart of account spread to other industrial sectors and, through the work of Walter Goldberg, to the public sector.

⁶ Later these schools, and similar new schools, were integrated into Universities. Today there is only one school of public administration in Sweden. Social work has become a separate academic discipline and public administration has been integrated into business administration.

Developments in local government stood in sharp contrast to the development in the central government sector. Here, accounting systems remained more old fashioned and heterogeneous. Any suggested developments were discussed in heavy, theoretical terms, with such discussions being dominated by economists. A standard chart of accounts (the S-chart) for central government was not introduced until 1976, although it did to a large extent homogenise central government accounting (Sandin, 1991). The major initiative in central government in the 1960s and 1970s was programme budgeting, an idea imported from the USA. It was meant to be the flagship of administrative reforms with the overall promise of making the public sector more 'efficient'. A large experiment was carried out in which 30 of the 250 or so central government agencies participated. Evaluations of the experiment showed that cost consciousness had increased, but at the same time it was noticed that it was difficult to formulate goals and to get them accepted, as it was with the identification of appropriate performance measures. The system also served to increase the power of agencies and not Parliament (Peterson and Söderlind, 1993). As in other countries, program budgeting did not provide the promised success (see Wildavsky, 1975).

The ideas of programme budgeting were also introduced in the municipal sector by the Swedish Association of Local Authorities, but in an adjusted and much less advanced form than at the Central Government level. The most significant development was that the label of the accounting variable measuring activities (e.g. education) was changed from the label '*titel*' (the Swedish word '*titel*' means title or heading) to '*program*' (programme). Some changes were also made to sub-labels (Olson, 1990) and the new rhetoric of programme budgeting served to strengthen those providing services - as the language of resource allocation was set in terms of their work and activities (Olson, 1990). Programme budgeting did not become the means of control for central government that it was meant to be. Neither did it become a means for the politicians in County Councils and Municipal Councils to control their local administrations. However, many of the structural characteristics of programme budgeting, survived. Characteristics like the programme structure, the focus on cost and performance, the multi-year perspective and the focus on alternatives in budgeting were used in later reforms in the early 1980s seeking greater decentralisation within central government. Other ideas followed, including value for money audits (also promoted in municipalities).

In summary, financial management became an important issue during the period of consolidation of the welfare state, although some reforms unintendedly served to benefit service suppliers at the expense of any increase in politicians' control. Consequently, the welfare state continued to grow in terms of expenditure and number of employees (financed by a steadily growing Swedish economy). But in the early 1980's changes in the economy as well as public opinion became evident. Strong arguments were now raised claiming that public sector costs had to decrease and that new ideas of financial management had to be developed. Issues of how to carry out the responsibilities assigned to governments, how to organise, control and account for government activities were increasingly discussed in Sweden, as they were on the global stage during the 1980's (see Metcalfe and Richards, 1987; Hood, 1995).

Accounting in the Questioned Welfare State: The Early 1980s to the Present Day

Developments in Local Government

By the early 1980s, the Swedish public sector was increasingly criticised for being too large, inefficient and rigid. The Social democrats won the 1981 election after 6 years in opposition and had to handle this situation. Among other things the social democrats wanted to avoid any associations with inflexible, bureaucratic public services (Premfors, 1991). Therefore, a new Ministry of Public Administration was duly established in 1982 and one of its main tasks was to implement a reform in which municipalities were allowed to make organisational experiments in

order to “be liberated from burdensome and excessive central government rules and regulations” (Lindgren and Strömberg, 1994:21). This ‘Free Commune Experiment’ gradually came to be a most important programme for change and renewal in the public sector (Lindgren and Strömberg, 1994). A 1992 Local Government Act advocated ideas similar to the “free commune experiment” and similar reforms were implemented in all Scandinavian countries (Baldersheim and Ståhlberg, 1994) as well as in other OECD countries (Hood, 1995, OECD 1995b). Even though Sweden with its large public sector and its decentralised structure may look very different from, for example, Britain, reforms were pursued which were similar to those, for example, in the comparatively centralised British public sector.

Even though the “Free Commune Experiment” was primarily focused on service activities, the reform legitimised and encouraged administrative experiments. Local government financial management and accounting actually went through a dramatic change in the 1980s. In the late 1970s and early 1980s, such systems were criticised for being too focused on the future and not giving facts about the past and on what had been accomplished (see e.g. Brunsson and Jönsson, 1979; Brunsson and Rombach, 1982; Brorström, 1982, Brunsson, 1986), while the municipal accounting recommendations of 1956 were heavily criticised for being too complex and for failing to measure wealth accurately. Such criticism came from a wide range of people, including members of Parliament, local government politicians and accounting scholars. The problems, as well as the proposed solutions, were routinely framed by comparisons with private sector accounting. Many argued that the main problem was that public sector accounting differed too much from the accounting systems used in the private sector and it is from this context of criticism and legitimised experimentation that new accounting ideas were generated.

As shown above, local governments had a rather long tradition of co-operation with scholars in business administration (including accounting). This tradition continued. Among others, one doctoral student in accounting (see Brorström, 1982) made experiments with annual reports in three small municipalities. He re-constructed the municipalities’ accounts into the three main financial statements which exist in corporate financial accounting (i.e. income-statement, balance-sheet and a statement of changes in financial position) and a summary of other financial information. Even though the main conclusion from the study was that annual reporting was of secondary importance for local governments, it generated widespread interest in corporate accounting. Several municipalities started in the mid 1980s to experiment with the corporate financial accounting models developed by Brorström. Now there was not only criticism of the existing recommendations, but also the availability of a possible solution. The experimenting municipalities had of course to report according to the existing recommendations. This means that they actually had two sets of accounting reports. One set was used by the municipality and the other was next to the National Statistics Bureau. Parliament, stimulated by these experiments, entered the municipal accounting arena, arguing that the Swedish Association of Local Authorities must revise its recommendations.

The ideological debate in Sweden was also changing. The public sector was increasingly criticised for its (in)efficiency, and managerial and business ideas acquired more and more supporters, even within the Social Democratic Party (Premfors, 1991; Rothstein, 1993). The criticism was public and was spread through books, articles and seminars which also described the various municipal accounting experiments. The Swedish Association of Local Authorities responded by starting to co-operate with experimenting municipalities and accounting scholars. This resulted in new financial accounting recommendations, issued jointly in 1987 by the Swedish Association of Local Authorities and Swedish Association of Counties. The recommendations largely copied the law controlling corporate accounting practice in Sweden. The main focus in the new recommendations was on the income statement and the balance sheet, constructed on an accrual accounting basis. The new reports were said to give the public greater insight of the performance/efficiency of municipalities.

The recommendations were extended in 1989 to include consolidated statements. At the same time a new standard chart of accounts was recommended by the two local government associations. This primarily focused on financial accounting and was the standard chart used by

most private sector enterprises (the BAS-chart), meaning that local governments now structured their accounts and accounting reports in almost the same way as enterprises in the Swedish private sector. The 1992 Local Communities Act also supported the changing form of accounting, with municipalities requested to apply accrual accounting and to produce consolidated financial statements. This change did not cause any great technical problems for the local governments since many of the accounts needed were already included in the 1956 recommendations. Local government sector accountants were also well used to private sector accounting. Many of them had university degrees from business schools and most local governments in Sweden were providing some of their operations (e.g. electricity and housing) through regular companies.

Developments in local government accounting did not stop with the implementation of corporate financial accounting. Most local governments for many years had maintained organisational units which functioned like discretionary cost centres. These centres were now transformed into profit-centres, each with their own income-statement. In order to be able to calculate an income, a new type of accounting transaction was constructed which created an artificial, but still, a "revenue" for the profit-centre and a "cost" at the local government's central finance taxation - the transaction was labelled 'the municipal contribution' and it made balanced budget income statements possible for each profit-centre⁷. Managers of profit-centres were held responsible for the income as well as for part of the equity. The Swedish label for "profit-centre" is "*resultatcenter*", which is the same term as that used by private corporations in Sweden. In Swedish, however, the term '*resultat*' (result) can refer to both financial and operational performance another type of responsibility center saw discretionary cost-centre units get transformed into profit and balance sheet centres (where a manager is responsible for both financial performance and current asset management).

Originally the municipal contribution was meant to reflect the degree of financing provided by the finance function, but it gradually came to represent that the City Council was "buying" services from the service departments. Much attention was also devoted to the concept of income. A concept of equity was constructed, allowing income to be carried forward from one budgetary period to the next one. As the measured surplus or deficit had no direct relation to operations carried out, some local governments started to focus more explicitly on the relation between financial and operational performance, with resource allocations being based on performance measures/indicators. The Swedish parliament's dramatic decision to prevent local governments from increasing local income taxes (in response to rising national debt and criticisms of rising public expenditure) encouraged local governments to extend financial management and accounting reforms as a way of trying to increase their efficiency and expenditure control.

Various accounting measures and systems for comparing activities and accounts were developed and many ideas about public administration from abroad, especially from the US and the UK, were diffused in Sweden during the late 1980s and early 1990s (Lerdell and Sahlin-Andersson, 1997). The idea of performance budgeting in terms of DRG (Diagnostic Related Groups) was discussed and at least partly implemented in many counties (the counties are responsible for health care in Sweden). Some counties and municipalities have re-organised central units as "purchasers" of public services, with hospital clinics, schools, road maintenance departments and the like being re-classified as "provider" units (or sellers). Such ideas were seen to fit the desire to transform departments into more business-like organisations. These reforms have been most prevalent in areas such as transportation, road maintenance and refuse disposal operations. A clear tendency in such reforms is that any differences between local governments and private companies, in terms of financial control, management and accounting, was defined as a problem (Sahlin-Andersson, 1996), and one to be removed by establishing more business like administrative devices in local government. Johansson and Johansson (1995), found that the reforms carried out in Swedish municipalities during the 90's had been of the following type (see Table 4):

⁷ Profit centre income = municipal contribution + fees - costs.

Table 4: Implementation Rate of Various Administrative Reforms in Swedish Municipalities (as a percentage of all municipalities).

	%
1. Management by objectives and result centres	69
2. Turning of departments into regular companies	48
3. Privatisation, selling of governmental departments	26
4. Purchasers-Providers	23
5. Balance sheet centres	22
6. Vouchers and similar systems	6

Johansson & Johansson (1995) found that larger and richer municipalities initiated more administrative reforms than smaller and poorer municipalities. Those with non-Socialist majorities initiated more reforms, as did those where the political majority had recently changed. This was especially true for "market-inspired" reforms.

Developments at the county level show a similar pattern. After a period of decentralisation and introduction of management by objectives, more emphasis has been put on market-based reforms. However, the type of reform pursued varies between counties. Between 1991-92, several of the 23 counties introduced extensive changes to their cost control systems. Following the 1994 election, fewer changes have been made and the introduction of internal markets, internal DRG systems has been questioned and adjusted with experience. No clear correlation exists between political majority and the rate of reforming⁸, nor with changes in the political majority. Most financial management reforms have been introduced in the eastern middle part of Sweden (where nearly all counties have introduced purchaser-provider systems) - and there is some suggestion that neighbouring counties follow each other when it comes to financial management reform (Lerdell, 1995).

Local government accounting reform was given a further dramatic boost in 1996 when the Swedish Parliament passed more legislation concerning budgets and accounting evaluation principles. Among other things local governments are no longer allowed to finance operations by loans and are only allowed to account for half (and not all) of the debt relating to employee's pensions costs (which of course is very difficult to estimate). Such reforms have "improved" various debt-ratios of local governments and the "better" financial situation has provided some space for the consideration of other reforms.

Developments in Central Government

While local governments were adapting in the 1980s to corporate accounting systems, the Swedish central government was still tending to focus on traditional budgeting systems. A new budgetary reform, however, was undertaken in the late 1980s - the three year forward budget reform. Its main idea was to specify roles for the ministries and agencies, via a detailed review of each agency every three years. This reform was linked to ideas of 'products', 'productivity', 'economy' and 'efficiency' (as in the prior programme budgeting reform). but it also incorporated concepts such as 'service', 'markets', 'competition' and 'marketing' (concepts which pointed to actors and phenomena outside the administration). This marked a significant change in central government financial management, at least at a rhetorical level - although the reform, once again, may have had unintended consequences (reinforcing "the agencies' own resourcing arguments in their negotiations with the government and the Parliament, rather than increasing political control" - Wærnes, 1993:142).

⁸ It can be noted that all but one Swedish county had a socialist majority after the 1994 election, meaning that counties do not exhibit as great a variation in terms of political affiliation as municipal local governments.

In the early 1990s, information about which assets the central government owned (and their value) became a focal point of debate. Criticisms of the old chart of accounts led to its replacement by a new "BAS" chart which had been introduced in local governments. By this change the whole Swedish economy came to be measured by almost the same accounting framework. The three-year budget reform was also extended by the requirement for annual reports from agencies and their division into profit-centres. Together these ideas were presented in a package labelled "results-control". The Ministry of Finance had the overall responsibility for the reform package but the National Audit Bureau was responsible for its development and implementation. The National Audit Bureau has assumed a powerful position over the years becoming responsible for national accounts, central government accounts and audits, and reforms of the planning, budgetary and accounting systems (including implementation of accrual accounting) - see Lindström, 1997.

The first (1993/94) consolidated annual report for the central government based on accrual accounting principles contained a 'consolidated balance-sheet and income-statement for the central government as a juridical person', which included government agencies (but not enterprises owned by the central government). As previous central government accounting had been so heterogeneous, it was not possible to re-construct the historic cost of all assets. Current cost was therefore used as a substitute in some accounts (and as complementary information for all other accounts). It also contained a balance sheet statement labelled a 'compilation of the state sector' which included the (above) consolidated juridical person, the enterprises owned by the central government, the social security system, the pensions funds and the national bank. This statement was only measured in terms of current costs. The use of current costs dramatically improved the financial position of the Swedish state. National debt was 176 billion SEK, the 'net assets' according to the 'consolidated juridical person' were "minus 923 billion SEK" at historic cost, "minus 762 billions SEK" at current cost) and only "minus 228 billion SEK" at current cost according to the above 'compilation of the state sector' statement. Such a situation suggests that the choice of accounting principles does matter!

The new annual report, issued in May 1995, was evaluated by the Parliamentary Auditors (a unit within Parliament but which has no relation to the National Audit Bureau). The evaluation (made by one of the authors of this chapter - see Olson, 1996) showed that experienced and centrally placed members of Parliament and civil servants found the new accounting information to be of little interest. One of them, with a very good understanding of accounting, said that he had thrown the annual report in the waste basket soon after he had looked through it. In order to make more informed judgements, the interviewees generally wanted a comprehensive annual report which was coupled to the budget, with easily accessible data like cash-flows instead of complicated consolidated accrual accounts based on current cost⁹. They also wanted comments on both the reported figures and the ongoing budgetary process, and, not least, data about the population structured in various ages, related to governmental responsibilities (e.g. the number of children between 0 - 6 years, or adults in receipt of employment and early retirement pensions - the latter having been a recent way of reducing the problem of un-employment in Sweden). Such population data was seen as a very good indicator of future tax-income and service demands (e.g. nursery schools, transfers to the unemployed and pension commitments). The reaction of politicians and civil servants certainly cast question marks over the value of producing extremely complex (accounting) data and the expectations that this will lead to wise budgetary decision making. However, it also raises questions as to who is leading the push for accounting and financial management reform.

In summary, during this phase of the questioned welfare state, accrual accounting was introduced and implemented in all governmental sectors in Sweden. While financial management during the consolidation of the welfare state primarily was focused on budgeting (and especially programme budgeting) with the effect that service providers got 'their' language

⁹ It must, however, be said that the 1993/94 annual report for central government was not of good technical quality, neither in the specification of the accounting entities, nor even in practical subtraction and additions.

about activities incorporated into accounting systems, implementation of corporate accounting practices (including concepts such as profit - centres and transfer pricing) had the effect of promoting more financial aspects of governance. However, corporate financial accounting is to a large extent designed as a means to supply external lenders and shareholders of an enterprise with financial information (Hendselesen and Van Beech, 1992). Hence, both local and central government have opened up themselves to the influence of government financiers not just by becoming dependent on them in terms of loans (the national debt is actually only loans), but also in terms of changing the language about the financing and operations of the public sector. This may be good from a straight forward corporate finance perspective, but it is certainly worrying that politicians still do not have an accounting language which fits the democratic governance process in which they operate and in which public services are provided.

Distinctive Features of the Development of Financial Management in the Swedish Public Sector

The previous sections of this chapter have shown how, during this century, accounting and financial management issues have gradually come to be seen as more important in the Swedish public sector. A number of reforms have been carried out and with each one accounting has been increasingly emphasised and accounting systems become more elaborate. What is more, accounting has become similar across all levels and sectors in Swedish society. Corporate accrual accounting has been diffused into all parts of the Swedish public sector, with the diffusion process being from the private sector to local government and then to central government. A standard chart of accounts (the BAS-chart), which originally was developed for the co-ordination of private sector accounting, is now used by both central and local government. It should be stressed that accounting reports produced do vary between sectors, and also between organisations in each sector, but the overall frame of reference has become very similar.

The development of financial management in Sweden has a number of distinctive features and these are closely connected with the national institutional context. Sweden has over the years constructed the largest (at least in terms of GNP, see Table 1 above) welfare state in the world and local governments, especially municipalities, have been given the responsibility to implement and operate the main part of welfare reforms (see Table 3 above). As the welfare state was constructed, local governments were merged in order to form units that could produce good services and be managed efficiently. This has probably led to a high interest in accounting issues (especially in large municipalities) since the 1920s. The reliance on municipalities is rooted in a long historical tradition of local self-organising and autonomy, and in a history of a public sector with an ambition of being integrated in the every-day life of Swedish people. The Swedish public sector is organised in a number of units that are fairly independent from each other. Thus, even though the Swedish public sector is large it does not have a strong centre.

Why a municipal led development?

One explanation for financial management developments in Sweden to have been led for so long by municipalities relates to the fact that Sweden has a lengthy tradition for local, self-organising. The historical independence of each municipality has also facilitated the input of different ideas, providing a lively base for experimentation. A related explanation lies in the difference in structure and operations between local and central government. Municipalities are much more operative in public service tasks than central government and view themselves as distinct organisations. Each municipality is seen as an independent unit, controlled not by central government but by its own voters and leaders. Each municipality displays an identity of its own and forms a hierarchy of its own. Municipalities and the results of their operations can be compared and other municipalities can even be seen as direct competitors. Municipalities can also be compared with other organisations, such as private companies. The central government

has not as frequently been perceived in organisational terms. Results have not been as easily measured and its "boundaries" are not easily defined. These differences are important explanations for the variations in financial management developments across the various levels of government, yet it is also clear that such differences reflect and are also shaped by (different) accounting systems. Thus, as more corporate-like accounting systems have been introduced in the central government, it too has increasingly been viewed as a number of rather independent organisations (SOU, 1997).

Prescriptions, models and recommendations found in the management literature are often based on the assumption of the existence of an "ideal" organisation - with a clear identity, defined boundaries, a sovereign leader and measurable operations (e.g. see, Meyer, 1996; Brunsson and Sahlin-Andersson, 1997). The idea of the organisation exhibits great similarities with private enterprises. When the municipalities developed their own accounting and cost control systems, highly inspired by private companies and by management scholars, they were moving in accordance with their desire to follow widespread organisational ideals. Each municipality sought to develop their own identity and to maintain and clarify their boundaries and their results. Municipal accounting systems developed as municipalities were transformed in processes of "business likeness", as Bergevärn and Olson (1987) labelled it, or company-ization (Brunsson 1994).

Such processes in local government started in the 1920s when the proposed 1930 accounting recommendations were discussed. The Swedish Association of Local Authorities was responsible for the recommendations and an accounting committee was organised. The members of the Committee had both theoretical and practical knowledge. In these discussions the idea of measuring the wealth of a municipality was very important, and it was stressed by the Committee that business principles had to be used to measure wealth. Therefore, a rather cash-oriented system was replaced by an accrual accounting system, with transactions presented in a balance-sheet, an operating statement and an investment statement. This was an advanced system and even though it was not implemented until the late 1950s, recommendations were issued in 1930 that were based on the idea of using components of corporate accounting in municipal accounting. The 1956 recommendations eventually put such ideas fully into practice in all Swedish local governments, meaning that Swedish local government had a fairly extensive experience of discussing and using components of corporate accrual accounting since the 1920s. When the notions of the "ideal" organisation began to assume global significance in the 1980s and to dominate discourse in the Swedish public sector, it was a rather simple task to transform the accounting reports into corporate-like income-statements and balance-sheets without any controversial discussions.

While the reforming of local government was carried out in close co-operation with practitioners and the organisational discourse seemed to fit the local experience quite well, accounting reform in Swedish central government was pursued in a way where "ready-made" models were imported from other sectors and from other countries. These models served as prototypes, they implied new ways of perceiving central government and they encouraged more comparisons with 'contemporary' (private sector) management models and cleared the way for further managerial reforms (Sahlin-Andersson, 1996; Brunsson and Sahlin-Andersson, 1997). Through such a process, public agencies have gradually been constructed as independent organisations according to the ideals advocated in managerial discourse. Even though the Swedish public sector is large, almost no effort has been made to integrate various units and instead there has been a rise of separate sub-units within organisations. The implementation of corporate accounting has added to this development, one consequence being that the public sector has to be understood as being made up of many organisations.

Another contributing factor in this process of reform has been academic education and research. Many students who graduated from business schools in Sweden are working in the public sector, especially in the local government sector. The main discipline in Swedish business schools is business administration, (it is in fact the largest academic discipline in Sweden) and it includes corporate accounting, management and marketing. This means that a large number of

students are educated in managerial discourse. Studies in business administration, however, are seldom combined with studies in political science or the humanities. This means that a large part of the public sector work force is disciplined to base their reasoning about public as well as private operations on the discourse of the "ideal" organisation - the independent (business) organisation.

Swedish academic scholars in business administration have also made a direct impact by acting as transmitters and transformers of ideas through consulting and publishing. Other scholars have influenced the process by criticising municipal administration from a rational perspective, e.g. claiming that municipal budgeting is a myth (Olsen, 1971) or that programme budgeting generates blind control (Olson, 1983) and that municipalities act in a hypocritical fashion (Brunsson, 1988). The accounting reform movement has also been criticised (see e.g. Rombach, 1991). Such critiques seem to have given an incentive to local governments to change their criticised systems, but they have not led to new ways of perceiving the sector as a whole. Consequently, the public sector is still viewed as a set of (distinct) organisations and resources have continued to be invested in the search for "better" financial management and accounting systems.

Consequences of a municipal led development

Each local government has had the capacity to define its own problems and search for its own solutions, even within the frame of the Local Government Act. As such, there has been no obvious centre for accounting developments. The Associations of Local Authorities and The Association of Counties could be seen as centres in that they issued recommendations. However, these were not coercive but based on legitimacy and not legal acts - allowing local governments to pursue experiments which deviate from the recommendations.

"The learning process in the Swedish municipal accounting system is thus strongly related to ideologies in the environment of the accounting system. It is when misfits arise between the existing ideology and the existing norms, that experiments are viewed as an appropriate activity. The experience gained from these experiments is then diffused not only within the accounting action system but also to the norm system; that is to say, mimetic learning occurs in the norm system. When an experiment is regarded as fitting the ideology, it may be adopted as a prototype in a national reform process" (Bergevörn, Mellembvik and Olson, 1995:36-37).

The whole process of developing local government accounting has actually been driven by single, experimenting and deviating municipalities. The recommendations of 1930 were based on an experiment made in the City of Malmö; the recommendations of 1956 were based on an experiment made in the City of Stockholm; the recommendations of 1956 were based on an experiment made in the City of Gothenburg; and the recommendations of 1987 and 1989 were based on experiments made in several small municipalities. The central government has only participated in the process by threatening legislation if new recommendations were not made - the 1996 Parliamentary legislation on budgetary methods and accounting evaluation principles is exceptional in this respect.

From an organisational learning perspective, an organisation can learn from its own experience or from the experience of others (Levitt and March, 1988). In the latter case, the organisation may either search for solutions in the environment and import them into the organisation or the environment may search for organisations which it wants to implement its solutions (with the coerciveness of the environment determining the extent to which the solutions are used by the organisations). Municipalities have since long tried to learn from their own experiences and have searched for corporate accounting solutions in their environment. Actors other than

municipalities¹⁰ have also generated ideas and solutions and have searched for municipalities that would implement the ideas, and the experience has further diffused to other municipalities. In this way many ideas have been discussed and implemented in the Swedish municipalities, with the lack of a coercive environment encouraging variation in practice.

Many processes of financial management experimentation and diffusion, however, have not ended up with "official" recommendations - the case of financial accounting reform is in fact something of an exception. Maybe it is accurate to talk about the changes in local government financial management as an organisational self-regulating process. The sector not only has the responsibility to regulate itself, but individual organisations within the sector have also been assigned or assumed such a self-regulatory responsibility. This should not be a surprise as there is no central administrative policy in Sweden (Peterson and Söderlind, 1993). Instead, ideas of non-centralisation and pragmatism have dominated, actually supported by central government through reforms like the 'free commune experiment'. The centre of local government seems, therefore, to be within each local government.

In such an open system, a number of ideas are discussed simultaneously. (Accounting) recommendations change when the criticism of the existing recommendations have become strong enough and when a superior alternative has been developed (Bergeväm and Olson, 1987). Changes in accounting recommendations have not necessarily influenced accounting practice but accounting practice has formed the basis for accounting recommendations. The structure of the Swedish local government sector can seem favourable from an organisational learning point of view - one in which we can expect many small changes and successive adjustments to changed circumstances and demands to take place. But it is also a system where the possibilities to force local actors to take more revolutionary initiatives are limited. The learning in each municipality does not easily diffuse to other places unless they are transmitted by scholars, consultants or local government associations. And scholars, consultants and the associations seem to pick up experiences and ideas that fit the dominant discourses of the time. In a longer perspective the development of the Swedish local government sector since the 1920s tends to be characterised by many small changes rather than one revolutionary change. This is a sharp contrast to the development in those countries which recently have introduced used accrual accountability in the public sector.

In comparison, central government appears very different. The central government sector has one centre (unlike the local government sector, where each local government represents one of many centres)¹¹. The existence of one centre regarding financial management makes it much easier to propose reform but it also means that the number of ideas to be discussed and developed is limited in numbers and that few ideas get implemented in practice. Further, when the centre does implement a new idea, it does so in a giant organisation, meaning that financial management and accounting practice is therefore changed at a slower pace than in local government.

Overall, the Swedish public sector, with its traditionally weak centre, ends up being one where many small changes are likely to be made but where larger changes are unlikely and/or prevented. Only a few of the many, small, local government experiments manage to change local government accounting recommendations and then go on to have some influence at the central government level. The experiments struggle to overcome the combined traditions of stability at the local government level and problems of implementation in central government.

¹⁰ Which may include both commercial (e.g. auditors and consultants) and non-commercial (e.g. the OECD) actors.

¹¹ Politically, Parliament is the centre, making financial management decisions on the basis of proposals from the Ministry of Finance. But on a practical level, the National Audit Bureau has the operational power to propose, and evaluate, reforms.

Conclusions: Four Paradoxes in the Transformation of Swedish Public Sector Accounting

Our story of public sector accounting reform in Sweden provides a somewhat paradoxical picture. In this section five paradoxes related to the transformation of public sector accounting into a form of corporate-like accounting are discussed.

The first two paradoxes have been mentioned above. First, the process of accounting reform is one of continuous change based on many local experiments, but ones which draw on basically similar conceptions of the subject under consideration. Together, the many small reform seem to stabilise and reinforce one perspective on public sector operations and prevent alternative perspectives and thus more revolutionary changes. In this way, the development of accounting in the Swedish public sector has fallen into a situation that displays many similarities with what March has named a competency trap (Levitt and March, 1988) - or what we should call, a corporate accounting competence trap.

The second paradox is related to the first. We have described a highly un-centralised development of the public sector, a public sector that has come to consist of a number of independent units - who are all perceived as independent organisations. However, all these independent organisations have continued to develop along similar lines and have become more alike, at least in terms of how they account for their activities. The autonomous levels: the state, the counties, and the municipalities are developing their financial management along similar lines because they all turn to the same models of how private companies are supposed to work and they all seek to follow similar standards of how to organise and control in an efficient way.

As accounting systems that have been developed in the private sector are implemented in local and central governments, the public sector tends to be perceived and accounted for as a set of independent (business) organisations. In this process, those aspects that make the public sector different from private companies are often seen as problems that hinder public sector organisations from developing according to the widespread "ideal". Thus, in recent years, few attempts have been made to focus on or include a citizen's perspective in the public sector. Instead a terminology has been spread where the environment of public entities has been perceived as consisting of customers, competitors, suppliers and to some extent collaborators (Sahlin-Andersson, 1996). What is more, the accounting system has not been constructed to take into account the special features that follow from democratic and political control. The financial management reforms have not considered including the citizen as a component of the public sector. It has instead created an advanced form of subjective (see below) accounting and by this created functionally organised profit centres which primarily are striving for their own survival. It may be time to re-think whether public operations should be accounted for in special ways rather than accounting for them as being incomplete business organisations. From such a perspective it seems important to continue to encourage local experimentation, maybe combined with directed efforts to broaden the ruling perspective on the public sector.

A third paradox is that the public sector has adopted corporate accounting principles based on an argument that more facts are needed, facts about what has happened in the past, but the resulting "facts" - wealth as well as income measures - as it has turned out are based on subjective evaluations of future events. This can be illustrated as follows. First, an income (I) is primarily calculated by subtraction of expenditure from revenue. But it can also be calculated by adding the following three items: the change in working capital (excluding cash) related to operations (WC_O); non-cash items (e.g. depreciation) affecting the income calculation (NC); and the cash generated by operations (CF_O) (Olson et. al., 1995)¹², i.e.

$$I = WC_O + NC + CF_O$$

¹² An alternative way of visualising this is through identifying the cash generated by operations which is routinely calculated as income, less non-cash items plus change in working capital (except cash).

WC₀ and NC are both based on judgements about the future, e.g. the figure for accounts receivable is based on a judgement about future customer payments and depreciation is dependent on the value of the (fixed) asset, which is dependent on a judgement about the asset's future use and cash flow generating capacity. This means that what differentiates income from cash from operations are transactions based on judgements about the future (JT), and the following equation can be made:

$$I = CF_0 + JT$$

Given this equation, it is certainly right to ask if implementation of accrual accounting (i.e. implementation of JT) increases factual nature of public sector accounting. It actually seems that the reverse may be true. Data about cash flow represents facts about payments, and data about JT represents judgements about the future - often, judgements related to future payments. Consequently, public sector accounting after implementation of JT includes more data based on judgements about the future and less facts about the past. It seems to be a genuine paradox that implementation of corporate accounting has not lived up to the rhetoric of increasing the degree of facts in governmental accounting. In fact, the opposite seems to be a more correct description. Corporate accrual accounting opens up the possibilities for income-smoothing, the most notable example being the afore-mentioned case when the Swedish Parliament (based on a proposal from the Ministry of Finance - then led by the current prime minister) legislated that local governments were not allowed to report more than the half of their pension liabilities. At a stroke, this "improved" the financial position of Swedish local governments and the Swedish economic position more generally.

A fourth paradox is that public sector accrual accounting focuses on income. Income is an obvious objective for a corporation, as it is supposed to generate dividends to the shareholders - therefore the term income, i.e. income to the shareholder. The whole idea of corporate accrual accounting is actually to calculate how much of the enterprise's resources may be distributed to the shareholders. Income, however, is not an obvious objective for public sector activity. The profit of profitable public service units does not signal large dividends, a good future, good products or satisfied customers. It only signals that costs are lower than revenues. The 'profit' concept generates a one-dimensional perspective, in which the financial and the measurable can be privileged over the non-financial and non-measurable aspects of performance. The division of central and local governments into profit-centres has generated "egoistic profit centres" (Olson, 1996), which at any price (e.g. decreased level of service, or by moving financial problems to other units) want to generate profits. In this way political discussions and political control have come to focus more on financial issues than wider, ideological notions of welfare, equity and democracy. The corporate accrual accounting components which in the 1920s were incorporated into local government accounting were ideas which were wholly used in order to measure and "control wealth (not income)". This issue is since long forgotten in the public sector.

A fifth paradox concerns the relationship between the motive for accounting developments and their effects. A number of financial management reforms have been initiated as means of strengthening the political control of the administration, but the more advanced budgetary and accounting systems have largely served to benefit other groups such as service suppliers and lenders at the expense of the politicians' control. During the consolidation of the welfare state a number of reforms were pursued which related to local government organisation and accounting. These reforms were mainly motivated in terms of better efficiency and control and less in terms of democracy and ideology. The national government wanted an expanded accounting system in order to better control the municipalities while the municipalities wanted an expanded system in order for them to better control their own operations. The first demand called for a national system that could enable a comparison between municipalities, while the second demand called for a system that was adjusted to suit each municipality. More emphasis, at least in earlier decades, has been put on the individual management and control of each

municipality (and thus on systems that have been adjusted to differing local contingencies) than on controlling and comparing various municipalities and counties. Adherence to the Swedish tradition of local self organising and acceptance of the widespread notion of the "ideal" organisation lent support to the claims for implementing accrual accounting in a way similar to that used in private companies. However, corporate financial accounting is designed as a means to supply external lenders and shareholders of an enterprise with information. Hence, both local and central government have opened up themselves to government financiers, both by becoming dependent on them in terms of loans, but also in terms of changing the language about the finances and operations of the public sector.

What is more, when more advanced accounting systems have been implemented, valuations concerning the effects of present operations and future development have become integrated in the accounts of public sector organisations. Even though assessments of future developments may seem to be quite dependent upon political standpoints, they are tending to be treated as technical problems connected to financial issues. In public and political debate, the resulting figures are treated as facts and the subjectivity of the valuations made in the accounts is not discussed. In many respects, politicians still have not got an accounting language which fits the democratic governance process.

Even though the main motive for making accounting systems more complex has been that they should work as control and management devices, they are little used as such. Instead accounts are widely used as ways for politicians to legitimate and present previous decisions in a favourable way. We described above how the central initiative to change accounting principles for both central and local governments drastically changed the perceived financial situation in the public sector. Accounting principles do matter. Therefore, more open debates are needed as to what they measure, which features of public operations they do not account for and in what way they reconstruct public service units. It is time to reconsider how a public sector accounting system should be designed and used in order to support democratic control.

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