

SYMPOSIUM INTRODUCTION

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Evaluation is an essential ingredient of government budgeting. It seeks to assess the effectiveness of programs and projects so that lessons of experience could be learned for future application. It is only appropriate that this technique is periodically applied to the practices of government financial management so as to have a perspective on the current and future course of management of government finances. Has the management of public finances been adequate and effective? What were the critical areas? What was the success in addressing them? How were they addressed? And what may be the agenda for the future? These questions, which are always important, have acquired new importance in the context of conflicting evidence from experience during recent years. There are those who believe that rapid strides in progress had been made and that they hold a good deal of promise to those who have not implemented similar reforms. Then, there are those who hold the view that recent advances have high costs and that exclusive dependence on competitive contracting contributes to higher transaction costs, while paving the way for an eroded and hollow state. Moreover, there is the view that a good deal remains to be done in terms of addressing the complex and detailed issues of the process of financial management.

The surveys in this symposium seek to cover some of the above aspects. Any survey of developments and issues is a daunting task and the surveys included in this symposium are not an exception to this maxim. The aim of the surveys is to illustrate and therefore do not aim at being

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exhaustive inventories of either issues or developments; they deal with the principal features and therefore may have uneven coverage and applicability. The first paper deals with the issues and developments in OECD countries; this is followed by a paper illustrating a different dimension, viz transition from a centrally planned economy to a market-oriented one. The next survey is about the experience of Latin American countries followed by another survey of African countries. The last two papers provide a general survey of recent trends in Asian countries and a paper delineating the experience of a city State.

The papers cover a wide variety of experiences and enable the reader to reach his/her own conclusions about the current state-of-the-art and what more can and needs to be done hereafter by national authorities and international organizations, in the pursuit of orderly economic development and the strengthening of organizational, systemic and operational infra-structure. The intent of the symposium is not to provide a body of settled conclusions. Indeed, experience shows that any such attempt is bound to be futile. Rather, the intent is to generate more purposeful debate about what needs to be done in this vital area that is at the heart of governance. Such a debate need not await the advent of the twenty-first century, although it has become fairly routine during recent years to formulate and discuss issues in terms of what needs to be done during the next century and millennium.

COVERAGE AND CHOICE OF TERMS

The symposium papers essentially deal with an area that seems to elude a precise definition and therefore a definitive term that encapsulates the vast range of transactions carried out. The term budgeting—covering budget formulation and implementation—is obviously limited in that it does not include payments, accounting, reporting, evaluation and internal controls and management in the spending agencies. Similarly, the term financial management is viewed as being limited only to accounting and payment processes, and thus excluding the other important areas. For these reasons, this author preferred the use of expenditure management, which of course excludes revenue forecasting and related administration. In this symposium, these terms as well as others are used and the specific connotations are indicated where possible. The effort is, however, to deal

with the overall process of the management of public finances. That said, aspects of revenue administration are not considered as they form a separate subject, in their own right.

MAJOR THEMES: A PERSPECTIVE

The system of the management of public finances has been in a state of flux during the last half a century. Theoretical pursuits, and economic as well as practical concerns, had a significant impact on the approaches toward the management of public finances.

From a theoretical point, five major milestones that were emblematic of their times can be discerned. First, during the forties, the focus was on the allocative aspects of public finances and the adequacy of management systems in facilitating the resource allocation. Public finance, as a field of study, laid more emphasis on revenues. The significant issue raised by political scientist Key (1940: 1137) – “on what basis shall it be decided to allocate x dollars to activity A instead of activity B?” unleashed a stream of explorations into systems of budgeting. The continuing research into this area illustrates both the importance of this key question (no pun intended) as well as the absence of a conclusive answer that has a universality about it. This may also be a case where practice had precedence over theory; while various paradigms advanced over the years aimed at providing a satisfactory answer to this fundamental question have helped in promoting a greater understanding of the subject, many limitations remain.

Second, dealing with the emerging fiscal deficits after the Second World War, the First Hoover Commission (1949), raised two important questions that continue to have a major impact on the management of public finances:

- “What is the desirable magnitude of expenditure on any major government program and the desirable proportion of total government expenditures to the gross national product?”
- How efficiently and economically can an approved program be executed or can the same amount of work be performed satisfactorily through other arrangements or through improved procedures at less cost?”

The dominant themes that emerged from these two leading questions were (a) the macroeconomic linkages of the budget, and (b) the performance orientation of budgets. Although no guidelines have emerged about the desirable proportion of total government expenditures, there has been a realization that the levels should be sustainable in that the financing of the deficits should not lead to inflationary pressures or have adverse impact on the growth prospects and the overall stability of the economy. The limitation envisaged in the Maastricht Treaty on the levels of budget deficits and outstanding public indebtedness illustrate the continuing quest to the first part of the formidable question posed by the Hoover Commission.

The emphasis on performance continues to be a dominant concern. If macroeconomic stability represented a major dimension of the budget, the need for efficient and economical provision of services reflected another. These, in turn, contributed to a review of the administrative processes, instruments used, costs involved, and the mechanisms for the delivery of services. Budgeting and government financial management came to be influenced by performance approaches and its variants. This influence continues and will continue with periodic refinements.

Third, the above concerns did not provide any lasting solutions. Government budget deficits continued to persist reflecting some leakages in the systems linking the budget and the national economy. Internal management of government transactions did not fare any better. Public investments yielded meager results; deficit financing contributed to inflationary pressures; cost escalation continued unabated; disenchantment with the services proved to be linked, as it were, with the continuing growth of public expenditures. These, in turn, brought a renewed and more vigorous look into the expenditure management processes of governments. The central problem, by the early sixties, as the Plowden Committee U.K. (1961: 4) noted "is that of how to bring the growth of public expenditure under control and how to contain it within such limits as the government may think desirable." It was recognized that more intensive efforts were needed to moderate the growth of expenditure and that such efforts should be planned over a period of years. This unleashed a plethora of techniques that came to be known as the multi-year estimates, base-line projections and multi-year expenditure planning. These techniques came to be applied in different countries with varying

degrees of success. The desire to ensure a budgetary outcome congruent with estimates brought in techniques such as cash limits and more intensive periodic reviews during the fiscal year aimed at achieving the desired budget outcome. As an integral part of this effort, ministries of finance or similar agencies came to acquire powers that enabled them to stop blocks of expenditure, when so required by economic stability concerns.

Fourth, the above responses proved to be inadequate in a context where the level of expenditures proved to be too great for the national economies to bear. The continued instability during the seventies and eighties and the imperative need for containing the budget deficits, brought renewed pleas for the conservation of resources, and for restraint of deficit financed expansion. As a part of this effort, austerity measures were introduced to manage the fiscal stress. The new orientation was to contain the rate of growth of expenditures and to achieve this, legislative limits, and the more draconian approaches of limiting payments to available cash, came to be introduced. These had to contend with the budgets whose expenditure composition had changed meanwhile. Transfer expenditures and high interest payments (in turn reflecting the growing debt burden) came to dominate the scene. The fact that a greater share of outlays were regulated by laws, regardless of the economic situation, meant that there was little leeway to control public expenditures either during the year or over a period of years. This recognition paved the way for efforts aimed at fiscal consolidation. These efforts, comprising a mixed bag of policy reviews, legislative limits, periodic evaluation of efforts and selective divestment of government activities continued during much of the later part of the seventies and early eighties. It is important to note that these efforts had a significant impact on the approaches and the content of public management of its finances.

Fifth, despite the austerity measures initiated in the seventies, expenditures in industrial countries recorded an average higher growth rate by the late eighties raising issues about the adequacy of previous efforts to stem that rate. There was a general recognition that the austerity measures and fiscal consolidation efforts had, at best, a temporary impact and that there was a need for a more concerted effort, indeed a fundamental departure, from the previous approaches. The State and its administrative systems were considered to be the main problem areas.

The State was seen as promising too much and delivering too little, that too at a higher cost. The administrative processes showed a double paradox in their working. The outcome was often different from the intent. More significantly, the processes, with their traditional inertia, tended to engulf the people working there, and would appear to have had an overall dampening impact on their effectiveness.

The new approaches aimed at addressing the above problems, and which came to be identified as new public management (NPM) philosophy was drawn from a mixture of economics, and management theories. The public choice theory placed emphasis on competitive tendering and contractual relationships between the participants in the process. The management approaches placed emphasis on the establishment of small task-oriented agencies (which were expected to be responsible for policy implementation as distinct from policy formulation), specification of tasks and performance standards and making them responsible for accountability. The approaches to the management of public finances evolved within this overall framework and consisted of global budgetary limits, contractual relationships with agencies for the delivery of services within specified cost limits and quality features, improved sectoral controls, application of accrual accounting systems, development of performance standards, and enhanced accountability. To a very large extent, the application of the new approaches, described in detail in the paper on the experience of OECD countries, was facilitated by expanded use of information technology in government transactions.

ISSUES

The new approaches rightly focus on the interests of the citizen. As a recent document of the Canadian Government noted "efforts do not focus on cost-cutting alone, but rather on ensuring that Canadians receive an ever-improving mix of government services that meet their needs, and that the government provides these services within a stable expenditure base. Just as the private sector has had to innovate continually to provide goods and services tailor-made for the individual consumer, so must the government tailor its goods and interests of its citizens. The design and delivery of government programs must be oriented toward the citizen, and

not towards the needs of the Public Service, the constraints of current management styles or outmoded production processes” (Canada Communications Group Publishing, 1997: 11).

The new approaches offer viable solutions to some of the problems encountered by countries. But their application has by and large, been limited to a few countries such as Australia, Canada, New Zealand and the United Kingdom. In selected areas, Finland and Sweden have made rapid progress. In the United States, much of the needed legislation and the infrastructure is in place and most implementation is likely to be completed before the end of the century. Elsewhere, however, application remains limited.

Even where the new approaches are fully applied, new problems have been surfacing. It is now suggested that there is a democratic deficit in that the changing composition of expenditures has resulted in a removal of public services from the framework of accountability. Increasingly, the proportion of expenditures on directly provided services by governments is declining and the share of expenditures on contractually provided services is rising. This limits the role of legislatures as well as the managers in the public authorities. Similarly, there would appear to be a development deficit in that public organizations have yet to adapt their organizational capabilities and skills to the requirements of the market. Moreover, there appears to be a structural problem or what is known as a design deficit in that while the new approaches emphasize the need for cost-effective delivery of services, the role of policy formulation and the imperative need of improving policy analysis remain as amorphous as before. They do not address the issue of growing transaction costs as a result of the application of the new approaches or the ways in which the organizational paradoxes could be overcome.

It is evident that the public sector operations are far more complex and different from those of the corporate and nongovernmental organizations. In applying the corporate sector practices, the Hermeneutic circle applicable to government operations needs to be specifically addressed. It is difficult to grasp the totality of government operations without having a firm grasp of the details of the components; also, the details cannot be addressed without a comprehensive understanding of the totality of government. The specialist approaches included in the new

public management, such as principal – agent relationships may not have fully grasped the total – component relationships prevalent in the public sector. These aspects suggest that more detailed studies are needed in the application of the new approaches.

The papers on Latin American, Africa, and Asia show that there are several areas of a more detailed nature that need to be addressed. The translation of a design into a practical, operational system requires that these details should be addressed. In dealing with them, adaptations needed in view of the specific situation of a country has to be taken into account. The paper on Singapore shows how adaptation of the New Zealand model had been made to suit these requirements. The future of the operational systems in public authorities is dependent on the skill with which adaptation is made. A straightforward replication of some countries' experience may prove to be a case where the remedy is worse than the malady.

The process of adaptation is itself dependent on the economic context of each country. Traditional distinctions drawn between advanced countries and the developing world are of little avail in this context. Each group has its set of unique features and issues and within each set, countries have their problems that are situation specific. In analyzing the requirements, reform seekers have to transcend the dichotomies and related approaches such as government vs nongovernment, political vs managerial, policy vs implementation, development plan vs nonplan, and explore the details. The success of the management of finances, experience shows, is more dependent on the attention to the details and their relationship to the totality. It also needs to be noted that economic success such as the achievement of a balanced or surplus budget, by itself is no guarantee for the efficient delivery of services. The new public management philosophy offers a whole range of policy variables—fiscal stability, cost-effective delivery of service, decentralization, contracting out and accountability—but does not provide a hierarchy of these values! Such a hierarchy has to be formulated by each government for itself.

The symposium provides a unique opportunity to reflect on the above and many related issues. Kafka told a friend once “one reads in order to ask questions.” It is the fond hope of the symposium contributors that the readers will raise many questions so that they can evaluate for themselves

the current status of the subject and develop a consensus about the destination to be reached and the process of the travel to that destination. The symposium does not offer a road map: It seeks to enable the reader to ask pertinent questions before starting his or her long and arduous journey. As the Chinese proverb tells us "Every long journey starts with a small step", or in this case with a small question- what are the next steps?

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