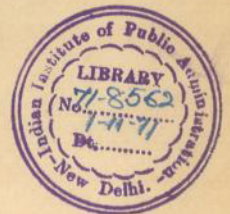


F. M. U.
Occasional Lectures
1

The Budget as an Instrument
of
Administrative Efficiency

Prof. GUNNAR HECKSCHER
Former Swedish Ambassador in India



INDIAN INSTITUTE OF PUBLIC ADMINISTRATION
INDRAPRASTHA ESTATE, RING ROAD, NEW DELHI

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PREFACE

It is not customary to write prefaces to occasional lectures published by the Institute. The departure from custom is warranted by the fact that public lectures on budgetary and financial matters have been rare. Secondly, even though a series of public lectures on these matters had been arranged in the Institute in 1966, the lectures could not be published till now. The Financial Management Unit came into being only in 1969 and I am glad to say it is assuming its role gradually.

With growing interest in training and research in the field of financial management, the need is being felt for more literature on the subject of budgeting and financial management. It has therefore been decided to publish "The Occasional Lectures" in a serial form. In this series the two lectures given by Professor Gunnar E. Heckscher are published in this volume.

NEW DELHI
DECEMBER 15, 1970

J. N. KHOSLA
Director
INDIAN INSTITUTE OF PUBLIC
ADMINISTRATION

INTRODUCTION

The role of Budget as an instrument of policy and decision-making is being realised to a greater extent with the advent of planning in this country. It forces the executive to think ahead and to think deeply with a view to committing his resources of men, materials and money to future tasks. A good deal of literature is available on the topic of budgeting which serious students of Financial Management are aware of.

“The Budget as an instrument of administrative efficiency” is a profound theme, which has to be appreciated in the context of different constitutional and legislative set-up in different countries. Professor Gunnar Heckscher, former Swedish Ambassador in India has been associated with the universities of Uppsala and Stockholm as Professor of Political Science. He has been the Chancellor of Stockholm Institute of Social Sciences, Leader of the Conservative Party in Sweden, served as an expert in the United Nations and has many books to his credit. His treatment of the subject of budget as an instrument of administrative efficiency therefore, has the backing of a varied experience. Objective budgeting gives the spending agencies freedom of choice in the details of executing the budgeted funds and therefore it makes their work flexible and efficient. On the other hand in subjective budgeting the services are provided for the types of expenditure without much relation to the particular objectives. As an example of the difference in the two types of budgeting Dr. Heckscher has cited the case of a dictaphone. With the dictaphone, typists with less experience and training can be utilised. It is only the initial investment that is to be settled. The recourse to a dictaphone can be had when skilled stenographers are not available. The availability or otherwise

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THE BUDGET AS AN INSTRUMENT OF
ADMINISTRATIVE EFFICIENCY—I

Subjective and Objective Budgeting

By
Prof. Gunnar Heckscher
(Former Swedish Ambassador in India)

Dr. Khosla (Director IIPA) : Friends, it is for me a very real pleasure to welcome His Excellency the Swedish Ambassador. You might have noticed downstairs, and that was done without my knowledge, that the name announced was Prof. Heckscher. It is as a professor that I would like most of us to welcome him to this Institute. I have the privilege of having known him since 1951 when I visited Sweden at the invitation of the Swedish Political Science Association to deliver a series of lectures at two or three centres there.

His distinguished career is well known to you all and I am sure the Chairman today will say something about that.

But personally, I feel the Institute is lucky to bring in experience of this kind.

I am happy that we were able to get Mr. K. B. Mathur to be the Chairman for this lecture. He does not need any introduction. He has presided over such lectures before as the Chairman of the Railway Board, as Chairman of the Heavy Electricals and so many other public undertakings. He has had a remarkable record and has had to deal with some of the problems that would be raised in Prof. Heckscher's lecture today.

I thank you all for having come. I extend a hearty welcome to you.

Mr. K. B. Mathur (Chairman) : Friends, I have great pleasure in introducing to you this evening's lecturer, His Excellency Prof. Gunnar Heckscher. I have not had the pleasure

previously of knowing our distinguished lecturer. He is a political scientist who has taught for many years with great distinction political science and public administration in Sweden. He joined the U.N.O. service in 1952 or 1953, to set up an Institute of Public Administration in Turkey. He was also the Vice-President of the International Political Science Association and then later, he joined the Swedish Parliament and was the leader of the Conservative Party.

His topic today is "Budget as an Instrument of Administrative Efficiency".

Prof. Gunnar Heckscher : Mr. Chairman, Dr. Khosla and Gentlemen: May I say first that I am very happy to be introduced in this way, particularly when I see Dr. Khosla here near me. I am pushed back about 15 years in time when he was in Sweden giving lectures and taking sometimes part, I think, in seminar discussions. I now reciprocate it. He is now the academic person and I am the civil servant. In those days it was the other way round. Well, I think we have these experiences in common. We have found that there is very much which the civil servants and the students of political science and public administration have in common, and we still have reason to discuss with each other.

When my friend, Dr. Khosla, asked me to come here I chose this subject, partly because it is one where I have done some research and partly because of its increasing importance. My research on a project which I started some years ago was based on a study of budgeting procedures and budget structures in a number of western countries: the U.K., the U.S.A., France, the Netherlands and Sweden. It did not include India nor any other country in this region. I must say that my knowledge of budgeting in this part of the world is very limited indeed.

The choice of countries when I started that piece of research was based on the idea that I wanted to have countries with different constitutional set-up: on the one hand, (the U.K. with its long tradition of parliamentary government, where for hundreds of years the executive and the legislative branch had been, as it were, combined, if not united. At the other extreme, the United States of America, where there is still a very real division of power between the executive and the legislative arm:

and then, countries like France, the Netherlands and Sweden, where to a varying degree, traditions based on division of power had been maintained in a system of parliamentary government.

There are certain things I should like to emphasise before I go into the subject matter.

In the first place, the limitations of what I am talking about. I am not talking about the budget as a political instrument. That, of course, was historically extremely important. The budget was a means for the parliament exercising power over the executive. The power of the purse, as it was called in the 17th century Britain, was perhaps the most important of all parliamentary powers. This is in most countries a thing of the past, though certain things of this type still remain. Even where we have parliamentary government, the budget procedures give an opportunity for Members of Parliament to influence political developments in a way rather different from and more general than what they get in ordinary legislation.) But I am leaving that out here. I am not going into that constitutional aspect of the problem.

Secondly, I am not going into the economic aspects of the problem. The budget is today seen, perhaps chiefly, as an instrument of economic policy, notably of cyclical policy, and I think that sometimes this aspect has been emphasised to the exclusion of the constitutional and political aspects of budget procedures. But I am leaving them out here because it would lead us too far afield if we were to go into those problems.

Now, if you look at the budget, and this is the third reservation, as an instrument of administrative efficiency, the part of the budget which is particularly important is the expenditure side. The revenue side is of a different character. The revenue side is more closely related to the purely economic, historical and constitutional aspects. But on the administrative side, it is chiefly the expenditure part of the budget which is important.) Therefore, I am going to concentrate chiefly on that part.

Since I chose the subject, I got a copy from Dr. Thavaarj of his paper* on Performance Budgeting. I am not going to go into any detail with regard to that paper. All I can say

*An abbreviated version of the paper may be seen in Appendix.

today is that I am going to attempt to avoid overlapping, as far as possible, since I realize that Dr. Thavara's paper has been distributed to you.

Finally, I would like in reference to his paper to add one note on terminology. He uses in his paper the term "performance budgeting". Now I realize that he uses the word in the sense that it is most usually employed. My terminology is slightly different. I would like to distinguish in this respect between what I call subjective and objective budgeting. By subjective budgeting I mean budgeting based on distinction, let us say, between personnel, equipment, current expenses, etc., of any given Ministry or agency employed for a number of purposes. By objective budgeting I mean more or less what he understands by performance budgeting, that is a system where the budget is split up with reference to particular projects or objectives and no clear distinction is made with regard to the means employed in each particular case. I shall come back to this terminological distinction, because in my terminology the word "performance budgeting" is used to indicate something even more specific than what I am here calling objective budgeting. This, however, will chiefly be a matter for my next talk. It is always a mistake anyway to agree to give two lectures, because the division between the two always presents something of a problem. But I am going to try today to give a descriptive, largely a comparative statement, of budgetary structures and procedures, and then tomorrow I shall go into the problems of how these procedures can be changed so as to facilitate the development of administrative efficiency. That is to say the descriptive, the more tedious part is for today, and the more controversial parts are for tomorrow.

I think it is necessary to begin by reminding you of something which you all know, namely, the very long procedures which go into the establishment, execution and control of a budget. It all, of course, begins with the demands which are made by specific sections of Ministries and/or independent administrative agencies. These demands are related to what the agencies or rather, the sections or the persons working there think is necessary from the point of view of their future work. And these demands are very different in character. Sometimes they are reduced to an absolute minimum in the

opinion of the person making the demands. Sometimes they are presented with a margin because the people presenting these demands know from experience that they won't get what they ask for, and therefore, they ask for a little more than they need to in the hope of getting, after the cuts, what they actually require. This is a difference which is largely temperamental, but the differences in the shape of the demands are important, and it is necessary, therefore, not to make simple percentage cuts in the demands presented, but to go in some detail into the arguments in favour of certain demands. And this is done first in the substantive spending Ministry which screens the demands coming in from different sections and specific administrative agencies.

In the system of my country, which is one of very far-going functional decentralisation, the demands are presented almost exclusively by independent administrative agencies and are then concentrated in a given ministry. Under the system, the Ministry is only a coordinating and not the actual spending agency. But this is very unusual. In most cases, the Ministry is both the spending and the coordinating agency, and the whole work takes place inside the Ministry. The various sections present their demands and then they are screened centrally by some budget section or financial section of the Ministry in question, and there unavoidably, of course, the original demands are cut down because it is found when they are added up that they reach figures which are obviously unrealistic. So even the spending ministry will reduce the demands and will have to go, therefore, into some detail in studying these demands and the arguments advanced before they can present what to them appears as the necessary minimum.

Then you come to the next stage, where all the requests from the various Ministries have come in; you will again find, almost invariably, that the total figure is absolutely impossible. It is necessary for reasons of economy and for financial reasons and also for political reasons to reduce these figures drastically in order not to allow the budget as a whole to grow beyond reasonable expectations. And here, of course, in the coordination and the cuts done by the Finance Ministry, and sometimes also by the Cabinet, or some corresponding

agency—in the United States it is done by the President and the Bureau of the Budget—you also have to go into substantive details. It is impossible to say that you will cut expenditure in all Ministries by 25 per cent or 50 per cent as it is, because, again for various reasons, it may be necessary to give priority to one particular field of public activity and also some ministries are by nature more careful than others in presenting their budget demands. I am emphasising these things to make it quite clear that these three stages—original demand, screening of the spending ministry and the coordination by the Finance Ministry—all of them require considerable amount of time. None of them gets done from one day to another. All of them require careful study—and study not only of the financial situation, but also of the administrative and political necessities involved in the presentation of budget figures.

The next stage, of course, comes when the budget as such—and here again I am speaking of the expenditure side—is presented to Parliament. The scrutiny in Parliament can be more or less detailed. In some countries, such as the U.K. and France today, the parliamentary scrutiny of budget proposals is very general in character. It does not go into any detail. There is discussion, but there is no detailed study of the particular figures on presentation. In other countries, such as the United States and also Sweden, and to some extent even the Netherlands, Parliament repeats a considerable amount of the work which has been done previously, both by the Finance Ministry coordinating the demands of the spending ministries, and by each spending ministry. And in those cases, it also may happen more or less frequently, in the United States actually it is rather frequent, that the parliamentary agency, the parliamentary committees and other organs of Parliament will not only discuss but also make substantial changes in the budget proposals in the form not only of reducing demands to a lower figure, but sometimes also increasing them. In the United States, as a matter of fact, this is a very common occurrence. Congress, both the Senate and the House of Representatives, reduce sometimes by as much as 20 to 25 per cent the demands of the executive, but they may also decide to make increases on specific demands presented to them. This is very often under the influence of local or communal interests, which require a

particular field to be given a higher priority than proposed by the Government. This was formerly usual in many other countries also. It was usual in France, when this practice sometimes went so far as to upset the whole budget structure. Today, it has been made impossible in France on the basis of a practice which was introduced, as a matter of fact, in the U.K. a long time ago, and that is by precluding parliament from making increases. Parliament may reduce, but may not increase the appropriations asked for by the Government. Here, therefore, there are very considerable differences. You may say that in the practice which is employed in the U.K. and France, largely also in the Netherlands and Sweden, the executive arm is responsible for the budgetary structure as a whole, whereas under the American system, formerly employed in other countries also, the responsibility rests with the legislature and the government may at the end find itself confronted with a budget which is not of its own making and which it may find some difficulty in executing in a reasonable manner.

Again, of course, if this parliamentary scrutiny is to be of any value and importance, it takes a considerable amount of time. Thus from the beginning when the demands have been presented by the various sections and agencies to the spending ministries, and to the moment when the budget is actually approved in Parliament, quite a long period has passed, sometimes over a year, which means that the original assumptions on which the demands were based may have changed out of all recognition by the time the budget has been approved. This time-lag may cause a need for supplementary budgets, and supplementary budgets are rather common practice in some countries. In my own country, Sweden, we have sometimes as many as three supplementary budgets in a year, and normally at least two. In France there is usually one and in other countries different procedures are being used. You may not always have technically a whole supplementary budget, but there are always means of rectifying the original figures on the basis of new occurrences.

After the budget has been approved, there still remain three stages: the execution, the accounting and the audit stage. The execution of the budget, again, is something which in

most countries takes place in cooperation between the spending ministries and their agencies and sections on one hand and the Finance Ministry on the other. The extent to which the Finance Ministry is involved in the execution of the budget varies very much from one country to another. There are countries, such as France, where the Finance Ministry follows in detail the execution of the budget at every particular point. There are other countries, such as Sweden, where not only the spending ministries but even the independent administrative agencies are supposed to be free to use the money appropriated—in accordance with the rules laid down—wholly on their own responsibility and without any cooperation from the Finance Ministry.

The next stage is that of accounting, and here again the time problem comes in. Accounting in a private enterprise is one of the most important instruments for following economic developments. But in public budgeting, accounting usually—I would almost say very frequently—lags behind to such an extent that it is almost impossible to follow what is happening, how the money is being spent and how it is being used until it is too late to make any changes. Accounting is sometimes done by the spending ministries alone: sometimes by the Finance Ministry or some specific accounting agency, sometimes doubly, both by one and by the other.

Finally comes the stage of auditing, checking of whether the money has been used in accordance with the rules and procedures laid down.

It should be noted that budgeting itself, that is the screening of demands by substantive ministries, by the Finance Ministry and by Parliament, provides important opportunities for discussing the past execution of the budget. Quite frequently, if the execution has been faulty, this will have an effect on the possibility of the administering agency in question to have its demands acceded to on future occasions. This is true, of course, when it comes to appropriations which recur year after year; but it is true also to some extent, at least, with regard to appropriations which appear only for a very limited period of time. It is a question of the confidence which the Ministry or agency in question inspires with the Finance Ministry, with the financial sections of the spending ministry

and with Parliament. And this will have a very considerable influence on future possibilities. I think anybody who has been practically involved in budgeting, whether in Parliament or in administrative agencies, will know that some ministries and some agencies normally get exactly or almost exactly what they ask for because they are known to be careful in their financial administration. Others will have their demands cut down, frequently in quite an arbitrary way, simply because they do not command the respect of the deciding authorities.

I shall pass very quickly over one aspect, namely, the legal character of the budget. Normally the budget is a law, finance law or budget law, whatever it is called. I think my own country, Sweden, is the only known exception to that. In our system the budget is not a law. It has quite a different character constitutionally. I think that the fact that in most countries the budget is a law is not only a technical device, but it has some relevance also from a constitutional point of view, and it may even in certain very rare cases give the courts jurisdiction over problems arising out of the budget. This, however, does not happen very often, and in most countries particular procedures are found to prevent the ordinary courts from interfering in matters of this kind.

There is another matter, however, which is important and creates difficulties. That is the fact that the budget for practical reasons has to be adopted for a given period of time. Normally the budget is adopted for one year. In only one of the countries which I have studied, namely, the Netherlands, is there a constitutional provision for biennial budgets. However, even there, this provision has never been applied in practice. Invariably the budget is adopted for one year only. This, of course, is a purely artificial arrangement. The work which is being done under the budget, and the financial calculations which are necessary for the budget, normally cover a much longer period of time than one year. The appropriations which are granted in one year may constitutionally or at least practically have an effect far beyond the year for which they have been approved and also the expenditure is, of course, not evenly distributed over the year.

There are, therefore, in many countries today specific devices to facilitate long-term planning of both expenditure

and revenue. You do it with regard to—and here I would like to enter the Indian scene—a very considerable part of your investments through the five year plans. This is a procedure which is not employed in the same way in any other country which I have studied. But you will always find some means of explaining to what extent a given expenditure is binding for a long-term future or adopted only for a limited period of time. This would, of course, present particular problems in budget making, and often budget-makers will tend to minimise the binding character of a given appropriation. They will try to indicate that the appropriation is for one year only, whereas in fact it creates a situation where it is almost inevitable not only to repeat the appropriation given, but sometimes also to increase it very considerably in future periods.

Now there are a number of other structural problems which we cannot by-pass. There is the distinction between the current and investment budgets, or what you here call revenue and capital budget. Another term frequently used is budgeting above and below the line.

As a matter of fact, this is a very difficult distinction. In a great number of cases, the distinction is arbitrary. Something may be put down as investment, whereas in actual fact it is current expenditure although distributed over a longer period of time than the budget year itself. To give one instance of this: military equipment for the armed forces is normally noted down in the budget as investment although it is, in fact, not only a recurring but actually a current expense, and it will then be necessary for various reasons to introduce some writing off procedure so as not to give to this so called investment a character which is unrealistic. Sometimes, also, current expenditure is being used for smaller investments, and in many cases this is a practical and normal procedure. Consequently, the distinction between what you here call, like ourselves, the capital budget and the current or revenue budget is on the whole rather arbitrary. Various items may be moving back and forth between the capital budget and the actual current budget, according to the political exigencies of the day, or according to the ideas of the Finance Minister or his officials at any particular time. This, of course, has its effects on

the economic side. It is related to the question whether the budget should be financed wholly with current revenues or to what extent it should be financed by borrowing. As a matter of fact, the tendency is in certain circumstances to reduce the figures given to the capital budget so as to have a reason for financing more out of current revenues and taxes. In other circumstances, you do exactly the reverse, again to counter the effect which is desired on the revenue side.

There is another point, perhaps not so important and not so much discussed, where also the revenue side and the expenditure side are closely correlated, and that is the question of net versus gross budgeting. There is today in every administration a considerable number of cases where revenues are contingent on expenditure, for instance for services rendered. And normally, not always, where there is gross budgeting, this means that the figure put down for expenditure is unrelated to the revenues. There may be disadvantages in this. It may sometimes be that the administrative agency in question does not take sufficient interest in collecting revenues since they know that whether or not they collect these revenues their expenditure will be unchanged. There is also sometimes a situation where it would actually be more economical for the Government to spend more if the corresponding revenues would increase more quickly than the expenditure, and these developments may be retarded by the fact that this is not possible under the budget.

There is another question of long-term expenditures. How does the budgeting provide for long-term expenditures? Here again, there are very considerable differences. There are some countries where there is no division, where simply what is going to be spent in one year is budgeted for that year regardless of what is going to happen in subsequent years. And if it is not used in the year covered by the budget in question, then the appropriation will lapse and a new appropriation will have to be made in the following year. I know some countries, which are not the subject of my study, where there is no provision for these long-term expenditures at all. We have in Sweden a rather curious arrangement with what we call reserved items. There are certain items in the budget where it is stated that if the money is not used this year, it can be reserved for the next or the year after, but usually not later than that. In the

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presentation of the budget, usually the total estimated cost is stated as well as the expected distribution over several years, but technically Parliament will decide only on the grant for the year in question.

The other extreme is the system sometimes employed in United States, where the whole of the obligated expenditure has to be covered in the budget for the year when the expenditure is to begin. This system does not always work out very favourably, if it is a question of expenditure which covers, let us say, four or five years, and there will have to be rectifications practically in every subsequent year as the estimates are being modified. This system is to some extent employed in France also, where obligated expenditure has to be approved to get parliamentary approval, at once and for the whole sum in question.

There is another type of expenditure which is partially unpredictable, where it is practically impossible to say how much will be needed: for instance, cases where the State is legally bound to spend under certain laws. For instance, where the law says—that is true largely in social legislation—that if a citizen finds himself in a certain difficult position, he is entitled to certain grant from the Government, let us say unemployment allowances, it is impossible to say in advance exactly what will be the sum total of the money required for unemployment allowances as long as you cannot predict exactly what the unemployment figure is going to be. And even in certain other cases, such as old age pensions and child allowances, where it is more easy to predict a situation, a certain latitude is required. There may be more children born in a year than expected. There may be more old people surviving than expected. In those cases also, the State is legally bound to spend the money provided a given contingency arises. Now this again is met by different methods. In some countries, such as the United States, it is necessary in this case to pass a supplementary appropriation. In other cases, again such as my own country, certain items in the budget, particularly those which are regulated by legislation, are given a special status. They are called "provisional items" and it is up to the authorities to spend more or less as the case may be. While that is so, there is again the danger that the budget figures may prove unrealistic.

It may happen that figures of this type prove wrong to 5, 10, 15 or 20 per cent even with regard to rather large expenditures, and even in cases where it should have been possible to make better predictions.

Two more things with regard to actual budgeting! In some countries, such as the U.K. and France, different procedures are used for new items which are more carefully scrutinised, and for recurring items where scrutiny is superficial and sometimes hardly takes place at all. I am in doubt as to whether this is a wise procedure. There is sometimes a danger that these recurring items will remain so without much change, even where there would be reason either to strike them out or to change them drastically. On the other hand, it is obvious that a new item will always require much more careful argument before it is adopted.

Finally, there is the question of directives attached to the appropriations. Budgeting authorities may decide that money is to be used up to a given figure but only according to certain specific rules and regulations. In many countries these directives are adopted not only by administrative and ministerial agencies but by parliament itself. Parliament will say, for instance, that they grant such and such money for a school of public administration, provided the curriculum is made up according to certain principles—otherwise the money cannot be used at all. This is another of the points where sometimes difficulties will be quite serious because of the time-lag between the original decision and the actual execution of the budget. There may, for instance, be compelling reasons for changing the curriculum on the basis of developments which have taken place after the budgetary decisions were taken.

Before I finish today, I should like to add a few words also about accounting and auditing.

As to accounting, there is, as I said in the beginning, a difference between the cases where accounting is done centrally and where it is done by the spending agencies themselves. Particularly in the former case, where there is central accounting, there is this difference between the public authority and private enterprise that the accounts do not give the necessary information for future activities, because they come in too late. In private enterprise, it is always possible at a given moment

to call for the accounts for a certain type of expenditure to see how this has been working, and even to make lightening changes in the budget in the light of experience which has been gained in that way. This is rarely possible in a public agency, and it is certainly never possible except where accounting is done by the spending agency or ministry itself. The time-lag between execution and auditing, or even the time-lag between budgeting and accounting, is indeed a serious difficulty. The correlation between execution, past execution and former budgeting is also made more difficult in view of the fact that accounts are not yet available. When the budget, let us say, for 1966-67 is presented, even the accounts for 1964-65 may not be available, and certainly accounts for the previous year 1965-66 can obviously not be available at all. And this makes calculations rather difficult in the future. This is again one of the points which seem to indicate that a more flexible system of budgeting than was employed would be needed.

Auditing in a way lies outside the scope of budgeting. But I think it is necessary all the same to say a few words about it, particularly about the objectives of audit. What is the reason for an audit? What do we need it for? Well, the obvious answer is that audit is necessary to safeguard honesty and reliability. This is true in private enterprises. It is, of course, equally true in public administration. There has to be audit to prevent misappropriation and other malpractices in financial administration. But actually this is by no means the only, perhaps not even the most important objective of audit in public administration. In the first place, and this is the aspect which is really given importance in most administrative systems, the audit in public administration, as distinct from the audit in private enterprise, is very much concerned with the legality of the expenditure in question. There may be a situation where the money has been honestly spent, where there has been no maladministration from the point of view, let us say, of economic interest, but where the money has been spent for a purpose which was not approved. There the spending of the money is illegal, although no dishonesty may be involved.

Next, there is the question of economy. It is essential to check expenditure which are unnecessary even though the

expenditure may be perfectly honest, perfectly legal, but is all the same utterly useless, or at least excessive in view of what is gained by spending money. This is the case where things are bought at unreasonable cost.

Finally, there is the question of the efficiency—what is called in private enterprise productivity—of the expenditure which is taking place. Now I think it may be said that the first three aspects, those of honesty, legality and economy, are normally quite well safeguarded by the auditing systems which are employed in public administration in our different countries, at least in the countries with which I am conversant. But the fourth, the question of efficiency and productivity, which plays a very great part in the audit of private enterprise, is not taken equal care of by the auditing system in public administration. And this becomes particularly serious in view of the fact that public administration is dealing more and more with economically important activities. At the same time, it should be remembered that it is indeed much more difficult to check efficiency and productivity in most parts of public administration than in private enterprise. The input-output relation is by no means obvious when it comes to, let us say, military arrangements or diplomatic administration, or administration of the law, or police, etc. It is very difficult to calculate in figures the input-output relations, and at the same time it is quite obvious that even the police may be more or less productive and that even in the case of appropriations for a purpose such as that it is necessary to keep the productivity aspect before our eyes.

There is a thing which happens in most of our countries, which is called "economy drive". At a given moment public opinion requires that public expenditure should be reduced and there is an economy drive. In Britain in the period between the wars, in the 1920's—some people may remember the name of Sir Eric Geddes and the so-called Geddes axe which was set to the British administration and which no doubt affected administration in India as well as in other parts of the world, I have seen to some extent in my own country how these "economy drives" work, and I found they are normally very effective when it comes to small items of expenditure, but totally ineffective when it comes to the

larger items. The reason is quite simple. Economy in the sense in which the word is taken here is quite easily achieved when it comes, for example, to asking people to write on both sides of the paper instead of only one side of the paper; or of using a cheaper type of ink or using a typewriter for a longer time than before. But it becomes virtually impossible when it comes to old age pensions or military equipment or things of that sort, and it is quite obvious from the analyses of any budget which I have seen that the financially important parts are related not to minor items of administration but to the great substantive parts of public activity. Therefore, an economy drive of this type may lead to a reduction in expenditure in hundreds of items by about 20 per cent but in the whole of the budget by only 1/20 per cent. And they may be very popular in that respect, but actually reduce rather than increase efficiency in actual financial administration. It is from this point of view, I think, that it is particularly important, as a basis for checks on economy, to maintain even at the accounting and auditing stages a very clear idea of the productivity and efficiency of various items of expenditure, so that one may not fall into the usual mistake of over-emphasising small economies and forget how little they mean for reduction of public spending as a whole, by comparison to points which are politically important and sensitive.

Questions and Answers

Q. No. 1: Sir, I have two questions to ask. The first relates to the broader aspects. What would be the governing principles when budgets are made in countries like China and the Soviet Union? Are they very different from the points you have underlined?

Secondly, in your country in particular, and Scandinavia in general, the way the cooperative movement has developed, do you think it has something to do with the manner in which budgets have been allocated? And how do these movements affect budgeting in these countries?

Answer: The second question is one I am glad to answer. The first one I am totally incompetent to answer.

I do not know, unfortunately, and I think very few people know, how the set-up of the budget is in the countries which have the type of Government as China has, or indeed in any country where socialism is practised, not in the sense in which the word is used in India but in a much more far-going sense. There, the public sector comprises the whole of the economy, and it should be true—whether it actually is true I do not know—that the practices of budgeting for private enterprise will have to be introduced into the public sector to a much greater extent than is the case in countries which still have a mixed economy of the type we have in Sweden and which I think you have in India.

But even in countries which have a mixed economy, it is necessary to draw a distinction, let us say, between the railways on one hand and the law courts on the other. The system will be different. Budgeting for the railways will be much more influenced by the practices of private enterprise. That is as far as I can get with your question of principle.

With regard to the second question, the answer is simple. The cooperatives in countries like Sweden or Denmark or Norway or Finland or the U.K. do not affect the public budget at all, because the cooperative movements there are not, as I know is the case in India, an arm of the State. They are totally independent of the State. They make their own budgets just like any private enterprise. They normally receive no grants from the public. There are exceptions to this. But in the case where a cooperative receives grants from the public, as has been true for instance in some cases like producers' cooperatives in agriculture in Sweden, the grants are made up in exactly the same way as if grants were given to a private enterprise to do something for the Government. There is an arrangement between them just as there may be an arrangement between the private enterprise and the Government for a given service. But the cooperatives in our system do not at all form part of the Government budget.

Now, I can give you an instance to illustrate this, and that is the case of the housing cooperatives. They build the houses, and the housing cooperatives are an important element in the housing policy of the Government; but they receive no grants. The only thing they do is that they are allowed to

collect rents, and they may be given particular loans for their investments. These loans will appear in the budget as loans granted to the housing cooperatives. Only to that extent would they appear as part of the public budget. Normally, where grants of this type are made to a cooperative organisation, similar grants would be available to other organisations as well. Thus, the loans granted to housing cooperatives are not limited to those. They are available to private individuals building their own houses and appear under the same heading in the budget.

Q. No. 2 : Does the frequency of supplementary budgeting not promote laxity? You present three times a year your supplementary budgets. Therefore, departments may feel confident that they will get their money in the next one, or the next one and so on.

Answer : That was true sometime ago. But normally it is much more difficult to get an appropriation in a supplementary budget than to get it the first time. Therefore, departments will know that they cannot come back with supplementary budgets for grants which they fail to present the first time. They will have to give a particularly careful justification for the supplementary budget. However, I do not see how it can be avoided. All countries must have some reasons for supplementing their budgets!

Dr. Khosla : One or two, but not three.

Prof. Heckscher : Well, it is normally two, but it was three during the war.

Q. No. 3 : What is the percentage of tolerance? How does this affect when the department is asking for budget provision? For example, in some cases it does happen that a department has a supplementary demand and yet has surrendered amounts more than supplementary demand asked for.

The second question is: what is the device for providing for funds for advance sanction, particularly in case of public undertakings where they have to place orders years in advance for machinery which has to come from abroad?

Answer : With your permission I would like to save the first question till my next talk which will cover that ground.

As to the second question, this problem arises not only in the case of public enterprises. It will also appear in the case of the armed forces, for instance, and procedures differ. In my country which is the only one where I have practical experience of this problem, we have something which is called authorisation. This will be approved by Parliament and not only mentioned in the budget, but go through the usual mill of budgeting. But of course, it will not appear in the figures of the budget. This, however, has something to do also with the problem of long-term expenditure which I have mentioned before. Normally the need for advances of this type is related to expenditure which covers a long period of time. A credit may be opened. I think in some countries the system is that the credit is opened for a given authority or agency to pay as they go. The procedure to be used may also be to appropriate the total of the money for the opening of that credit.

The other system may be to try and calculate how much is needed and provide the money for reservable items for that purpose, whether it is a question of a public enterprise or only an agency.

Q. No. 4 : You said earlier in your lecture that in some countries, especially in the USA, there is a device provided to the legislature, whereby scrutiny is done on its behalf after the Government has approved the budget. I would like to have more detail on the subject because as far as my limited knowledge goes, a few States, hardly two or three, have adopted that system, which is not reported to be very effective, because in the case of a small State like Oregon the budget was about 400 pages. And about two or three budget analyses on behalf of their legislature ran into 1,000 pages and it was a subject of great criticism.

So that is just an example of how that very system can be self-defeating. I do not know about the Federal Government. Could you give me a little more idea how it is exercised, how the budget is analysed on behalf of the legislature?

should be done in the enterprise without informing the Government about it. Nor was the proposition practicable that everything that the government had to communicate to the enterprise should be put into the form of a written directive. Some flexibility in these matters was essential. It was equally important to ensure that the proposals of the enterprise should not pass down into limb of the departmental Secretariat and dealt with at too low a level or be decided upon by people who were not aware of the practical issues involved. These and other problems of control and of communication, between the enterprise and the department, could be best thrashed out through a regular arrangement for exchange of views across the table between the Managing Director on the one hand and the Minister and his senior most advisers on the other. Similarly, the controversy about the under-representation of non-official elements on the Board of Directors could be best resolved in the light of the purpose of such representation and the attitude of the representatives. Government representatives on the Board of Directors had a two-fold role—to put forward the departmental point of view to the Board and to explain the Board's point of view to the department. The existing arrangements did not work well as the departmental representatives either did not get the memoranda well in time for study or did not take a decisive brief in the matter from the department. Departmental representation, if worked in the proper spirit, would facilitate speedy decisions and prompt action.

Shri Parimal Y. Mehta urged that adequate attention should be paid to four important aspects of the management of State enterprises—efficiency, business methods of work, decentralisation and delegation, and training of personnel. Efficiency was both a horizontal and vertical concept; it depended equally on relations between workers or groups of workers. The enterprises must be run on business principle and not crippled by traditional departmental procedures

and work-ways. The personnel responsible for various aspects of production should have adequate powers to carry out their tasks with a sense of impartiality, justice and fair-play and to enforce discipline adequately. The concentration of power in the upper reaches of the hierarchy in matters of policy should be balanced by adequate decentralisation and delegation down the line. For developing the skill and effectiveness of personnel, the training programme should be a continuous process and should cover all levels—top, middle and bottom.

Shri K.N. Kaul pointed out that a dogmatic approach to the administrative problems of State enterprises could hardly deliver the goods. For instance, while non-officials were needed to be on the Board of Directors to have the benefit of the rich experience and balanced judgment of the private enterprise, the Government representatives on the Board brought with them a trained mind and habits of objective and precise thinking. The various development stages outlined by the Chairman, *Shri Manubhai Shah*, were obviously only illustrative and not exhaustive; no uniform or rigid patterns of organisation, autonomy, or methods of work could be laid down even for the same stage of development for different public enterprises. Similarly one could not afford to be too doctrinaire about the method of recruitment of personnel. Restricting recruitment to civil servants might not meet all the needs but the material available in the open market might not also always be satisfactory. The problem of personnel, as also others, required a pragmatic approach.

Prof. Sri Ram Sharma agreed with *Shri Bapat* that the concept of autonomy of State enterprises, as commonly understood, should be abandoned, considering the interdependence of different government enterprises and departments and of the different sectors of the national economy. As Parliament was ultimately supreme and represented the citizens who really provided the finance, the State

enterprises need not feel touchy about the control or criticism attempted by Government or Parliament. The form of the enterprise was not important; the spirit in which it was conducted was all that mattered. There was hardly any justification in the existing practice of having a large number of representatives of Government departments on the Boards of Directors. If they represented their respective departments it was not understandable why they were reluctant to enter into commitments on behalf of their departments nor was there the need for so many of them. And if they were on the Boards in their individual capacity, the whole purpose of their being nominated as the representatives of the Government departments was lost. The policy of the Government in nominating departmental representatives on the Boards of Directors required a reconsideration. Here it was important to distinguish between the English idea and the American concept of the Board of Directors. In England, the Directors on the Board were not technical or functional specialists in business or industry, but persons from various walks of national life, e.g., lawyers, engineers, social scientists, public men, etc. In the United States of America, on the other hand, the Directors on the Board were nominees of the President and were responsible for a particular function of the enterprise. The Board of Directors in a private enterprise in India did not consist of many experts in business or industry and there was no special reason why the Board of Directors in a public enterprise should be composed of persons having knowledge of its particular business or an aspect of it. The main object of the Board of Directors should be to direct the organisation and it should have on it fairly experienced and competent persons drawn from business, finance and industry, retired officials from the public services, leaders of labour and public opinion, etc. The actual management of the enterprises should be left to another Board—a Board of Management, headed by the Managing Director.

The Chairman (Shri Manubhai Shah) thanked the participants in the discussion for their valuable contributions.

Prof. V.K.N. Menon, the Director of the Institute, expressed the gratitude of the Institute to the Chairmen of the two sessions of the Conference and to the members who had taken part in the discussions.

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