Budget surplus goal experiments in Australia and Sweden

Scott Brenton (University of Melbourne) and Jon Pierre (University of Gothenburg)

ABSTRACT

From the mid-1990s until the 2008 financial crisis, two countries, each with different political, administrative and capitalist traditions, embarked on a radical macroeconomic policy experiment. Australia and Sweden took earlier New Public Management reforms to an ideological extreme, and pursued a profit-like goal for the public sector, in promising and delivering annual budget surpluses. From a historical institutionalist perspective, we challenge existing public choice theories and the guardian-spender framework to show how fears of crisis, party dynamics and ideological reassessments on the centre-left, and the elevation of finance and economics ministers and ministries resulted in an unlikely political and electoral consensus. Furthermore, this occurred without constitutionalised or officially strict rules, as has been the trend in other countries, but was achieved through less formal yet influential 'rules of the game' with stricter interpretations. What is even more perplexing is that Australia and Sweden do not have superior economic records to show for this experiment and experienced the same challenges as other countries during the 2008 financial crisis. Yet, they are still reluctant to definitely abandon the policy.

KEYWORDS

Budget surplus; public sector finance; macroeconomic policy; Australia; Sweden

1. Introduction

The Australian and Swedish governments committed to and delivered annual budget surpluses of at least one per cent of GDP, which became a proxy, profit-like measure of the government's budget management. This radical experiment has not been replicated in any other comparable democracy—with good reason. The shortsighted pursuit of this headline figure has not resulted in superior economic or budgetary outcomes, and has arguably distracted these countries from more meaningful reform. Rather than proving to be astute pioneers, they are now struggling to craft a more resilient macroeconomic approach in the wake of the 2008 financial crisis.

In this paper, we explain how two countries with substantially different political, administrative and capitalist traditions arrived at the same 'solution', contrary to existing public choice theories and expectations of political behaviour. We argue that persistent surpluses were a disproportionate response to problems that continue unabated. The surplus goal deprives government of a key lever in economic policy; the strategic option to stimulate the economy in times of recession or financial crisis, while also being too crude at other times. Unsurprisingly, the policy unravelled in the wake of the financial crisis. Against this backdrop, we ask why these two countries chose to commit to a budget surplus goal; to what extent it succeeded in enhancing fiscal and budgetary discipline; and the degree to which a budget surplus goal impacts other economic policy instruments.

This paper is structured as follows. The next section charts the major recent changes in macroeconomic policy in advanced economies and identifies the points where both Australia and Sweden diverged. It also considers why only these two countries started to chart a different path. While crisis often precedes change, the pattern is not consistent and does not clearly explain the nature and extent of all the changes. Crisis influenced a particular set of design principles for Swedish surplus policy that were focused on more immediate challenges, while Australian surplus policy was more superficially conceived after a confected debt shock. The third section locates the emergence of surplus goals within a broader global movement towards stricter fiscal rules and depoliticisation of economic decisions. Somewhat paradoxically, Australia and Sweden both rejected the types of constitutionalised and inflexible rules that were adopted in other countries, yet dogmatically applied the strictest interpretations of their fiscal goals. The surplus became the end goal rather than the means to address particular policy problems or to further drive improvements in public sector financial management. We show this by chronicling and assessing the trajectory of Australian and Swedish budgetary reform in the fourth section and argue that the 'rules' were more about simplifying complex fiscal challenges for the public and invalidating potential electoral demands than carefully and methodically considered directives for economic policy. We then examine the effects of the 2008 financial crisis and the political consensus around surplus policy. In the final section, we compare the two countries and observe that centre-left parties had previously been at the forefront of many of the reforms leading to surplus policy, but finally started to differentiate themselves after long periods in opposition and a different political and economic climate.

2. Crisis and change in macroeconomic policy

John Maynard Keynes' philosophy of economic policy shaped much of the postwar thinking in Western industrialised countries. Keynesianism accords government an active and dynamic role in the economy, stimulating the economy in recession by spending and cooling the economy during booms by saving (Keynes 1936; Fenna 2010). Over the economic cycle, the budget should, in theory, balance. Yet, critics contended that often surpluses at the height of the business cycle were not maximised, that is, the absence of savings and the presence of substantial debts made responding to recessions more challenging (Buchanan and Wagner 1977; Tomlinson 1981; Posner and Gordon 2001). They highlighted perceived excessive public spending and also blamed corporatist redistributive welfare regimes in Western Europe as economic conditions changed dramatically by the 1980s.

During the 1980s, many countries were afflicted with stagflation, where simultaneous low growth, high inflation and high unemployment challenged policymakers. Keynesianism had evolved at a time when economies typically oscillated between boom and recession, and such economic states were easily defined and assessed. The new conditions, coupled with an overall neoliberal 'turn' across the developed world, led governments to abandon Keynesianism and to move towards monetarism.

Monetarism is aimed at strictly controlling the amount and the flow of money in the system in order to minimise inflation and balance the budget. While this policy was considered during the economic crises of the 1970s, it was popularised after the 1979 election of Margaret Thatcher's Conservative government in the UK and, to a lesser degree, Republican Ronald Reagan's presidency in the US from 1981 (Hall 1992). Monetary policy was expected to play the primary countercyclical role, with fiscal policy in a supporting role (Gruen and Sayegh 2005; Neto and Vernengo 2005). This emerging orthodoxy was reinforced by the World Bank and International Monetary Fund (IASDMF), and also underlies the European Union's Maastricht Treaty and Stability and Growth Pact, with the liberalisation of capital markets further blunting the effectiveness of Keynesianism (Armingeon 2012).

Table 1 provides an overview of the economic, welfare and party systems in the four countries that embraced New Public Management (NPM) reforms during this same period—Australia, Sweden, the UK and the US. NPM complemented monetarism with an agenda of privatisation, market liberalisation, and the adoption of private sector management principles into the public sector, along with related neoliberal ideas of tax and spending cuts and a longer-term aim of reducing the presence of government in the economy (Arestis 2005; Watts 2012).

Table 1. Economic, welfare and party system typologies of selected countries

	Australia	Sweden	United Kingdom	United States
Welfare capitalism type	Liberal Market Economy; 'wage earners' welfare	Coordinated Market Economy; social democracy	Liberal Market Economy; liberal welfare	Liberal Market Economy; liberal welfare
Major post-war governing party	Liberal-National coalition (conservative)	Social Democrats	Conservatives	divided
Major financial crises*	recession in early '90s	banking crisis & 1992 currency crisis	recessions in early '80s & '90s; Black Wednesday	recessions in early '80s, '90s & 2000s; savings and loan crisis
Subsequent reforms (governing party)	*budget reforms & elevation of 'guardians' (Labor)*+; expansionary fiscal policy (Labor); austerity & budget transparency (Liberal-National)	currency floated, new fiscal framework, more central bank autonomy, market-based public sector reform (Social Democrats)	monetarism, supply-side economics (Conservatives); withdrawal from European Exchange Rate Mechanism (Conservatives)	supply-side economics/ 'trickle-down' economics; tax cuts; expenditure limits (Republican presidents)

* after '73 Oil Crisis
+ in anticipation of a possible crisis

Our analysis focuses on how these four countries responded to crises after the turbulence of the 1970s, when many predominantly right-wing governments began to question the sustainability of government spending. Our intention at this stage is not to engage in a systematic comparison between these countries, but rather to highlight some of the key differences. We are not suggesting that there were only one or two factors that distinguish Australia and Sweden, but rather the combination that produced a political climate that was open to more radical experimentation.

The focus on crisis is important. Crisis, according to the Chinese proverb, entails dangers as well as opportunities. In institutional terms, a crisis may serve as a catalyst for breaking up path dependency and a search for policies that can address the crisis and address societal problems more efficiently than the previous policy (*see* Steinmo et al. 1992). Hall (1992) uses this idea to argue that the 'British malaise' (*see* also Gamble 1994) provided justification and support for the macroeconomic policy shift in the late 1970s from Keynesianism to monetarism. More generally, Drazen and Easterly (2001) conducted some simple empirical tests and found that financial crises do induce significant budgetary reform.

At this point, we can observe the first key difference, with centre-right governments in the UK and the US embracing supply-side economics, while centre-left governments in Australia and Sweden embarked upon more substantial budgetary reforms focused more on internal processes of how government was managing resources than the interaction between government spending and society. This is not to suggest that they were any more or less ideological, and they were certainly not traditionally associated with the centre-left. Thatcherism and Reaganomics were also far less concerned with reforming the budget process or improving transparency.

The nature of the crises was also different, but this factor varied in each of the four countries. There were recessions in the Anglophone countries, while there were currency crises in the UK and Sweden. Yet, the severity of the Swedish crisis—which also included a banking crisis—spurred a comprehensive set of reforms. A robust regulatory framework for the budget was created in the wake of a deep financial crisis in the early 1990s when the budgetary balance fell from a 5 per cent surplus in 1989 to a 12 per cent deficit in 1993 (*see* Molander 2001: 32). Sweden initiated some of the most wide-ranging budgetary reform of any OECD country, and opted for a more centralised and top-down process, where the finance minister performs a powerful coordination and allocation role, along with the prime minister. In practice, the finance minister assumed a tight rein over line ministries to keep expenditure under control, a primus inter pares position among cabinet ministers that continues to this day (Larsson 1993; Premfors and Sundström 2007). There are expenditure limits subject to parliamentary approval, which serves to constrain new spending and departments from overspending. The notable exception to this crisis narrative is Australia, which has not experienced the frequency or intensity of shocks relative to the other countries. Furthermore, Australia has been unusually proactive. While Australia was facing a widening current account deficit and rising foreign debt in the 1980s, it was one of the first advanced economies to undertake extensive budget and financial management reforms to systematically reduce public sector growth and the tax burden (Keating and Holmes 1990; Gruen and Sayegh 2005). These reforms will be detailed later, but the significant similarity with Sweden during this period is the elevation of the 'guardians'. Political scientists often use Aaron Wildavsky's 'guardian-spender' framework to theorise how guardian agencies and ministers with economic portfolios seek to oversee and constrain the spenders, often in the areas of social policy and infrastructure. In Australia, the Labor government strengthened the role of the decade-old Expenditure Review Committee (ERC), which continues to influence the budget process in Australia. The ERC became a powerful Cabinet sub-committee comprising ministers from the guardian agencies and a few others to vet all resource bids. Their instinct is to cut and to refuse proposals for new spending, regardless of the economic circumstances. The Australian Finance Minister has also become more influential, but this came later and will be discussed shortly.

Surplus goals became entrenched in both countries towards the end of the 1990s. Such outcomes become consistently achievable after a series of other financial reforms, and newly elected governments successfully contained deficits and debt. Yet, this was the case in many countries. Democratic President Bill Clinton and 'New'

Labour Prime Minister Tony Blair pursued a 'Third Way', which was more successful in producing budget surpluses than Thatcherism or Reaganomics. However, like their predecessors, neither government significantly changed the internal budget processes or power structures as occurred in Australia and Sweden. Furthermore, neither government promised endless surpluses. Surplus policy stipulates that the government is responsible for delivering consistent annual budget surpluses of a certain magnitude, often defined as a percentage of GDP, regardless of the level of economic growth. The economic policy pursued in the US and the UK at this time contextualised the surplus goal and thus offered government more room to manoeuvre than was the case in Australia and Sweden.

The Swedish Social Democrats reclaimed government in 1994 in the midst of the crisis and by 1996 had introduced a surplus goal. The surplus goal was initially set at two per cent over an economic cycle but was later, for technical reasons, lowered to one per cent, while interpreted as an annual goal. Coupled with a cap on public expenditure, the goal was intended to provide stability in public finances, and was justified according to the principle intergenerational justice. The Australian Liberal-National coalition won government in 1996 after their longest period in opposition, and they claimed that Labor has misrepresented the true level of debt. They claimed that surpluses were needed to repay the debt, and they began pursuing consistent surpluses after one year in office. As we scrutinise in the next section, both the Swedish and Australian government justifications are contentious and more controversial than they at first appear.

3. The challenge of sustaining surpluses

Public choice theorists commonly argue that politicians are compromised by short-term electoral demands for tax cuts or spending, and therefore have a propensity for fiscal irresponsibility. Many economists theorise political behaviour, identifying a 'deficit bias' (easier for politicians to allow increasing deficits and debt and promise future solutions) and the 'common resource pool problem' (spending claims, decisions and promises made in isolation rather than the overall budgetary context) as entrenched in electoral democracies. Governments will often justify deficits and debts as necessary and temporary and pledge to improve the situation after the next election. Even if they lose, the opposition's policy agenda is then constrained by deficit and debt problems (*see* Wren-Lewis 2011; Brenton 2016).

Australia and Sweden started to change this dynamic with the empowerment of the guardians. Yet, while the guardian-spender framework is useful for understanding how deficits are lowered or budgets are balanced, it does not fully account for the circumstances under which surpluses are achieved. As Wildavsky (1961) contends, the budget is the most essential political commitment of government. Guardians are doing more than simply constraining spending to a level commensurate with revenues; they are going a step further in pursuing a profit-like goal, which can be viewed as a change in the role of government in society.

Fiscal rules aimed to address the supposed fiscal ambivalence of political leaders by limiting their choices (Posner and Blöndal 2012). They were designed to depoliticise budget decisions by subjecting political leaders to external restraint due to their perceived failure to manage public finances (Robinson 1996; Roberts 2011; Posner and Blöndal 2012). During the 1990s, fiscal principles and rules were introduced in a small number of countries to regulate, or often to contain, government spending. Table 2 summarises the fiscal principles and rules introduced in selected OECD countries and the European Union. The 'principles-based' approach allows for more discretion within broader parameters, whereas the 'rules-based' approach specifies fiscal targets within legal documents, which is the more common of the two approaches (Blöndal et al. 2008).

Table 2. Types of fiscal principles and rules

Principles-based	
Legislated principles	*e.g. Australia, New Zealand* Requires fiscal strategies and multi-year targets, budget surpluses (over unspecified economic cycle in Aust.) where growth prospects are sound and/or with reference to debt levels. Need to explain variations but no sanctions.
Unofficial surplus goals	*e.g. Australia* Both major parties pledged 1.0-1.5% annual budget surpluses (pre-GFC).
Unofficial balanced budget goals	*e.g. United Kingdom* New Labour pledged that over economic cycle to borrow only to invest and to fund current spending from taxation.
Rules-based	
Legislated surplus rules	*e.g. Sweden* *Fiscal Budget Act* requires a budget surplus goal over economic cycle, which govt determines (currently 1%).
Constitutional amendments	*e.g. Germany, Switzerland* Structural budget balance rule with prescribed limits on deficits.
Legislated balanced budget rules	*e.g. Japan* All expenditure funded from revenue (not bonds or borrowing) but escape clauses frequently used.
Forced spending cuts	*e.g. United States* *Budget Control Act* enabled budget sequestration as debt ceiling increased.
Debt and deficit containment	*e.g. United Kingdom, European Union* Debts and deficits as a proportion of GDP are meant to be limited, but weak enforcement.

Sources: Authors and International Monetary Fund

These rules can also include oversight provisions and sanctions or methods of enforcement. In the few cases where oversight provisions have been introduced, they have involved actors and institutions other than the legislature, such as external auditors or special committees. This is consistent with an overall trend where legislatures (with notable exceptions such as the US Congress) have become less influential. The executive dominates the budget process, with the legislatures in most OECD countries approving the budget without major changes, and with a decreasing number of authorised budget articles in all countries (Sterck 2007). While fiscal principles and rules can increase accountability over the executive, they are not implemented in a way that empowers the legislature or other existing accountability mechanisms.

Throughout the 1990s and 2000s in the US, the Republicans instituted unsustainable tax cuts and favoured indiscriminate across-the-board spending cuts (albeit with different treatment of defence) when the budget inevitably did not balance. They also toyed with amending the Constitution to include a balanced budget requirement.

Tony Blair's 'New' Labour government implemented two 'rules': that over the economic cycle, the government can only borrow for investment and not for recurrent spending (golden rule); and that debt as a proportion of GDP had to be held at a stable and prudent level. It was up to the government to determine the level with regard to economic circumstances. While these rules were part of the government's official fiscal policy, they were not specifically legislated, as the government emphasised the need to retain discretion. Furthermore, important distinctions were made between different types of spending, as borrowing for investment was justified.

The rules in other countries are often designed to ideally balance the budget. As Posner and Gordon (2001: 10) observe: 'In the past, reaching a zero budget balance was viewed as the outer limit of fiscal policy: a broadly supported goal that was sought as the end point of fiscal policy'. Yet, the Australian and Swedish governments continued to advocate surpluses and received broad political and public support. The two principal justifications were that debt needed to be reduced in order to prepare for unexpected shocks, and that debt imposes an unfair burden on future generations. Surplus policy is largely premised on the belief that excess revenue is the only way to reduce public debt and resultant interest payments while increasing national saving (Robinson 1996; Posner and Gordon 2001; Boije 2004; Seccareccia 2012).

Proponents of budget reform often invoke intergenerational equity, or fairness to future generations, as a key reason for at least balancing budgets, as it is argued that debt unfairly imposes repayments onto future generations. Intergenerational equity is the principle that taxpayers of each generation should contribute to the benefits that they enjoy, without either subsiding or being subsidised by taxpayers of other generations (Coombs and Dollery 2002: 364). During the 1990s, future demographic challenges such as the rising costs of health and aged care began to feature prominently in policy debates (Gruen and Sayegh 2005; Mitchell and Mosler 2006). As the population ages in most OECD countries along with a decreasing proportion of working taxpayers, surpluses were seen as a type of insurance. However, other OECD countries have not opted for surplus policy despite the same demographic challenges and increases in social expenditure for older citizens. Furthermore, most OECD countries have had larger debt burdens than Australia or Sweden.

Politicians have minimal incentive to encourage sacrifice among current taxpayers for the benefit of future generations, as they are understandably focused on the next election rather than worrying about the fiscal health of the country in 20 years' time (Posner and Blöndal 2012). Compelling arguments to use some or the entire surplus for tax cuts or new spending in the short term often prevail. Persistent budget surpluses even during downturns apparently challenge the prevailing orthodoxy of public choice (Posner and Blöndal 2012). There are many political and economic reasons why continuous surpluses are not pursued or even seriously considered in most countries. Across the political spectrum, surplus revenue is generally viewed as a negative outcome, as it is expected to be returned to taxpayers through tax cuts or spent on improved services. Furthermore, continuous surpluses can make maintaining budget discipline difficult as the basic reasoning or initial impetus for such measures is lost.

Theorists from many different schools of economic thought and ideological orientations are equally critical of such a crude fiscal principle as an annual surplus goal. Annual goals cannot account for economic cycles, which are much longer, and can relegate fiscal policy from a supporting role to, in effect, no meaningful role. The government is relinquishing an important lever on the economy, which is even more concerning as monetary policy has also reached its limits in recent years. Aside from these risks, public sector surpluses are seen by some as taking money away from the private sector, perversely affecting demand or undermining monetary policy and automatic stabilisers (*for detailed discussion see* Quiggan 2010; Wren-Lewis 2011; Blythe 2013; Piketty 2014). While these particular consequences are not necessarily predicted by these scholars or most economists, the more important point is that there is no mainstream school of economic thought—from either the 'left' or the 'right'—that is advocating for constant surpluses. Only in the Eurozone where individual member states lack control over monetary policy are crisis-stricken countries like Greece being told by the IMF and Germany to deliver a surplus, however unlikely (Stiglitz 2016).

Debt is a more complicated issue and is debated on several fronts. While Piketty (2014) is critical of debt as he argues that it reinforces and exacerbates inequality, he observes how the value of public debt decreased historically in some of countries due to high inflation. This is not a sound debt reduction alternative, and is certainly not recommended by Piketty, but it does highlight the complexity of debt and its value. It is not as simple as generating large surpluses and then repaying debt more quickly. It can depend on interest rates, when the debt matures, the currency and fluctuations, along with inflation and economic growth rates. For example, in many cases, the debt burden can be contained if the rate of output growth in the economy is higher than the stock of debt (Robinson 1996). Post-financial crisis when interest rates have been at record lows, there have been many advocates for borrowing to fund productive infrastructure for future economic gains. The concept of intergenerational equity could actually be used to justify debt (Robinson 1996).

Furthermore, Australia's surplus goal became entrenched after net debt was eliminated. Despite the political rhetoric, the government still quietly maintained a gross debt of around $50 billion to ensure a market for Australian bonds, and the viability of the financial services industry, foreign portfolio investment and foreign exchange markets (Eccleston 2012). The surpluses were diverted to off-budget sovereign wealth funds, such as the 'Future Fund', to pay for unfunded future public sector pension liabilities, and on-budget infrastructure funds, where the principal and interest can be used in specified areas. Yet, some economists see using surpluses for infrastructure investment as undermining monetary policy, particularly at times of rising national income capacity constraints and inflationary pressures are most acute (Eccleston 2012).

We now turn to how and why Australia and Sweden embraced this radical policy of consistent surpluses without the expected political and economic fallout in more detail. As already mentioned, our theoretical approach in this analysis draws on historical institutionalism (Steinmo et al. 1992; Pierson 2000). Economic policy and the institutional and regulatory arrangements governing this policy sector are often described as deeply entrenched. This is partly because these arrangements are sustained by economic ideas which, by nature, are insensitive to short-term political or economic developments (Hall 1989). Also, these institutions, as the 'rules of the game' (North 1990), need to display a high degree of continuity in order to enable market actors to make long-term decisions; indeed, 'stop-go politics' and a lack of regulatory stability may be a significant obstacle to economic growth simply by the uncertainty it instils in market actors (*see* Gamble 1994).

Historical institutionalism suggests that the development of economic policy is not incremental but rather discrete, with long-term continuity interrupted by fundamental policy changes. Given the entrenched nature of economic policy and the market's need for regulatory stability, policy change becomes a bigger political undertaking than an incremental regulatory change and may therefore require some kind of external shock to trigger such fundamental reassessment. Introducing a budget surplus policy in the wake of a financial crisis as happened in Sweden is a good example of such a process. The Australian case where a budget surplus requirement is introduced against the backdrop of a feared impending crisis might appear to be a less valid example. We argue, however, that in both cases, it is the very phenomenon of a crisis which helped to drive the policy change. Indeed, a crisis whose manifestation and impact are yet to be seen may in fact be a more efficient trigger of policy change than a crisis where those factors are known.

The historical institutional perspective provides the overarching conceptual perspective in the paper. Existing theories underpinning commitment to budget discipline, such as those based on Aaron Wildavsky's guardian-spender framework or the public choice critiques that electoral democracy encourages fiscal profligacy, do not adequately explain these cases. Rather, we propose that Australia and Sweden took early NPM ideas to their ideological extreme in the belief that they were protecting their economies and welfare systems. They constructed a 'profit-like' goal for the public sector, which became a proxy measure of economic management.

4. Trajectories of budget reform in Australia and Sweden

In this section, we examine the period before the adoption of surplus goals, the initial implementation period, and the period of the operation of the surplus goal until the onset of the financial crisis. We find that the circumstances leading to surplus policies were different in Australia and Sweden, but that the major centre-left parties initiated the reform projects that centre-right governments enthusiastically furthered. Other key actors included finance and economic ministers and their ministries. The shift to the right or the centre by left-leaning major parties was not unique to Australia and Sweden, but occurred later in the UK and the US.

Right-wing governments had dominated postwar Australian politics, with Labor only governing between 1972 and 1975. During that brief period, they pursued a staunchly social democratic agenda that ended with a Constitutional crisis as the previously symbolic head of state intervened to dismiss the prime minister, as the government could not pass its budget. Thus, Labor was determined to prove that they could manage the economy and government finances and embarked on extensive neoliberal reforms, many of which were more far-reaching than those of right-wing administrations in the UK and the US during the same period.

In successfully campaigning for office in 1983, Labor made a 'Trilogy' commitment—no tax increases, no expenditure increases and reductions in the budget deficit—all measured as a proportion of GDP over the life of the parliament but subject to 'let-out' clauses. Once in government, the Financial Management Improvement Plan was launched, with 'forward estimates', or the automatic determination of 'baseline' expenditures. This meant that future spending was seen to be locked-in, further reducing the ability of spenders to make new spending pitches each year, while any new programmes were vetted by the guardians with focused attention on expenditure restraint (Keating and Holmes 1990; Kelly and Wanna 2001). By 1987, the reforms had incorporated an 'efficiency dividend', where almost all public agencies (with the notable exclusion of defence, until recently) have had their base budgets cut by at least 1.25 per cent each year to drive internal efficiencies.

In 1987–88, the government delivered a budget surplus for the first time in over 30 years, and continued to do so for the next three financial years. Aside from some growing Asian economies, Australia was one of the few countries to record budget surpluses in the 1980s. From this time, the success of the budget was judged by many political observers, the media and the public, according to the comparative size of the annual surplus or deficit (Wanna et al. 2000: 154). In Australia, surpluses ended with the 1991–92 recession, and the immediate response was a reversion to expansionary fiscal policy.

During the same period, the Swedish welfare model began to crumble when tax fatigue set in and there were growing sentiments towards individualism and freedom of choice. While the political history of Sweden is almost the exact opposite to Australia in terms of party dominance, there is an important similarity. The Social Democrats dominated the Swedish political scene throughout much of the postwar period, but defeat in the 1976 general election—the first in 44 years—caused the party to reconsider its policies. On returning to power six years later, it was clear that the Social Democrats were gradually moving towards the centre of the political spectrum. They spent their time in opposition after the 1976 defeat reassessing policies and standpoints that previously had been politically impossible to address. For instance, allowing market delivery of public services as a means of introducing choice and sustainability within a strained budgetary situation (*see* Feldt 1991; *for an overview see* Pierre 2015).

The initial Swedish reforms were more about reducing the size of the public sector and deregulating the market than internal government reform. The budget had presented deficits for several fiscal years, despite high economic growth, but the immediate focus was on responding to the crisis in the financial system. Credit markets were deregulated in 1985, contributing to a 'bubble economy' during the late 1980s and propelling the major commercial banks into a crisis in 1990 (Englund 1999). Furthermore, the deregulation of the currency market in 1989 significantly reduced the capacity of the central bank (Riksbank) to monitor or control the flow of currency across Sweden's borders (Telasuo 2000).

Sweden had suffered from high inflation for decades, but the crisis worsened by 1992 as devaluation was used on several occasions to adjust Swedish price and cost levels to those of its main competitors. International and domestic financial markets doubted that the Riksbank would be able to defend a fixed exchange rate and began speculating that they would have to float the Krona, which was pegged to an international currency norm. After a period of intense struggle to fend off speculation, the Riksbank decided on 19 November 1992 to float the currency (Hinnfors and Pierre 1998; Englund 1999; Pierre 1999). As a result of the crisis, GDP fell by six per cent between 1991 and 1993, unemployment reached double-digit levels, and the public sector went through severe cutbacks.

Centre-right governments in both Australia and Sweden then transformed fiscal strategy, with an emphasis on resilience against future shocks and long-term sustainability. The sustainability of the welfare system was a particular concern. In Sweden, the 'Lindbeck Commission', chaired by prominent economist Assar Lindbeck, was appointed to design a new fiscal framework. The Commission put forth a total of 113 recommendations in its 1993 report, covering economic and fiscal policy, institutional reform (including reducing the number of members of parliament and granting the Riksbank more autonomy in relation to government and parliament), and market-based reform in the public sector (Ekonomikommissionen 1993). While many of the Commission's recommendations were never implemented, a senior civil servant in the Swedish National Financial Management Agency suggested that: '[The Commission's] key purpose was publicity and to bring about a change in the discourse of reform. It was Reagan's and Thatcher's arrival in Sweden' (interview with author, 12 June 2008).

The Australian Liberal-National government legislated the Charter of Budget Honesty Act in 1998. It was stipulated that fiscal policy had to account for government debt, financial risks, the economic cycle, national savings levels, the tax base, and intergenerational equity. The medium-term fiscal strategy was to maintain budget balance over the course of the economic cycle, while also maintaining surpluses over the budget year and three forward-estimate years where growth prospects were sound without increasing the overall tax burden from 1996 to 1997 levels. Without increased tax revenue, the government cut social spending and increased the efficiency dividend to two per cent.

The Department of Finance had been advocating a more formal, annualised surplus requirement. The department was relatively young, having been created in the 1970s by a Liberal-National government to provide competition in advice against the principal economic ministry, the Treasury. The Department of Finance had helped to craft the previous Labor government's financial management reforms and were developing a reputation as radical reformers, with critics interpreting it as justifying their relevance.

At this point, the Australian and Swedish contexts diverge slightly, with the Swedish Social Democrats returning to power in 1994 as the country was still recovering from the crisis. Their initial approach was akin to that of the Australian Labor government in the 1980s, with the elevation of the finance ministry to tightly scrutinise and control line ministry expenditure. In 1996, more comprehensive reforms were introduced, and an overview of the evolution of the new fiscal framework is provided in Table 3. The Australian framework is also examined, and the common feature is that the official written 'rules' are not that rigid, and certainly not in annualised terms. A few other jurisdictions, such as Japan and the European Union, have more rigid rules, but effectively ignore them. Similarly, the enforcement measures and penalties are also not particularly strict, compared to countries like the US, which has often legislated 'forced' spending cuts. However, once again, such measures are worked around in the US, while in Sweden and Australia the political interpretations and commitment to surplus goals were very strict. The 'unofficial' rules of the game were more influential.

Table 3. Evolution of Australian and Swedish fiscal frameworks under governments of different ideological orientations

	Centre-left	***Centre-right***
AUS	*mid-2000s* in response to Liberals, Labor pledged annual of surpluses of 1.5% of GDP, also not to spend above-forecast revenue	*1998* formally, surplus over 3-yr economic cycle but Finance dept wanted annual surpluses *2006* surpluses directed to sovereign wealth fund *mid-2000s* Liberal party commits to annual budget surplus of 1% of GDP but refrains from legislating or officially codifying
SWE	*1996* ceiling for govt expenditures & surplus goal phased in over 3 yrs *2002 to 2007* surplus target of 2% of GDP over business cycle	*2007* surplus target technically adjusted to 1% after pension system accounting changes *2007* Fiscal Policy Council (experts to assess achievement of fiscal policy goals) created *2010* expend. ceilings legislated (prev. voluntary) *2011* *Budget Act* stipulates govt has to set target

Generally speaking, centre-right parties in Australia and Sweden have opted for legislation and more substantial institutional changes. However, compliance mechanisms have not been legislated or institutionalised. For example, while the Swedish Moderate-led government legislated the expenditure ceilings, they can still be changed.

Furthermore, the Budget Act simply requires that a surplus target be proposed, and the level is up to the government of the day. The Fiscal Policy Council can only act in an advisory capacity. However, in practice, Swedish governments have still been rigid and where ceilings were changed, they were lowered to further constrain spending.

After setting surplus targets, Australia and Sweden initially achieved economic growth rates above major advanced economies, along with longer term decreases in public expenditure shares and levels of taxation (including social security contributions). However, Table 4 also shows that unemployment and long-term interest rates have been generally similar to other OECD countries, but have not been the lowest. While economic and fiscal performance in Australia and Sweden during and after the 2008 financial crisis has been comparatively good, their governments suspended the surplus goals 'temporarily'.

Table 4. Economic and fiscal performance of selected major economies, 5-year averages, 1983-2013 *(as a percentage of GDP where applicable)*

		1983-87	1988-92	1993-97	1998-02	2003-07	2008-12
A	GDP growth	**3.8**	**2.4**	**4.2**	**3.9**	**3.6**	**2.5**
U	Financial balance	-4.4	-2.3	-3.3	**1.4**	**2.0**	-3.6
S	Net debt	*n/a*	13.0	23.7	9.0	**-2.1**	1.5
	Taxation	*n/a*	27.5	28.1	29.8	30.1	26.6
	Expenditure	37.9	36.6	36.8	35.6	34.8	37.0
	Interest rates	13.6	11.7	8.1	5.9	5.6	4.9
	Unemployment	8.7	8.1	9.2	6.8	5.1	5.1
S	GDP growth	**2.7**	**0.7**	**1.7**	**3.1**	**3.5**	**1.0**
W	Financial balance	-1.7	**0.8**	-7.2	**1.1**	**1.4**	**0.2**
E	Net debt	11.3	**-2.8**	18.4	8.3	**-10.2**	**-21.2**
	Taxation	46.5	48.8	47.6	48.3	46.4	44.1
	Expenditure	*n/a*	*n/a*	61.4	54.9	52.2	51.4
	Interest rates	12.1	11.3	8.6	5.2	4.1	2.8
	Unemployment	3.7	3.3	11.1	7.3	7.0	7.8
G	GDP growth	**3.7**	**1.3**	**3.1**	**2.6**	**3.3**	-0.6
B	Financial balance	-2.9	-1.9	-5.4	**1.0**	-3.3	-8.1
R	Net debt	31.9	21.3	39.6	25.2	24.2	52.5
	Taxation	36.6	33.9	32.8	35.4	35.4	35.2
	Expenditure	*n/a*	40.5	39.4	36.7	40.8	47.0
	Interest rates	10.6	10.2	7.7	5.1	4.7	3.4
	Unemployment	11.3	8.3	8.7	5.6	5.1	7.5
U	GDP growth	**4.4**	**2.4**	**3.4**	**3.1**	**2.9**	**0.8**
S	Financial balance	-5.0	-4.4	-3.0	-1.2	-4.5	-10.4
A	Net debt	42.2	51.6	58.8	37.2	44.2	67.6
	Taxation	25.6	26.2	26.9	27.3	26.0	24.8
	Expenditure	36.9	37.2	36.9	34.7	36.5	41.1
	Interest rates	10.0	8.2	6.5	5.3	4.4	2.9
	Unemployment	7.5	6.1	5.8	4.7	5.2	8.3
G	GDP growth	**2.1**	**4.0**	**1.0**	**1.7**	**1.7**	**0.8**
E	Financial balance	-1.7	-1.9	-3.0	-1.9	-2.5	-1.6
R	Net debt	18.8	19.9	40.6	36.3	46.3	48.8
	Taxation	*n/a*	38.7	40.1	40.2	38.5	38.7
	Expenditure	*n/a*	*n/a*	50.6	46.9	45.5	45.5

	Interest rates	7.2	7.8	6.4	4.6	3.9	2.8
	Unemployment	*n/a*	6.6	8.6	8.5	9.9	6.7
J	GDP growth	**3.5**	**4.2**	**1.8**	**0.1**	**1.8**	-0.1
P	Financial balance	-1.4	**2.3**	-3.0	-7.9	-4.4	-7.5
N	Net debt	25.2	10.3	12.0	59.6	80.7	115.5
	Taxation	26.8	28.3	26.8	27.0	27.5	28.8
	Expenditure	*n/a*	*n/a*	35.5	39.0	36.5	40.6
	Interest rates	6.3	5.7	3.5	1.5	1.5	1.2
	Unemployment	2.7	2.2	3.1	4.8	4.5	4.6

Sources: OECD Economic Outlook database and National Accounts at a Glance

Both Australia and Sweden—along with most other OECD countries—recorded large deficits and increased debt with the onset of the 2008 financial crisis. In Australia's case, deficits have continued, and it is uncertain when Australia will return to surplus. Labor had won government in Australia just a few months prior to the crisis, and they initiated the largest fiscal stimulus package of all OECD countries, which was equivalent to 2.6 per cent of GDP (it should be noted that the efficiency dividend and ERC cuts continued regardless). Australia avoided recession and job losses were contained, but Labor could not rein in the deficits during six years in government, despite frequently promising surpluses. The Liberal-National government has made similar promises, with a budget surplus unlikely to be achieved before the mid-2020s at best.

Sweden entered recession under the Moderate-led government, but economic growth bounced back rapidly in 2010 to six per cent. As Sweden is outside the Eurozone, it was to some extent protected from the most immediate fallout of the crises in the southern European countries. Instead, the main impact on the Swedish economy appears to have been the dramatic weakening of international markets. Thus, both countries have been spared some of the worst effects of the crisis, but there are many important factors other than the previous surpluses. Firstly, their degree of exposure was much less than many countries, but their comparative fiscal health could be traced back to other reforms rather than the actual surplus goal.

5. Comparative analysis

While the neoliberal turn towards monetarism was consistent with the ideological orientation of the Reagan administration and the Thatcher government, ostensibly, left-wing governments in Australia and Sweden began significant economic reforms. Like many social democratic and labour parties around the world, both the Australian Labor Party and the Swedish Social Democrats refashioned themselves and abandoned some of their traditional ideals, but these parties went much further. They took the initiative in their countries early, as they were eager to prove their economic credentials after bruising electoral defeats, while also appreciating the opportunity to modernise and therefore protect the public sector in the longer term (Brenton 2016). However, this led to a political consensus in these countries as the centre-right were naturally willing to build on the early groundwork and extend the neoliberal reforms. The consensus was only broken after Labor and the Social Democrat were in opposition in the 2000s as parties further to the left gained support and the 2008 financial crisis provided political legitimacy to question the unfettered operation of markets.

Given that governments in Australia and Sweden are not actually bound by the targets and technically can take account of the business cycle and economic conditions of the time, what purpose do they serve? They do not constrain these governments in the way that a constitutional amendment might, but they do condition the public and have also helped to foster a political climate where parties try to outbid each other, as in the case of Australia. Furthermore, with no precise definition of an economic cycle and no way of predicting the period over which to balance the budget, the governments in both countries opted for the politically 'safer' option of annual surpluses. Thus, both countries also adhered to the targets even when conditions were leading to different responses in comparable countries. In the 2000s, neither Australia nor Sweden had the debt problems of other countries, yet were still concerned about deficits and debt.

Once broad consensus across the political spectrum had been achieved in the 1990s that deficits and debt were linked to the mismanagement of public expenditure, it became difficult to challenge (*see* Wanna et al. 2000, Hart 2009). Surpluses were also easy for the public to understand, unlike economic cycles and discretionary fiscal policy. In some respects, it challenged one of the last remaining differences between public and private sector accounting: the existence of a 'bottom-line' and profit-like motive, which became a proxy measure of the government's economic management. This can also be seen with the creation of a sovereign wealth fund by the centre-right government in Australia to continue to produce surpluses and to invest them in the market, even after debt was repaid, rather than return them as tax cuts or through new spending, such as productive infrastructure. This initiative was widely praised as an innovative way to fund future public sector pension liabilities, while again channelling intergenerational justice arguments.

In terms of their ability to incur debt to respond to the crisis, it is important to note that the centre-right parties in these countries were critical of too much stimulus anyway. Indeed, the Swedish government reaffirmed the importance of surplus goals, even though they struggled to meet that target and produced deficits in their two budgets prior to the election defeat in 2014. Critics argued that the continuation of the surplus goal prevented a macroeconomic policy that would have helped to stimulate the economy in the wake of the 2008 global financial crisis. In other words, even conservative economists called for a moderate Keynesian-style economic policy while government maintained that a restrictive financial policy is essential in times of economic instability. Among the critics were Assar Lindbeck along with other senior economists and advisors to government like Lars Calmfors, in addition to industry groups like the Confederation of Swedish Enterprise (Svenskt Näringsliv) (Herin et al. 2007, Lindbeck 2008).

Thus, whether Australia and Sweden are better off now due to a previous series of surpluses is questionable at best. It is not as though they were banked and could be drawn upon with the onset of the crisis (even Australia's sovereign wealth fund remained locked up). Both countries have still had to borrow, which is actually a relatively good time to do so as interest rates have approached zero. Even in some of the most market-oriented economies such as the UK and the US, governments have resorted to quantitative easing, as inflationary pressures are also low. In other leading economies, governments have also become more interventionist, with 'Abenomics' in Japan and European Union bailouts led by Germany. Australia and Sweden have also not avoided elements of austerity, although cuts have been comparatively less severe.

In looking back at Table 4, while Australia and Sweden have performed well in terms of budget discipline and debt containment, their performance on a range of indicators is by no means outstanding. Thus, the benefits of aggressive budget discipline and debt containment are not compelling. How much public capital infrastructure stock, as just one alternative, could have been funded if they had previously run deficits, or even just balanced budgets? Australia's and Sweden's debt may have been larger, but so might have their economies.

In Australia, surplus goal consensus is being tested, with more frequent changes in governments and prime ministers than previously, and an inability to restore budget discipline. The major parties have stopped trying to quantify the surplus goal, with any sort of surplus or even just a balanced budget seen as ambitious. Voters are also less concerned about their home loan interest rates and claims that they are tied to the level of government borrowing, and more concerned about cuts in government spending and increases in user charges for public services. Now that there is debt, the actual level has become less of an issue, and the Liberal-National government even negotiated with their ideological adversaries, the Greens, in order to remove the debt ceiling previously imposed by parliament.

The political developments in Sweden have been just as confusing. The Social Democratic and Green coalition government that was formed after the 2014 election was initially committed to the surplus goal and stated that it would bring the budget back into surplus by the end of the election period, that is, by 2018. After about six months in office, however, the government signalled that the surplus goal could be replaced with a goal of balancing the budget over a business cycle. The argument is classic Keynesianism; budgetary policy must have instruments to stimulate the economy during recession and to cool the economy during booms, and a surplus goal would be a ‘constraining’ factor to such a policy (Löfven et al. 2015).

After the 2014 election, three blocs emerged in the Swedish parliament: the governing parties; the four-party ‘Alliance’ opposition parties; and the far-right Swedish Democrats. It became clear that the minority government faced a new set of challenges. The Swedish Democrats did not abstain after their budget proposal had been rejected but rather supported the ‘Alliance’ budget proposal which prevailed over the government’s budget Bill. The government called an extra election but reached an agreement—the ‘December accord’ (decemberöverenskommelsen)—with the four ‘Alliance’ parties to change the rule of the parliament’s decision-making procedure so that parties can only support their own proposals (Bjereld et al. 2016). As was the case when the surplus goal was introduced, questions were raised about the legitimacy of the reform in terms of creating rules to depoliticise important democratic decisions. The key consequence of the reform was that it enables, if not ensures, a government controlling only a minority of the seats in parliament passage of its Budget Bill, something which is of strategic interest to both the Social Democratic and Green government and the four parties in the ‘Alliance’.

Surplus goals were easily achievable while global economic conditions were favourable, and both countries were experiencing solid economic growth. In Australia, a resources boom led to unexpected revenue windfalls and surpluses, and therefore increased welfare benefits for the middle-class and tax cuts were all possible. In Sweden, a severe financial crisis in the early 1990s triggered extensive reform of the regulatory framework of the budget process, including the introduction of a budget surplus. The 2008 financial crisis became the first test of the feasibility of surplus goals under variable and unpredictable economic circumstances. Up until that point, there had been six consecutive surpluses in Australia, and ten over the previous 11 years. In Sweden, the 1991–92 crisis is clearly reflected in the financial balance data, with a significant deficit between 1993 and 1997. After 1997, the budgets delivered a surplus.

Politically, the pursuit of and commitment to the surplus have in many ways become more important than the use of the surplus. In both countries, the Social Democrats and Labor have been a leading, if not dominant, political party, at crucial times of reform, and in both countries, these parties embarked on profound ideological reassessments in the face of globalisation and growing fiscal pressures. They embraced the surplus goal in order to disarm the opposition of their monopoly of credible fiscal discipline.

6. Conclusion

The dogged pursuit of budget surpluses does raise the obvious comparison with a for-profit organisation. Annual surplus goals can be likened to a profit, particularly if the economic conditions of the time are not taken into account. This analogy is even more pronounced in the case of Australia where the government continued to pursue surpluses even after debt was eliminated, and then created a sovereign wealth fund with the aim of generating investment returns from the market. The size of the surplus has become a proxy measure of the government's economic management skills. What is even more remarkable is that voters have been prepared to forgo larger tax cuts or increased public spending, believing that they are best served by lower government debt and that they should not impose costs on future generations.

We raised three research questions in the introduction to this paper. First, why did Australia and Sweden decide to introduce a budget surplus goal? The historical institutionalism account of policy change has explanatory capacity in both cases; in Sweden, it occurred in the wake of a severe financial crisis and in Australia as part of an anticipatory strategy towards an impending crisis. In both cases, however, commitment to the policy was finally tested during an extraordinary financial shock. This latter observation also answers our second research question; the degree to which the budget surplus goal actually strengthened fiscal and budgetary discipline. The introduction of the budget surplus had interesting institutional ramifications. Most importantly, it strengthened the position of the Finance Ministry *vis-à-vis* line ministries and the discursive notion that budgetary control takes, and should take, precedence over public spending. It is extremely difficult to assess to what extent it is these factors or the budget surplus policy per se that may account for the short-term positive economic performance in Australia and Sweden after the budget surplus policy was introduced. This brings us to the third question, the compatibility between budget surplus policies and conventional instruments in economic policy, or, to put the issue slightly differently, the degree of policy change that budget surplus entails. Budget surplus policies are clearly more compatible with monetarism than with Keynesianism. The latter approach accords government a more dynamic and leading role in the economy compared to monetarism. A budget surplus policy thus represents a more dramatic change from Keynesianism than from monetarism. Australia and Sweden had a strong Keynesian legacy, and the budget surplus served to keep a return to a 'tax and spend' regime at bay.

In both countries, the surplus goal is yet to be permanently abandoned, even if the actions of governments have deviated from the policy in response to a financial crisis and there is now more questioning of its value across the political spectrum. The justification has been that the official rule does account for the economic cycle, and the surpluses are only required over a cycle. This is convenient as the cycle lacks a precise definition. Furthermore, the practice had been to tie the goals to each financial year with limited regard to the economic circumstances of the time. This practice has been shown to be too constraining to be the basis of a comprehensive and effective model of macroeconomic policy, and it continues to be 'temporarily' suspended. However, it is reasonable to conclude that the experiment has failed.

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