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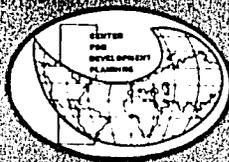
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William I. Abraham



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Foreword

The critical need for better coordination between development planning and government budgeting is being increasingly recognized. In this short study, Professor William I. Abraham examines the trends discussed in the current literature and raises several points for further research. A recurring theme in his commentary is that development economists in less developed countries should concern themselves more with implementation than they have in the past and devote their attention to making plans "translatable into budgetary action." To this end, Professor Abraham recommends some of the relevant literature and proposes a government revenue and current outlay account as a preliminary guide for professional workers.

Professor Abraham is a member of the economics faculty in the Graduate School of Arts and Sciences at New York University. Appreciation is due the Agency for International Development for the support it extended to his study.

This monograph is the first of several surveys of current development planning literature to be published by this Center. Future surveys will discuss the relationships between development planning and aggregative projection models, agricultural planning, and project evaluation and analysis.

DOUGLAS S. PAAUW
Director
Center for Development Planning

Contents

FOREWORD	iii
CONTENTS	v
INTRODUCTION	3
I. THE BUDGET AS AN INSTRUMENT OF DEVELOPMENT ACTION	5
Coordinating Plan and Budget	5
Improving the Budgetary Classification and Process	7
Economic Classification of Budget	7
Functional Classification of Expenditures	9
Performance Budgeting	11
Other Problems of Budget Administration	13
<i>Controlling Government Spending</i>	13
<i>Managing Public Enterprises</i>	15
<i>Coordinating Local and Central Government Budgets</i>	16
Public Finance and Economic Development	17
Analyzing Tax Measures	19
New Sources of Tax Revenue	20
Forecasting Financial Resources	21
II. THE BUDGET AS A RECORD	23
Budgetary Statistics Relative to Planning	23
Evaluating Plan Performance	24
The State of Public Finance Statistics	25
Data Deficiencies	27
Proposed Economic Data Reporting System	27

III. ADMINISTRATIVE ASPECTS OF	
BUDGET-PLAN COORDINATION	29
The Shortcomings of Current Practice	29
Translating Plans into Budgetary Action	30
IV. PRIORITIES FOR FUTURE WORK	33
APPENDIX: PROPOSED GOVERNMENT REVENUE AND	
CURRENT OUTLAY ACCOUNT	35
NPA OFFICERS AND BOARD OF TRUSTEES	38

**Annual Budgeting
and
Development Planning**

William I. Abraham

"We in the Planning Commission and others concerned have grown more experienced and more expert in planning. But the real question is not planning, but implementing the Plan. That is the real question before the country. I fear we are not quite so expert at implementation as at planning. . . ."

Prime Minister Jawaharlal Nehru¹

Introduction

The aims of this study are twofold: (1) to elucidate some of the main problems that arise in coordinating annual government budgeting and development planning, and, more generally, in relating public finance to economic development, and (2) to summarize current thinking and practice in this area. The chief concern is with the less developed countries engaged in planning, for it is here that the budget is—or should be—a tool of development planning and that the problems of budget-plan integration arise. This is not to claim, of course, that such topics as tax policy for economic growth and the need for more meaningful budget statements have not stirred lively controversy in Western Europe and the United States.

The interconnections between annual budgeting and long-term planning are many and complex, involving as they do political, administrative, and economic considerations. No short study can hope to explore all the ramifications; at best, it can only make a judicious selection of aspects that seem significant and capable of useful discussion (the two qualifications are not the same). Moreover, in the selection of these aspects an author is, unfortunately, bound to be influenced by his personal interests and tastes. The present writer is fully aware

¹ Jawaharlal Nehru, *Indian Journal of Public Administration*, VII (October-December, 1961), p. 435. An address by Prime Minister Nehru to the Indian Institute of Public Administration, reproduced in the journal cited above.

that others who have given serious thought to the subject might have approached the task differently.

The difficulty of ascertaining national practices means that the references to what countries are doing, the problems they are experiencing, etc., are not as complete or satisfactory as might have been wished. The precise trouble here is not so much that countries are reticent as that so often official accounts tend to minimize awkward problems and gloss over shortcomings. For this reason, the references made to country practices lean heavily on the published studies of qualified private observers and international organizations.

The order of discussion below is as follows. Part I is concerned with problems of budget classification and administration and with developments here that hold out promise for making the budget a more effective tool of plan implementation. Recent attempts to explore more fully the connections between public finance and economic development are also discussed here. Part II describes and evaluates the body of public finance data as classified and published by international and other organizations and makes suggestions for improving the usefulness of these collections for analyzing and comparing the economic and social policies of governments. Part III focuses on the administrative aspects of coordinating budgeting and planning, with emphasis on the shortcomings of present practice. Finally, Part IV, drawing on earlier discussions, suggests a number of areas where further research could profitably be undertaken.

I. The Budget as an Instrument of Development Action

Coordinating Plan and Budget

The budget is not the only avenue for influencing economic activity and thus for promoting economic development. The government's monetary, industrial, and commercial policies also play an important role in most countries, as does the official attitude toward a host of economic and social questions. Nevertheless, the government's budget is probably the single most important instrument of development policy, public spending and taxing at once expressing priorities within the public sector itself and influencing the pace and direction of economic activity within the private sphere. It is no accident that the entire panoply of planning in certain countries has evolved directly out of the annual budget, sometimes with a multi-year public capital expenditures plan as an intermediate stage. On the other hand, development plans in some other countries have originated as a summation of projects. The budgetary, monetary, and other government policies then have tended to be regarded as matters quite separate from planning, especially because each organization had different functions.

Despite the obvious need for the closest relations between the budget agency and the central planners, experience shows that the required degree of cooperation is hard to attain.¹ While planning has

¹ Everett E. Hagen (ed.), *Planning Economic Development* (Homewood, Ill.: Richard D. Irwin, 1963); and Clair Wilcox, *The Planning and Execution of Economic Development in Southeast Asia* (Cambridge: Harvard University Center for International Affairs, 1965).

been known to fail where the budget does reflect plan objectives, more often planning is ineffective because the budget does not carry the plan forward in the first place to the point where execution is possible. Where the plan is not translated into an action program, it remains basically a blueprint. As such it may provide valuable guidelines that directly or indirectly influence real events. But without a wholehearted and sustained effort to put a development plan into effect, the setting up of planning machinery and the formulation and promulgation of a plan are, of course, but the shadow of planning.

The reasons for the divergence between the plan and the budget are not far to seek. Even where there is an earnest desire to implement the development plan, if the plan is drawn up to cover a span of years without indicating what is to be achieved within successive fiscal years, articulation of the annual budget with the plan is made difficult; it is made more difficult still if planners fail to distinguish clearly between programs in the public and in the private sectors. The very fact that budget and plan officials represent different agencies with differing responsibilities and points of view in itself makes for difficulties. Furthermore, in some countries the nature of the budget and budget process make budget-plan integration difficult, as will become evident later.²

While budget-plan coordination is a necessary condition for effective plan implementation, it is, of course, by no means a sufficient condition. Often the major obstacles are social, political, and cultural. Plans may also be stillborn because they are totally unrealistic, or because of external developments over which the country has no control, or because of political upheavals, or for other reasons. In any case, in the long chain of events between the formulation of a development plan and its realization, appropriate budgetary action is one of the most vital links.

It is now widely appreciated that in most countries, too little attention has been paid to the arrangements for plan execution. Planning officials have tended to concentrate unduly on ends at the expense of means and to equate the existence of a plan with its execution. Even planning advisers and development economists appear to have taken it for granted that the variables in their models could be manipulated readily, a convenient but unrealistic assumption as they them-

² United Nations, Department of Economic and Social Affairs, Fiscal and Financial Branch, *Relationship between Planning and Government Budgeting in Developing Countries* (IBRW.1/L.5) (New York: United Nations, 1964). This document was submitted to the Inter-Regional Workshop on Problems of Budget Classification and Management in Developing Countries held in Copenhagen in 1964.

selves would be the first to admit. This lack of concern with *how* as opposed to *what* is mainly to blame for the absence of critical studies dealing with the organizational problems of planning. It is only quite recently, for example, that such organizations as the United Nations and the World Bank have turned their attention to the organizational side of planning.³

Improving the Budgetary Classification and Process

Economic planning does not, or should not, end with the drawing up of a long-term plan, since such a plan is concerned with broad goals and strategies rather than with specific proposals that can be carried out at once. "The long-term plan, at best, is a carefully worked out frame of reference within the context of which specific proposals have to be prepared for annual implementation."⁴ The annual plan, by spelling out for the year the physical and possibly also the financial programs that are within the scope of the public sector, provides the substance for budgetary action by central, state, and local governments. Not only the budgetary process but also the *form* of the budget is thus a factor in plan implementation.

Since World War II there has been considerable discussion about the form that the annual budget should take. The conventional or "administrative" budget showing salaries, cost of materials, etc., is framed by administrative unit so as to facilitate legal accountability. In this form it has a number of shortcomings, of which three grow out of the system of classification: (1) it is difficult to analyze the impact of governmental transactions on the total economy (This defect is, of course, also the result of incomplete coverage of the government's financial transactions.), (2) it is difficult to see for what broad purposes resources are being allocated, and (3) it is unsatisfactory as a basis for judging progress toward desired public sector goals.

Economic Classification of Budget

In order to meet the first objection, i.e., to make the budget statement a more useful tool of economic analysis, it is necessary to arrange the expenditures and receipts of all levels of government by significant economic categories, distinguishing current from capital outlays, spending for goods and services from transfers to individuals and

³ Albert Waterston, "Administrative Obstacles to Planning," *Economia Latinoamericana*, I (July, 1964) and some of the UN reports from the Inter-Regional Workshop in Copenhagen, referred to above.

⁴ United Nations, *Relationship between Planning and Government Budgeting in Developing Countries* (IBRW.1/L.5), Part II, p. 10.

similar payments, tax receipts by kind from other receipts and from borrowing and intergovernmental grants, etc. Reclassified in this way, the flows into and out of the government sector can be related to important categories of transactions influencing the behavior of the other sectors of the economy.

The national income type of government account is the most familiar example of an economic classification of the budget. Such a sector account for government, an integral part of a system of national income accounts, permits us to trace through systematically the influence of public transactions on the other parts of the economy (and vice versa). The economic classification of the budget also enables us to determine how much of the national income originates in government activity, how large a part of the national product is purchased by government, and so on. Because of the widespread use of national income analysis and the efforts of international organizations at standardizing national income accounting and upgrading government budgeting, many underdeveloped countries now provide an economic classification of the budget, although not always in adequate detail. It may be noted in passing that in order to give a comprehensive picture of government's role, the classification requires the consolidating of the budgets of central, regional, and local levels and taking into account the activities of agencies and funds covered under special budgets (e.g., social security plans).

Two UN publications provide guidance in preparing such an account: *A Manual for Economic and Functional Classification of Government Transactions*⁵ and *A System of National Accounts and Supporting Tables*.⁶ As the titles suggest, the former is concerned solely with government accounts while the latter is concerned with national income accounting for the entire economy. The recommendations in both sources are consistent with each other and have been brought to the attention of appropriate government agencies such as budget bureaus, finance ministries, central banks, central statistical offices and planning bureaus through normal diplomatic channels, regional seminars, and technical assistance activities. The influence of these two sources over the years has been considerable.

⁵ United Nations, Department of Economic and Social Affairs, *A Manual for Economic and Functional Classification of Government Transactions (ST/TAA/M/12, ST/ECA/49)* (New York: United Nations, 1958).

⁶ United Nations, Statistical Office, *A System of National Accounts and Supporting Tables (ST/STAT/SER.F/2/Rev.2)* (3d ed.; New York: United Nations, 1964).

This report, which was originally issued in 1953, was prepared by a group of national income experts appointed by the Secretary General of the United Nations. Since then it has been revised twice—in 1960 and again in 1964.

Functional Classification of Expenditures

The second shortcoming of the conventional budget classification was said to be the difficulty of determining how expenditures are being allocated among the different kinds of services, such as defense, education, health, agriculture, transport, and others. The economic classification described above does not, of course, provide information on public expenditures according to purpose or "function." This information can be obtained only by rearranging expenditures according to the function served irrespective of the organizational unit responsible for performing the services.

While general economic analysis requires mainly an economic classification of the budget, studies concerned with economic development must obviously give attention to how much the government is allocating to different purposes or functions. Only when such a breakdown is available does it become possible to relate government activities as reflected in the budget to economic development plans. At the same time, a reclassification of the budget along purely functional lines would be inadequate for many purposes if the "economic" character of the transactions were ignored. It makes a difference, for example, whether the outlays on agriculture take the form of current expenditures, capital expenditures, subsidies to farmers, loans to farmers, etc. What is really required is a kind of economic-functional classification. The general lines of such a two-way classification are shown schematically in Table I.

The Government Classification Manual of the United Nations makes recommendations both for a functional classification and an economic-functional cross-classification. As would be expected, the latter is not to be found so often as the pure functional and economic classifications, both of which are now a regular feature of the budget documents of some countries. In Latin America, for example, such classifications have gradually been adopted by a number of countries and are regarded as providing "information essential for the formulation of government policies in the economic and social fields." By 1962, these classification forms had been introduced into Bolivia, Chile, Colombia, Ecuador, and Venezuela and were being presented to the legislatures along with the basic budget estimates.⁷ Most of the

⁷ United Nations, Department of Economic and Social Affairs, Fiscal and Financial Branch, *Review of Developments in the Budget Field (IBRW.1/L.4)*, pp. 5-7. UN report submitted to the Inter-Regional Workshop on Problems of Budget Classification and Management in Developing Countries, Copenhagen, 1964.

TABLE I. Economic-Functional Classification of Expenditures

Purpose	Current Outlays				Capital Outlays		
	Goods & Services	Subsidies	Transfer Payments	Interest on Debt	Investment	Transfer Payments	Lending
General:							
Defense							
Other							
Economic-Social:							
Education							
Health							
Other Social							
Agriculture							
Power and Energy							
Transport and Communications							
Other Industry							
Unallocable							

other countries of the region supplement the administrative budget with one or the other of the classifications. In Asia, classifications according to economic character and/or function are regularly prepared as part of the budget presentations in Burma, India, Japan, Nepal, the Philippines, Thailand, and Vietnam. The same is true for a handful of African countries.⁸

Performance Budgeting

The spread of these budget classifications in recent years has created a bridge between the annual budget and the macro-economic aspects of long- and medium-term plans. In some of the countries mentioned, planning officers themselves have played an important part in improving budgeting techniques. While this represents a step toward more effective implementation of plans, the execution and management of the programs and projects comprising the annual portions of a development plan require the creation of close links between budget and plan at the *micro-economic* level. As the third shortcoming of the conventional budget suggests, it does not permit us to judge performance in fulfilling particular goals in the public sector. This is so for two reasons: (1) the administrative budget is concerned with the objects of expenditures by organizational unit rather than with the broad purposes for which expenditures are made and (2) the concrete means by which these broad purposes are to be advanced are not readily identifiable. A budget which discloses the programs, projects, or activities that are the elements by which national goals or purposes are to be achieved provides a firmer basis for integrating budgeting and planning. Of course, a budget that focuses on programs, their costs, and their results has inherent advantages quite apart from any relevance to long-term planning. A distinction can be made between a program budget and a performance budget, although this discussion does not differentiate between them. The United Nations seems to favor the expression "program and performance budgeting," which does not permit a distinction to be drawn.

The United States and the Philippines were the first countries to introduce so-called program and performance budgeting, the former in 1951 following the recommendations of the first Hoover Commission, the latter a few years later. In the Philippines the performance budget has in fact replaced the traditional budget and has led to important organizational changes. These developments were the outcome of concern with the efficiency of the budget process. Only later did it

⁸ *Ibid.*, p. 4.

come to be recognized that, by facilitating more effective cooperation between the budget and planning agencies, the techniques involved could be important for planning. At the present time, Colombia, Bolivia, Venezuela, Peru, Honduras, and other South and Central American countries are either using or introducing performance budgeting. The same is true of China (Taiwan), Thailand, Israel, the U.A.R., Iran, and Ghana.⁹

Performance budgeting is closely related to the functional classification of government transactions but provides for subfunctions with an identifiable end product that can be measured so as to evaluate performance. Thus, under the broad function of transport, road building might be distinguished, for which the unit of measurement could be miles of road constructed; another program might be maintenance and repair of roads, the measurement unit being miles of road serviced; and so on. Forest service, which comes under the heading of agriculture, might be split up into the following well-defined programs to help determine the effectiveness of the government's expenditures: forest protection and use, acquisition of lands for forests, brush disposal, roads and trails, etc. In the Philippines the services of the internal revenue bureau are divided into four activities: (1) tax rulings and other legal services, (2) tax assessment, (3) tax collection, and (4) general administration. The United States, by comparison, distinguishes ten activities.

Obviously, the programs and activities distinguished, the performance measurement units selected and, in fact, the extent to which the performance concept can sensibly be applied to the various areas of government will depend on many different considerations and cannot be uniformly prescribed for all countries. The concept is most clearly applicable to expenditures that lead to some homogeneous physical output. While the output of projects in the fields of education and health can perhaps be calculated, there is no unique or completely satisfactory unit of measurement (the same difficulty crops up in making comparisons of real GNP over time). Where the output is still more general, as with administration, or unpredictable, as with research, no useful unit of accomplishment may exist, no matter how the activity is subdivided. But where performance can be reasonably measured, a basis exists for a useful review of programs.

While it stands to reason that performance budgeting should assist in the implementation of development plans, the fact that few of the countries that use it would rate high marks for executing their plans

⁹ *Ibid.*, pp. 95-97.

(while more successful countries have yet to adopt the approach) confirms the observation that techniques are not a substitute for a determined effort. Nevertheless, in those case where planning remains an academic exercise mainly for lack of know-how rather than for deep-seated political reasons, improved budgeting techniques may yet turn out to be of crucial importance.

The UN Fiscal and Financial Branch has done a great deal to spread knowledge of better budget practices. In recent years, with the surge of interest in development planning, it has focused more on performance budgeting, stressing its advantages for long-term planning. Its fullest statement is to be found in *A Manual for Programme Budgeting*,¹⁰ prepared for the 1962 Latin American budget workshop. This report, however, has hardly anything to say about budgeting in relation to development planning and is concerned chiefly with fiscal management per se. There would seem to be room for a "how to do it" manual that bridges the gap between planning and budgeting, with emphasis on practical and administrative problems.

Reception of the United Nations efforts in this field appears to have been mixed: warm in Latin America, more cautious in Asia and Africa. Even in Latin America, the legal, administrative, and technical obstacles to a change-over to performance budgeting have necessitated a gradual or piecemeal adoption of the principles involved. Among Asian and African nations, the reluctance to accept performance budgeting is easily understandable. Many of these countries have yet to come to grips successfully with more basic budget issues. To adopt performance budgeting would only entail increasing demands for already scarce experienced staff.

Other Problems of Budget Administration

While widespread improvements have been taking place in the form of the budget since World War II, comparable progress has not been made in other important areas, and the failings have been underscored by the increasing scale and complexity of government activities during this period. Some of these problems are touched upon below.

Controlling Government Spending

In a considerable number of countries there is still very little

¹⁰ United Nations, Economic Commission for Latin America, Department of Economic and Social Affairs, Fiscal and Financial Branch, *A Manual for Programme and Performance Budgeting (Draft)* (E/CN.12/BRW.2/L.5) (New York: United Nations, 1962).

effective centralized control over large areas of government spending. This comes about for a variety of reasons. Expenditures may bear little relationship to budget estimates because of loose financial controls, the prospect of supplementary or "emergency" appropriations to cover shortages, the weak position of the budget agency, etc. In some countries earmarked taxes are a complicating element in the fiscal picture. But even where the government departments covered in the regular budget are effectively controlled, the activities of agencies "outside the budget," of public enterprises and of other semiautonomous institutions will scarcely be reflected in the budget except insofar as there may be transfers of income to the government's central funds, or subsidy payments out of these funds.

In countries where the public sector, broadly defined, goes far beyond the activities of the government's regular departments, the importance of the central budget for mobilizing and allocating public resources may be greatly reduced and governmental objectives jeopardized. It becomes especially difficult to follow coordinated policies when autonomous agencies are in the hands of political and military figures. Such figures "retire" to these jobs so often that one is led to suspect that this is an important consideration in creating them. In these cases the bald budget statement considered alone provides a misleading account of the level and directions of public activity. Unless a conscious attempt is made to adjust it for the revenues and expenditures of government agencies that are not really enterprises but are nonetheless outside the normal budget, a comprehensive picture of even the central government's *ordinary* activities will not emerge. If all the ramifications of government are to be revealed, a systematic survey of at least the major public enterprises, defined in some reasonable fashion, has also to be undertaken from time to time. Purposes, methods of financing, investment policies, and other important characteristics should be made clear.

The proliferation of autonomous agencies in some countries is most striking. These bodies may take such a variety of forms as almost to defy description. Many are difficult to distinguish from ordinary government offices, performing common public services. It is difficult to justify these agencies remaining outside the control of the central budget. In Colombia, for instance, the agriculture ministry has lost such a big part of its operating responsibilities to autonomous agencies that coordination of agricultural programs by the government has become almost impossible.¹¹ Historical accident or political pressures

¹¹ Waterston, *Economia Latinoamericana*, I (July, 1964), p. 333.

rather than logic are usually responsible for extra-budgetary arrangements.

Managing Public Enterprises

In contrast to independent agencies that provide ordinary public services stand the public enterprises that engage in commercial-type operations. There are often sound reasons for the autonomous character of these organizations which may range from postal systems and national railways to pawnshops. More doubtful are the reasons why the government is directly involved in certain operations which are carried on regularly at a loss (although not originally meant to be subsidized), and where private management might be superior. Where public enterprises are wholly government owned and are financially integrated with the rest of government so that they do not keep their own reserves, centralized control over their activities may be as effective as over ordinary government departments. But such enterprises shade off imperceptibly into forms which in practice, if not in theory, are more and more independent of centralized government control. At the extreme stand public corporations in which the government is a major shareholder, but which otherwise are difficult to distinguish from their more completely private counterparts.

Where important public enterprises have such a degree of independence that governments cannot fit their activities into plans for the public sector, the effectiveness of planning suffers. At the same time, of course, there exists the opposite danger, that of bureaucratic or political interference with effective management. Judging by the experience of underdeveloped countries, it is not easy to achieve a sound balance of government control and independent management.

In some Asian and Latin American countries, the activities of independent government agencies and of state enterprises of one sort or another are now so extensive as to rival ordinary government departments in their impact on the economy. In Mexico the government's share in the ownership of the 30 largest firms amounts to over 80 percent, and the figure for a number of other countries in the region is not much lower.¹² Since it is not unusual for public enterprises to extend their commercial activities into new and sometimes quite unrelated fields and to enjoy wide latitude in the investment of funds, sensible coordination of policies within the public sector may be extremely difficult to achieve. The fact that comprehensive and reliable

¹² Frank Brandenburg, *The Development of Latin American Private Enterprise* (Planning Pamphlet 121; Washington: National Planning Association, 1964), chap. 3.

information relating to their activities is often lacking makes the problem more difficult still. Loose financial controls and the flexibility of accounting standards cause some of these undertakings to rank among the main sources of graft and illegal gains. It is, no doubt, partly for this very reason that full disclosure of the financial and commercial operations is sometimes obstructed.

Coordinating Local and Central Government Budgets

At the levels of the regional and local governments, budgets and budget administration may be even more seriously deficient. In any event, where regional and local governments are important in relation to the central government, it is vital that the finance ministry, budget bureau, or interior ministry develop systematic records of their fiscal activities by means of regular questionnaire surveys. No government sector account with large omissions in respect of lesser governmental units can be very meaningful either for general economic analyses or for studies of taxation, the allocation of resources, etc. What is required is at least a consolidated statement covering government at all levels. Furthermore, since the implementation of a development policy requires decentralized administrative action, effective budget-plan coordination implies cooperation between local and central budget officials. Such cooperation seems to be loose, at best, in many cases, if one may judge from the character of the fiscal data for lower levels of government in the files of finance ministries and other interested central offices.

It would appear that there is great scope here for further guidance by international organizations and other groups. A good many important problems having to do with the raising and spending of public funds, especially where these problems fall on the borderline between economics and public administration, seem to escape discussion.¹³ Of course, it has to be recognized that meaningful budgetary reforms, even those limited just to administrative and technical questions, are bitterly resisted in some countries, although the opposition may be veiled. In this regard, the following statement by Alberto Lleras Camargo, the former president of Colombia, is enlightening: ". . . not a single Latin American, whether of high standing or of the underworld, has ever been imprisoned for not paying his taxes or for sending in a fraudulent income tax report. In all that vast area it is unthinkable that deceiving or defrauding the state in this matter of

¹³ Public Administration Service, Chicago, *Modernizing Government Budget Administration* (Washington: U.S. Agency for International Development, 1962).

taxes should be considered a crime, and what is more, the law does not consider it as such.”¹⁴

Moreover, regulations aimed at tightening control over lucrative government enterprises or extra-budgetary funds with large reserves may be successfully ignored if these organizations are under the protection of important political figures. Where governments have less influence over powerful public corporations than over private business undertakings, the diffusion of power may make it possible for large segments of the public sector to circumvent and even frustrate the government's declared policies.

Public Finance and Economic Development

Questions bearing on the ability of countries to finance a serious development effort without inflation call for a shift of emphasis from the expenditure side of the ledger to the receipts side. Here the questions are even more difficult to formulate and to answer. While taxes are levied in order to pay for public services, including economic development, the very amount and nature of these taxes directly influence economic activity by affecting income and its distribution and thus spending and saving incentives to work and to invest, and so on. The goal is an equitable tax system that will help to promote steady economic development. This ideal is, of course, much easier to state in general terms than to prescribe in detail, let alone to attain. But, whatever the precise ingredients of the ideal tax package (prescriptions vary rather widely), certain countries indisputably have lopsided tax structures which yield inadequate revenues and have undesirable characteristics. Present financing arrangements may have been shaped by tradition, administrative convenience, stage of development, political factors, and so on. The fact that the central question of “how much more can be raised and from what sources” has to be answered as a practical matter without losing sight of these considerations does not rule out the possibility of important changes. Similar countries often raise greatly differing amounts of revenue only because the governments have different views on the matter.

Interest in fiscal policy—and more specifically, taxation—in underdeveloped countries has been gaining steadily. With the increasing interest has come a new emphasis on the relation of tax measures to economic growth and development. At the same time, the discussions have also introduced a new note of realism by taking into account

¹⁴ Alberto Lleras Camargo, “The Alliance for Progress: Aims, Distortions, Obstacles,” *Foreign Affairs*, XLII (October, 1963), p. 33.

more fully administrative and compliance questions, institutional aspects, etc., and the dynamic setting within which tax effects work themselves out and must therefore be considered.

The mounting interest in this field is readily apparent from institutional research programs, national and international conferences, and individual contributions. The International Program in Taxation of the Harvard Law School, established in 1952, was among the earliest. Its 1962 *Bibliography on Taxation in Underdeveloped Countries* is the most complete listing of its kind available.¹⁵ The Organization for Economic Cooperation and Development (OECD) sponsored the Third Study Conference on Problems of Economic Development and has published the Conference papers in a volume entitled *Government Finance and Economic Development*.¹⁶ Two other noteworthy conferences, one on Tax Policy and Economic Growth in Selected Countries,¹⁷ and another on The Role of Direct and Indirect Taxes in the Federal Revenue System,¹⁸ were jointly sponsored in 1963 by the National Bureau of Economic Research and The Brookings Institution. Also cooperating in this field are the Organization of American States (OAS) and the Inter-American Development Bank (IDB). Together, the two organizations have made fiscal surveys of selected Latin American countries as a part of their Joint Tax Program.¹⁹ Individual contributions to the literature include studies of taxation and related issues for particular countries²⁰ or regions such as the

¹⁵ Harvard University, Law School, International Program in Taxation, *Bibliography on Taxation in Underdeveloped Countries* (Cambridge: Law School of Harvard University, 1962).

¹⁶ Study Conference on Problems of Economic Development, 3d, Athens, Greece, December 1963, *Government Finance and Economic Development; Papers and Proceedings of the Third Study Conference*, eds. Alan T. Peacock and Gerald Houser (Paris: Organization for Economic Cooperation and Development, 1965).

¹⁷ National Bureau of Economic Research and the Brookings Institution, *Tax Policy and Economic Growth in Selected Countries* (forthcoming). This volume will contain contributions from a jointly sponsored conference in 1963 relating to four European countries and Japan.

¹⁸ National Bureau of Economic Research and the Brookings Institution, *The Role of Direct and Indirect Taxes in the Federal Revenue System* (Princeton: Princeton University Press, 1964).

¹⁹ Joint Tax Program of the OAS/IBD, Fiscal Mission to Panama, *Fiscal Survey of Panama: Problems and Proposals for Reform* (Baltimore: Johns Hopkins Press, 1964).

²⁰ Carl S. Shoup *et al.*, *The Fiscal System of Venezuela* (Baltimore: Johns Hopkins Press, 1959); Nicholas Kaldor, *Indian Tax Reform: Report of a Survey* (New Delhi: Indian Ministry of Finance, 1956); Douglas S. Paauw, *Financing Economic Development: The Indonesian Case* (Glencoe, Ill.: The Free Press, 1960).

British Commonwealth,²¹ and collections of "readings."²² The lively interest in the role of taxation has carried over into the work of the Agency for International Development (AID) and the Alliance for Progress, with their recent stress on the need for fiscal reforms and their generally closer attention to current fiscal developments.

Analyzing Tax Measures

The conventional broad analysis centering on the attributes of direct and indirect taxes, largely from the standpoint of equity, has given way to a more systematic sifting of individual taxes, with primary attention to their effects on development. Since economic growth is the result of increases in the volume of productive factors and the effectiveness with which they are used, specific tax measures are being analyzed from the point of view of their influence on the supply of labor, entrepreneurship and capital, as well as on technological change and other elements of productivity. Attention is also given to related factors, including the desirability of an improved allocation of resources, factor mobility, effective competition, and maintenance of an appropriate level of demand. The effects of taxes on saving through income redistribution (as by income taxation) or changes in the propensity to save (as by expenditure taxation) are given special prominence by some writers. Elsewhere, however, the stress on increased savings is itself questioned, the emphasis being shifted to the need for improving investment opportunities. The discussion has greatly clarified many issues and cleared up many misconceptions, but it has also made evident the complexity of the subject. As put by one writer: ". . . where any choice of the methods to finance an accelerated development programme is possible, there should be no *a priori* prejudice against one class of taxation over another, but a particular investigation, bearing in mind the general observations which economic theory is able to offer."²³

It has been observed that while in developed countries the required level of government expenditures fixes the level of taxes, in underdeveloped countries the ability to mobilize tax revenue limits

²¹ Alan R. Prest, *Public Finance in Underdeveloped Countries* (New York: Frederick A. Praeger, 1963); John F. Due, *Taxation and Economic Development in Tropical Africa* (Cambridge: The M.I.T. Press, 1963).

²² Richard Bird and Oliver Oldman (eds.), *Readings on Taxation in Developing Countries* (Baltimore: Johns Hopkins Press, 1964).

²³ Douglas Dosser, "Indirect Taxation and Economic Development," paper contributed to the OECD Study Conference on Problems of Economic Development, Athens, Greece, December 1963.

expenditures.²⁴ At the same time, there is tacit agreement that in many, if not in most, underdeveloped countries there is both need and scope for heavier taxation to enable governments to play a more dynamic role unhampered by inflation. Because of the structure of the tax system in most of these countries, with heavy reliance on indirect and foreign trade taxes, increases in national income tend to be accompanied by ever larger deficits.²⁵ In some countries there is the additional difficulty of erratic or unpredictable fluctuations in tax revenues. Thus, the yield problem has two aspects: the need for a more adequate and dependable level of revenue to finance necessary public expenditures, and the need for a flow of revenue that will remain adequate in the face of national income and price changes.

New Sources of Tax Revenue

The search for new sources of tax revenue, which would at the same time be growth-inducing rather than growth-inhibiting, motivates many tax enquiries. As an example, the desirability of a special tax on idle or unimproved land to force its development is often mentioned. In some countries the object of taxation would be uncultivated agricultural land under absentee ownership; in others, urban sites in which there is active speculation. Fair and workable procedures for such taxation are, however, difficult to devise.²⁶ And, of course, such a tax would not be appropriate in all countries. As for proposals to ensure that revenue yields keep up with income and prices, suggestions include greater reliance on progressive income taxation, heavier taxation of commodities and services with a high income elasticity of demand and a low price elasticity, frequent revision of property valuations, greater use of ad valorem as opposed to specific rates, formation of marketing boards to stabilize prices or incomes of producers for export, and an increase in the number of international commodity agreements. But the need to reconcile improved yield characteristics with development effects greatly complicates the task of advocating specific measures.

²⁴ United Nations, Technical Assistance Administration, *Taxes and Fiscal Policy in Under-Developed Countries* (ST/TAA/M/8) (New York: United Nations, 1954), p. 6. (This remark is made in the section prepared by Walter Heller.)

²⁵ William I. Abraham, "Saving Patterns in Latin America," *Economic Development and Cultural Change*, XII (July, 1964), pp. 387-88.

²⁶ J. R. and Ursula Hicks, *Report on Finance and Taxation in Jamaica* (Kingston: Government Printer, 1955), chap. 10; International Bank for Reconstruction and Development, Mission to Colombia, *The Basis of a Development Program for Colombia* (Baltimore: Johns Hopkins Press, 1953), pp. 384-87; John H. Adler, "Fiscal Policy in a Developing Country," *Economic Development: with Special Reference to East Asia*, ed. Kenneth Berrill (London: Macmillan, 1964), p. 200.

There is widespread agreement that taxation in the underdeveloped countries as compared with the developed countries is more regressive and leaves scope for heavier levies, especially on middle and upper income receivers.²⁷ While generalizations in the tax field seldom provide useful guidance for action, an exception is the common observation that better enforcement of existing tax laws could alone lead to sharp increases in the tax receipts of many countries. In some cases reduction of excessively high marginal rates of income taxation, simplification of other taxes, and the elimination of nuisance taxes would be useful steps to take along with a strengthening of the collection machinery. The underdeveloped state of the revenue services is one reason why prospective tax measures cannot be judged without attention to the administrative requirements for compliance. The fact that certain Latin American governments are now receiving practical advice from the U.S. Internal Revenue Service suggests that they may really be preparing to take a firmer stand on enforcement.

Forecasting Financial Resources

With the spread of development planning, the importance of forecasting financial resources has increased. In this area the interests of the central planners may be somewhat broader than those of the budget officials, extending over a longer period ahead and covering non-budgetary sources such as foreign aid and other foreign receipts. In fact, any long-term plan is incomplete without painstaking attention to the fiscal and monetary policies that will have to be pursued in the years ahead in order to finance the plan in a noninflationary manner. Of central concern to both groups, obviously, is the reliability of tax revenue forecasts. Improvements in the art of such forecasting would seem to be dependent on two kinds of developments. First of all, the functional relationships existing in particular countries between specific taxes and other economic variables need to be carefully specified. Thus, the yield of income taxes depends largely on such factors as national or personal income and its distribution; of foreign trade taxes on the volume, value, and commodity composition of foreign trade; of sales taxes on income, relative prices, and the relevant demand elasticities. Secondly, better forecasts are needed of these other variables such as national income.

In the developed countries, at least short-term projections of

²⁷ United Nations, Economic Commission for Asia and the Far East, *Economic Survey of Asia and the Far East, 1960*, chap. 6. Also issued as Vol. XI, No. 4, of the *Economic Bulletin for Asia and the Far East* (Bangkok, March, 1961).

national income and its components are gradually being improved. To the extent that variations in total output in the less developed countries reflect external market developments, crop growing conditions, and other factors that may be of only secondary importance in many industrialized countries, the forecasting techniques developed by the latter may not be very useful to the former. Furthermore, the lack of up-to-date statistics and the generally low reliability of the available data make it difficult to appreciate the current conjuncture of events, let alone look ahead. Even actual tax receipts for the previous fiscal year may not be available as a starting point for simple extrapolations for the next fiscal year. In these circumstances, revenue estimates, even for the year immediately ahead, may have to be highly tentative.

A novel and promising development for determining tax yields under specified conditions is the use of simulation models designed for high-speed electronic computers. One such model is concerned with determining the yield from personal income taxes in the United States.²⁸ The U.S. Treasury plans to devise a corporate tax model to improve estimates of the corporate income tax, one of the most difficult of taxes to estimate owing to the volatility of corporate profits. This development is, of course, so far only of potential importance to the less developed countries.

²⁸ Joseph A. Pechman, "A New Tax Model for Revenue Evaluating," paper contributed to the OECD Study Conference on Problems of Economic Development, Athens, Greece, December 1963.

II. The Budget as a Record

Budgetary Statistics Relative to Planning

A nation's budgets for past years are the basic records of its fiscal actions and thus a primary source of data for the study of its policies. Not all facets of official policy are revealed, of course. Not only monetary and foreign trade policy but the government's role as an entrepreneur and a financial intermediary (influencing the flow of funds in desired directions) are scarcely revealed by the budget. Nevertheless, within the sweep of its broad taxing and spending powers, the budget, as distinct from the national development plan, details what has already been done in contrast to what the nation hopes, or at best expects, to accomplish.

Despite the elaborate planning bureaucracies of some countries, sometimes even including a central statistical office or at least an office concerned with national income estimates and projections, it is still uncommon for achievements to be set down against planned targets in the way budget "estimates" and "actuals" are contrasted. The comparison is admittedly a little unrealistic since the precise phrasing of plan objectives may deliberately be left vague and the plan itself may be subject to constant revision. At the same time it stands to reason that provisions ought to be made for judging how effectively a plan is being carried out. The alternative to a periodic, or continuing, review of progress may be self-delusion. The very act of providing for objective measurement may help to put the plan into effect. For example, where a five-year "rolling" plan is accompanied every year

by an operational, and thus reviewable, one-year plan, the likelihood that effective action will be taken is greatly increased.

Evaluating Plan Performance

Performance is best gauged by how well specific targets or projects are advanced. It would be preferable, of course, if there were some way of determining whether the nation's basic long-term goals were being furthered; after all, it could happen that inappropriate short-term measures were being effectively pursued. Unfortunately, because long-term goals are by their very nature only slowly attained, general statistical measurements, such as changes in per capita income from one year to the next, are unlikely to provide reliable guides. For one thing, the margins of error may be considerably larger than the annual changes, and for another, foreign developments, the weather, and other unplanned events could be responsible for general improvements.

It would be instructive to try to evaluate plan performance for countries which themselves avoid doing so by comparing development plans with budgets and other sources of information. For this purpose it would be most useful to have a functional breakdown of public expenditures with meaningful economic categories clearly separated (current spending from capital, etc.). Where functional headings are subdivided by program, project, or activity, as in a performance budget, it should be possible to relate specified plan goals to budget actions taken. A clear and detailed listing of tax and other budget revenues should provide the basis for deciding whether planned tax reforms or other revenue measures are being put into effect and how they are working out. While national accounts statistics are often used to assess development policy (examining the investment rate, the industrial composition of output, etc.), such statistics are usually too aggregative to be tied to elements of the plan. Furthermore, since interpretation is complicated by the fact that the statistics reflect the result of forces outside the scope of the plan, it is treacherous to argue cause and effect. Greater reliance on budgetary data could make these studies more pertinent and realistic.

Quite apart from the matter of studying plans in relation to budgets, budgetary statistics are the principal source for cross-section studies of government receipts and expenditures, for establishing norms of behavior, relationships, trends, etc. International differences in the tax effort, the tax structure, the pattern of public expenditures (both current and capital), government saving, and so on are key elements in reasoning about economic development. Statistics on these facets of

the public sector are not merely descriptive, but hold clues to important behavioral and technical relationships. Thus, while it is possible to speculate abstractly on the relationship of the yield from certain forms of taxation to changes in income or price levels, statistically based empirical investigations are more likely to offer a reliable basis for policy. It is also difficult to form an impression as to the appropriate size of a public program in, say, education without comparative statistics that reveal current practice in relation to stage of development and other relevant factors.

The State of Public Finance Statistics

The depth and validity of such studies is limited by the international comparability and adequacy of the data available. Unless one is prepared to go back to primary national sources—which in itself would be a major research effort if a number of countries were involved—the data provided by the United Nations have to be used. Except for *ad hoc* regional collections, the only continuing sources are the public finance sections of the *Statistical Yearbook* and the pertinent accounts in the *Yearbook of National Accounts Statistics*.

Although the *Statistical Yearbook* source, which carries data back to a prewar year, is gradually being improved, it is seriously deficient for a number of reasons: (1) usually only the central government is covered; (2) agencies that are essentially similar to ordinary departments but with their own budgets may or may not be included with central government; and (3) although the aim is a mixed economic-functional classification, neither expenditures nor receipts are broken down uniformly. The figures as published are based on national budget documents and probably represent about the best that can be done with these materials. A more adequate and uniform compilation would have to be based on an annual questionnaire, a step that has been considered but rejected.

The *Yearbook of National Accounts* tends to be more uniform but less detailed. At least in principle, the general government revenue and expenditure account is a consolidated statement covering all levels of government plus extra-budgetary funds such as social security plans. While transactions are classified by significant economic categories, hardly any attention is paid to the purposes of the expenditures. This shortcoming reflects the more restricted interest in the public sector which existed 10 or 15 years ago. There is much greater comparability in coverage, concepts, and classification of statistics than in the *Statistical Yearbook*. This results from the use of a questionnaire

addressed annually to nearly all countries and from the prior development of a standardized national income accounting framework to which the questionnaire is keyed. A prospective revision of this framework will presumably provide for more adequate coverage of the public sector.

Another large collection of data, but one which is generally unknown to the public because it has never been published, consists of the replies to the AID questionnaire form 10-74, "Consolidated Statement of Central Government Finances." This form is the basic public finance questionnaire for the U.S. government covering aid recipients; the information returned on it is shared by all interested departments. Although covering extra-budgetary accounts of the central government, it is seriously deficient, especially in the presentation of expenditure data. This questionnaire would seem to indicate the AID's concern with the purposes for which the public funds of foreign governments are being spent is limited to defense. On the other hand, the form does provide more information than the other sources on how deficits are financed, on the composition of the public debt, and on the character of U.S. grants and loans.

With the need for fuller information for Latin America under the Alliance for Progress, the limitations of the existing reporting form came to be appreciated. In particular, it was found that the classification of revenues as reported under the form was too broad to be related to current tax developments (which are being closely watched). Also, it was difficult to follow either general developments or development strategies because in the reporting of expenditures neither the economic character nor purpose was identified. Finally, the omission of data for regional and local governments presented a misleading picture of public sector activities in countries where lower levels of government play an important role. As a result, a number of supplementary questionnaires has been devised especially for use in Latin America. They call for: (1) a detailed statement of central government revenues; (2) a detailed cross-tabulation of central government expenditures by function and economic character; (3) a statement covering social insurance agencies (which are financially very important in certain countries of the region); (4) a statement covering regional and local government finances; and (5) a statement covering central government enterprise finances. Preliminary data being received in Washington from the Latin America Missions under this improved regional reporting program suggest that, provided the program continues to have high priority, the result may be a body of public finance data more satisfactory than any so far compiled for any region of the world.

Data Deficiencies

The unsatisfactory state of public sector data represents a serious gap in the international statistical picture. In the division of responsibilities among and within international organizations, public finance data per se come off rather badly, especially when their present-day importance is considered. As a result, broad-scale studies of developments in the public sector are handicapped. Many, possibly most, comparative studies concerned with more than a very few countries are forced to ignore, or to make crude adjustments for, important deficiencies in the existing data, deficiencies that may radically affect conclusions. The reliability, and especially the adequacy, of balance-of-payments statistics, by way of example, are better than those for governmental transactions in a great many countries, despite the fact that a potentially much sounder basis generally exists for ascertaining governmental as compared with international transactions.

Proposed Economic Data Reporting System

Because of the shortcomings of the reporting systems in use, AID is now experimenting with a new consolidated account for the government sector. This account, which forms part of an integrated data framework for economic reporting suitable to AID's needs, provides for a comprehensive economic-functional classification of current expenditures and a detailed classification of revenues. (The account is shown in the Appendix.) In classifying current expenditures by purpose, an attempt has been made to distinguish those considered to be of significance for development. Because these development expenditures (identified as "economic and social" as opposed to "general" in the account) are defined in terms of the usual standard industrial classification of economic activities, the distinction, while of course still subjective, is unambiguous and operational. Since subsidies as well as direct expenditures are a means of fostering development activities, these payments are also classified by purpose. Capital expenditures are dealt with elsewhere, such expenditures by general government being shown distributed according to purpose, while public enterprise capital outlays are shown in total. A simple flow-of-funds account with government as a sector rounds out the treatment.

Data collected by AID according to the new scheme should provide a much more useful picture of world-wide public sector developments, particularly insofar as they are of interest for economic development, than is to be had from other sources. Indeed, as regards those

countries for which a more thoroughgoing public sector analysis would seem a possibility, it is planned to go beyond what has been described and to amplify the outmoded form 10-47 to provide as much as possible of the following kinds of back-up data: (1) government revenue in detail separately for the central, provincial, and local levels; (2) current expenditures, following the classification developed, separately by level of government and also consolidated; (3) intergovernmental transfers; (4) capital outlays for each level of government, including direct outlays by type of asset and purpose, and capital grants and loans; and (5) capital outlays of government enterprises by purpose, separately by level of government. This elaborate treatment of government can be justified by the present size, complexity, and importance of the public sector in many countries.

III. Administrative Aspects of Budget-Plan Coordination

The Shortcomings of Current Practice

While budget-plan coordination is a *sine qua non* of effective plan implementation, the plain fact is that in most underdeveloped countries with development plans the degree of coordination which is achieved leaves a great deal to be desired. Some of the technical problems in the way of articulating budgets and plans have already been mentioned, as has the basic difficulty that planning and budgeting nearly always take place in different ministries, each with its own outlook. Where budgetary action is at variance with planning, it is really the budget (and other influential government programs) that shape the nation's development, not the plan. To cite but a single example, in the Philippines the priorities of the Budget Commission have not been the same as those of the National Economic Council, which is the official long-term planning body; furthermore, the Central Bank has allocated foreign exchange and the Development Bank has engaged in lending without reference to the plan.¹

Planning, as opposed to budgeting, is concerned with the guidance of the entire economy, not only the public sector; it must look ahead many years, not only to the next fiscal year; and it expresses a nation's whole political philosophy, going beyond public priorities and action. As a result its aims are more complex and its methods less certain than

¹ Wilcox, *The Planning and Execution of Economic Development in Southeast Asia*, p. 10.

simply mobilizing resources for collective use. Yet developments within the public sector are of critical concern to planners, and an important measure of control over these developments is an indispensable condition of effective planning. For this reason it has been suggested that planning and budgeting be merged in a single agency.² This suggestion probably has most merit where, in the absence of a formal, comprehensive development plan, a multiyear capital expenditure program or set of public priorities represents planning for all practical purposes. As was the case in Israel until recently, a plan in this sense can be successfully merged with ordinary budget functions. The suggestion also has merit where the planning agency prepares annual plans and it is feasible to have a high-level interdepartmental development committee which will prepare the budget recommendations with the annual plans in mind. It is easy to imagine, however, that in many situations the quality of planning would suffer if planners were sucked into the administrative routine of budgeting and became obsessed with the need for economy and stringent financial controls. Furthermore, if a government were not really prepared to back a development plan, it is doubtful that the budget would reflect plan priorities merely because of formal administrative relationships.

The divergence between budgets and plans often reflects the dominant position of the finance ministry, whenever it includes the budget office. While it is possible to visualize the planning and budgetary functions being carried on together in the Prime Minister's Office, to move planning into a ministry of finance which already controls the budget can be expected to arouse the antagonism of the other ministries whose cooperation is so essential if planning is not to take place in a vacuum. Nevertheless, it is necessary to find a way of wedding the work of the two groups so that the priorities of the planners are carried over into the budgeting process.

Translating Plans into Budgetary Action

A real difficulty here is that so often plans are not really translatable into budgetary action. Planning agencies need to be much more concerned with preparing annual plans that can be a basis for concrete action by the budget authorities. One reason why Indian planning has shown results is that starting with the Second Five Year Plan, the Planning Commission has prepared annual plans for the Central Government and the States. These plans serve as the basis for the budgets

² E.g., Hagen, *Planning for Economic Development* (though with clear qualifications), pp. 343-44.

of these governments. The Planning Commission even checks back with the state governments after their budgets have been prepared to see whether plan outlays included in the budgets agree with those in the annual plans.³ Without operational plans of this sort planning agencies can hardly hope to impose priorities on government spending or influence fiscal policy in other ways. Redrawing organizational lines cannot substitute for the intense cooperative effort that the preparation of realistic annual plans entails, although in some cases it may pave the way.

In Malaya, where the planning and budgeting functions have been more successfully integrated than in most countries, a National Development Planning Committee of senior civil servants representing various ministries prepares recommendations for cabinet action on the annual development plan and capital budget. Although the chairman is the Permanent Secretary of the Finance Ministry, it is the Economic Planning Unit of the Prime Minister's Department that serves as the secretariat. The Economic Planning Unit is thus concerned both with long-term plans and with annual plans to be incorporated in the budget.⁴ In Venezuela and Iran it is also the plan organization rather than the finance ministry that is responsible for the annual capital budget.

Concern with capital budgets should not mean pushing into the background the government's current expenditures. In the first place, capital outlays inevitably lead to current expenditures for staffing, upkeep, etc. In the second place, outlays for improving human resources, for research, for improving agricultural extension services, and so on, while they do not add to the stock of capital, are not any the less developmental for this reason. Disregarding current costs gives a lopsided and misleading view of priorities. Durability alone is not a very useful criterion for allocating resources.

The coordination of budgets and plans would also be facilitated if budget bureaus looked beyond the next fiscal year and prepared estimates of receipts and expenditures for some years ahead or for the plan period.⁵ Such an initiative would be especially valuable in countries where the central planners themselves did not go beyond

³ United Nations, *Relationship Between Planning and Government Budgeting in Developing Countries*, (IBRW.1/L.5), Part II, pp. 10-12. The share of the States in the total plan outlay is put at about 50 percent in the present Plan.

⁴ Wilcox, *The Planning and Execution of Economic Development in Southeast Asia*, p. 28.

⁵ Gerhard Colm, "Certain Aspects of Planning as a Tool for Social and Economic Development," paper presented to the United Nations Meeting of Experts on Administrative Aspects of National Development held in Paris, June 1964, pp. 10-12.

providing a medium-term plan and also where there existed no formal development plan or planning machinery.⁶ The multiyear budget would, of course, have to be drawn up in close collaboration with the plan agency if prospective expenditures were to take into account the cost of developmental programs under consideration. In estimating revenues, anticipated changes in tax legislation, foreign assistance, and other relevant factors would need to be considered. The adequacy of financial resources likely to be available to the government to cover its ordinary and developmental expenditures without resorting to inflationary finance could thus be assessed. Projections along these lines for the public sector have inevitably to be made somewhere if planning is to be realistic and if the budget for any particular year is to be appreciated as a link in a chain of past and future budgets.

There is, unfortunately, too little systematic discussion in the literature of the administrative and organizational problems involved in integrating the annual budget process with long-range planning. Official accounts play down the problems while private individuals seldom have the opportunity to observe arrangements in different countries, to compare them, and to draw conclusions. While it would be naive to believe that any one particular arrangement would suit all or even most countries, critical discussions of present practices would be useful. A recent United Nations conference on budget problems observed that ". . . sufficient information was not available on the organizational arrangements in various countries for linking planning with budgeting" and recommended that such studies be undertaken.⁷

⁶ *The Need for Further Budget Reform* (Planning Pamphlet 90; Washington: National Planning Association, 1955).

⁷ Inter-Regional Workshop, Copenhagen, 1964, *Report of the Inter-Regional Workshop on Problems of Budget Classification and Management in Developing Countries* (ST/TAO/SER.C/70) (New York: United Nations, 1964), p. 31.

IV. Priorities for Future Work

Further research and studies in three areas hold out promise of adding importantly to our understanding of the field. These areas are concerned with: (1) the changing character of the public sector, particularly in view of the size, complexity, and influence of public enterprises and other semiautonomous public bodies; (2) international (and intertemporal) comparisons of public sector developments as revealed in budgets and other government accounts; and (3) the administrative, legal, and political relationships between the planning and budget agencies. The possible nature of the investigations is explored briefly below.

The very rapid expansion of the "public sector" outside the traditional departments of government regulated by the ordinary budget that has occurred in the past decade has multiplied the problems of policy formation and coordination in many countries. As was made clear earlier, it is not unusual for even large public trading and financial enterprises and extra-budgetary agencies and funds to function with only nominal government control and supervision. In some countries, a clear over-all appreciation of the size, character, and economic influence of these organizations seems to be lacking, even in normally well-informed quarters.

Where these organizations are important and powerful, government planning of even the public sector may be ineffectual. Field studies are needed in these countries to examine their activities, their legal and financial relations with the central authority, their internal policies and economic impact, and so on, and to put them and the

problems to which they are giving rise into better perspective. The results could prove to be of real value to the countries studied and might point the way to important reforms in governmental structure.

As regards the second area mentioned, further studies need to be carried out, based on budgetary and related statistics and focusing on inter-country differences and trends in the level and composition of government direct expenditures, subsidies, taxation, investment, etc. International differences in the scope of government activity, the pattern of spending, the tax effort, public saving, and so on are key elements in accounting for differences in economic development among countries, and the statistical measures involved are used to establish norms and to implement descriptive and analytical models.

The validity of the international comparisons depends, of course, on the accuracy and comparability of the available data. From the earlier discussion of the state of public finance statistics and the steps taken to improve international compilations, it should be clear that the present, rather unsatisfactory basis for such studies is gradually being improved. In particular, prospective improvements in the statistical reporting by AID and in the structure of the UN system of national income accounts may pave the way for more successful efforts to compare and interpret world-wide public finance developments.

As regards the third area of research, it should be amply apparent from the discussion above of the administrative problems of coordinating budgeting and planning that field studies of the administrative relationships between the agencies involved would help to fill an important gap in the development literature. Such studies would have to attempt to determine whether budget and plan agencies were working together or at cross purposes, and why; what the major obstacles to better plan implementation through the budget process really were; and how the coordination could be improved. Where the main reasons for poor implementation proved to be the result of unworkable institutional arrangements—a form of budget that was difficult to articulate with planning, a planning process that failed to provide operationally meaningful priorities to guide budget action, or the like—the studies could make a significant contribution to improving the planning process.

APPENDIX: Proposed Government Revenue and Current Outlay Account¹

REVENUE

- A. Payments by Producers
 - 1. Corporate profits taxes
 -
 -
 - 2. Property taxes
 - a. rural
 - b. urban
 - 3. Commodity and transaction taxes
 - a. excise taxes
 -
 -
 - b. general sales taxes
 -
 -

¹ As explained in Part II of this pamphlet, provision is made elsewhere for showing government *capital* expenditures (classified by purpose). The table is adapted from the following source: William Abraham, Nancy D. Ruggles and Richard Ruggles, *An Economic Data Reporting System for the Agency for International Development* (New Haven: Yale University Economic Growth Center, 1965), pp. 21-22.

- c. turnover or value added taxes
 - d. other commodity and transaction taxes
 - 4. Foreign trade taxes
 - a. export duties
 - b. import duties
 - c. other
 - 5. Other business taxes and fees
 - 6. Property income of government
 - a. surplus of government enterprises
 - b. other
- B. Payments by Persons
 - 1. Social insurance contributions
 - a. employer
 - b. employee
 - 2. Taxes on personal income
 -
 -
 - 3. Other personal taxes
 -
 -
- C. Transfer Payments from Abroad
- D. Total Revenue
 - Memorandum Item:
 - Intergovernmental transfers received by:
 - 1. Central government .
 - 2. Social insurance funds
 - 3. Local and regional governments
 - 4. Autonomous institutes

CURRENT OUTLAYS AND SURPLUS

- A. Government Current Expenditures on Goods and Services
 - 1. General expenditures
 - a. administration
 - b. defense
 - c. community services

2. **Economic and social expenditures**
 - a. education
 - b. health
 - c. other social
 - d. agriculture
 - e. electricity, gas, water, and sanitation
 - f. transport and communications
 - g. other industry
 3. **Less: Sales by general government**
- B. Subsidies**
1. education
 2. health
 3. other social
 4. agriculture
 5. electricity, gas, water and sanitation
 6. transport and communications
 7. other industry
- C. Interest on the Public Debt**
1. Paid to residents
 2. Paid to foreigners
- D. Transfer Payments to Persons**
- E. Transfer Payments to Abroad**
- F. Government Surplus on Current Account**
- G. Total Current Outlays and Surplus**
- Memorandum Item:**
- Intergovernmental transfers paid by:**
1. Central government
 2. Social insurance funds
 3. Local and regional governments
 4. Autonomous institutes

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