

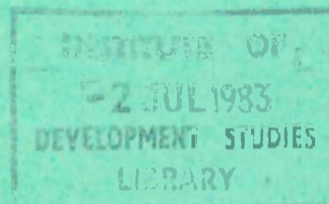
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# BUDGET PRESENTATION IN SOUTH AFRICA

A critique and international comparison

by

J. van der S. Heyns



Occasional paper No.9

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Economic Research Unit  
Department of Economics  
University of Natal, Durban  
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Preface

The writer is Associate Professor in Economics at the University of Natal in Durban.

While on Sabbatical in London from October 1979 to March 1980, he undertook a comparative survey of budget presentation in South Africa and selected overseas countries, with the financial assistance of the Human Sciences Research Council. This paper reproduces, in a revised form, the final research report submitted to the Council in March 1981.

The Council's assistance towards the cost of the research is hereby gratefully acknowledged. Opinions expressed or conclusions arrived at are, of course, those of the author and are not to be regarded as those of the Human Sciences Research Council.



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## PART 1

### Introduction

#### 1. Functions of a budget

The budget which our Finance Minister presents to Parliament every year is one of the government's most important documents. What is this document? Basically, it presents the essential ingredients of the central government's financial plan for the coming year. However, this plan has many facets.

One purpose of the budget centres around the accounting function. Any large financial operation requires an orderly arrangement for the control of outlays and for their relationship to revenues. The central government is no exception. Thus the budget provides a system of planning and authorization of, and control over, the government's finances by the Executive and Legislative branches.

However, the latter is merely a bookkeeping function of a housekeeping nature. It is not directly related to the achievement of the goals of public sector economics. By contrast, the purpose of the budget which is most relevant to the major goals of public sector economics centres around the economic policy function. That is to say, in addition to its primary control function, the budget also embodies a plan of fiscal action through which the objectives of the economy may be influenced or achieved. This plan has two major aspects.

First, the budget embodies the government's fiscal policies for promoting a healthy and growing economy. The Finance Minister's recommendations of the appropriate level and relation between taxes, spending and borrowing would accordingly reflect the government's conception of the economic outlook and the country's fiscal needs.

Second, the budget proposes an allocation of resources to serve the country's needs. In other words, the broad fiscal or first level

recommendations would be meshed with a second level of decision-making in the budget process, involving the government's plan of action for meeting specific national needs with respect to national defence, the maintenance of law and order, education, housing, social welfare, etc. For these reasons the budget is an important economic document.

Because of limited resources a series of difficult choices must obviously be made. Besides making a decision as to the proper level of the overall budget, and a choice between increased taxes or lowering spending, choices must be made between different programs ranging across a wide spectrum. The mix of budgetary proposals - judged in terms of national needs - will be an expression of the goals and aspirations of the political party in power. The budget is accordingly also a highly political document.

## 2. Importance of budget presentation

The importance of budget presentation derives from two related considerations: (1) the policy aspect; and (2) the public's right to scrutinize the government's fiscal activities.

### Policy

The form in which the government's budgetary programs are reported to Parliament and the nation in the annual budget is an important aspect of fiscal policy. There are two main reasons for this.<sup>1</sup> Firstly, the method of presenting the budget could affect the quality of fiscal decisions. For example, it could be argued that a budget's conceptual framework is inadequate or is not comprehensive enough to serve as a basis for an analysis of the economic impact of the government's proposals and that this could even lead to the adoption of inappropriate policies. However, in the absence of detailed knowledge of how decisions are formulated and of the type of information that is used to make decisions, "what can be said on this subject is bound to be largely conjecture".<sup>2</sup>

Secondly, the method of presenting budgetary data could also influence the quality of fiscal policy, mainly through the publicity given in the budget to the government's fiscal activities. That is to say, the budget could, through the creation of public understanding of the nature and effect of the government's fiscal plans and actions, have an important effect on the public's acceptance of, as well as response to, policy initiatives and therefore ultimately on the quality of fiscal policy. The importance of this aspect of budgetary policy is not always fully appreciated. The success of fiscal policy often depends crucially on how the community interprets the government's policy initiatives.

#### Public scrutiny

In a democratic society the public has a right to be informed of the government's fiscal activities. The budget is therefore intended to present a comprehensive picture of the fiscal affairs of the government for the enlightenment and information of the citizen. In short, it serves as the government's fiscal window.

More particularly, the budget is virtually the only place where information can be found on the choices among alternative fiscal policies. Not only Parliament, but also the press and the public look to the budget and justifiably expect to find in it information needed to assess the economic effect of the government's fiscal activities and to judge the government's stewardship of public monies in past years and the year to come. Moreover, the open and fair reporting of the government's fiscal activities lies at the heart of the democratic system.

This dimension of the budget accordingly has three main aspects. One aspect concerns the budget's role as an instrument of parliamentary scrutiny of the government's finances. Though Parliament has lost effective control over the detail of the government's financial operations, it has nonetheless retained and developed the power of scrutiny. Indeed, parliamentary scrutiny of the budget is used as a device to bring the government's policies into full public view and to force the government to justify them in public. Full and detailed public exposure in the budget document of the government's fiscal activities

and all its implications serve as a vital safeguard against bureaucratic inefficiency, and is an indispensable element of good government. The budget should therefore provide an adequate basis for parliamentary scrutiny of the government's activities. For example, it should give ready answers to some of the simple questions that parliamentarians, and others, would ask when they set out on the task of scrutiny, such as: how much is the government spending and on what, how much is it lending and to whom, and how much is it raising on taxation, sales of goods and services, and how much is it borrowing?

A second aspect is that, in a broader context, the budget is an important and logical source of information on the government's fiscal activities to economists, businessmen and other groups who are interested to know how the government's plans are likely to affect their own particular sectors. More particularly, budgetary data are widely regarded as significant indicators of the government's impact on the economy, on particular industrial sectors, on the financial markets, on the balance of payments, on investment, prices, etc. Budget accuracy, comprehensiveness and flexibility are therefore clearly essential ingredients of the system of presentation. On the one hand, inaccurate, misleading or ambiguous budgetary data would tend to obscure what the government is doing and how its activities would affect the economy; in effect, the government would be sending out the wrong signals. On the other, comprehensiveness rather than the pre-selection of data, would make for the greatest amount of flexibility in the presentation and use of the budget document so that each user would be free to choose the information needed for his particular purpose.

Thirdly, the rights of the ordinary citizen must be considered. The proverbial man in the street has the right to be informed of the government's stewardship of public monies. However, the general public cannot be expected to become familiar with all the details and intricacies of the budget document. Therefore it is important that the budget should be cast in a form which is also understandable, in broad outline at least, to all citizens who are interested to know what their government is doing.



### 3. The South African budget

It is fairly common knowledge that until the 1940's the budget in South Africa, as in most other countries, mainly served the functions of government accounting and financial control.<sup>3</sup> The budget was consequently viewed as a financial plan, and ex post, as a record of the government's financial activities. As a result, public accountability or the financial responsibility of the Cabinet to Parliament and, in turn, of Parliament to the voters were the main factors which determined both the format and the content of the government's budgetary accounts and their representation in the annual budget.

In South Africa this approach inevitably imposed two main requirements on the system of presentation: first, that the budget focus on the Exchequer Account (this account is still regarded even today as central to Parliament's control over the Executive); and second, that the classification of budgetary transactions be in accordance with departmental responsibilities and the requirements of financial control.

This method of presentation probably served South Africa adequately during the first 30 or 40 years after Union. However, important changes have taken place since World War II in both government finance and economic policy. In the field of government finance, for example, the emergence of an extensive extra-budgetary sector in South Africa has rendered the conventional (administratively oriented) budget much less significant than before. On a theoretical level, the Keynesian revolution and the new emphasis on the economic role of the budget brought new dimensions to budget policy which necessitated new approaches to the budget's reporting of the government's fiscal activities.

In many overseas countries the development of new and improved budget concepts and methods of presentation, to make the budget and the government's accounts more responsive to their many uses, has received a lot of attention by way of public or departmental enquiries,

and some major reforms were implemented in several cases.<sup>4</sup>

In comparison, relatively little has been done in South Africa since the 1940's to improve the form of the budget to bring it abreast of times. A comparison of our own budgets of the early post-World War II years with those of the late 1970's shows that, apart from the abolition of the distinction between the Revenue Account and Loan Account in 1976 (see Part 2, Section 5 below) and the introduction of a system of program budgeting from 1976 (see Part 2, Section 2 below), the conceptual framework of the budget, the type of information it makes available, and the manner in which the government's proposals is presented to Parliament and the nation have all undergone relatively few really significant changes since the end of World War II.

#### 4. Purpose of this paper

The purpose of this paper is thus twofold: first, to describe and examine several aspects of the presentation of the South African budget; and second, to compare the South African budget with the budgets of selected overseas countries.

The South African budget is currently presented in a highly misleading and outdated form; consequently, it does not give Parliament and the public all the information to which they are entitled and which is required to make an intelligent assessment of the government's fiscal activities. Therefore, it would appear appropriate to assess the budget with a view to revising and modernizing its presentation.

During a recent six month sabbatical in London the author also examined the budgets of the United States, the United Kingdom, Canada and Australia for purposes of comparison with the South African budget. This paper presents also some of the results of that work.

It is hoped that the perspectives provided in this paper will make

a contribution towards the development of a more comprehensive and intelligible budget document for South Africa.

5. Some methodological issues

The paper does not attempt a comprehensive cataloguing of all aspects of budget presentation. The reason for this is that budgetary presentation is a vast and complex aspect of budgetary practice, and it would be altogether beyond the capacity of this relatively short dissertation to deal with every aspect exhaustively. Therefore, in order to limit the scope of the paper, the analysis of both the South African budget and the budgets of the countries selected for purposes of comparison will in the main give particular emphasis to five specific aspects, i.e. (1) the format of the budget; (2) comprehensiveness of coverage; (3) the classification of budgetary transactions; (4) the budgetary treatment of government credit transactions; and (5) the presentation of the deficit and budget financing.

The choice of overseas countries was partly a matter of convenience. As already indicated above, the collection of material for the study was undertaken in London, where the budgetary material of the United States, the United Kingdom, Canada and Australia was readily available in the library of the London School of Economics or at the various High Commissions. It was also important that the information be available in English. On the other hand, South Africa, Canada and Australia enjoy a common "budgetary" ancestry from the United Kingdom, and all these countries have broadly similar parliamentary systems. Consequently, it was felt that a comparison of the systems of presentation of these countries would be a useful exercise.

Despite the fact that the United States budgetary system is very different to that of the other countries on our list, the United States budget documents are generally regarded as most impressive and well worth looking at whenever the matter of budget presentation is considered.

A few other methodological aspects are worth mentioning. One aspect is that our survey of foreign budgets began with the scrutiny of the budgetary documents and/or the public accounts of the various governments, but was supplemented by some discussions and correspondence.

Another point is that the investigation was undertaken during the six months from October, 1979 - March, 1980. The aim was therefore to cover the budgets of the late 1970's, as far as possible, for purposes of comparison with the South African budget. However, apart from the fact that it was not always possible to get hold of the most recent overseas documents, it is also useful to bear in mind that methods of presentation may and do change quite frequently in response to changing circumstances (including changes in governments).

A final point is that, for each country, as many budgets as possible were perused in order to get some historical perspective on current budgetary practices. In the case of the United States and the United Kingdom, it was possible to go back as far as 1969 and 1967, respectively. In the case of Canada and Australia, however, it was not possible to get complete sets of budgetary documents for more than two or three relatively recent budget years.

#### 6. Outline of the paper

The plan of the paper is as follows: Part 2 below describes and examines some of the main features of the South African budget. This is followed in Part 3 by a review of the budgets of the United States, the United Kingdom, Canada and Australia. Part 4 compares the South African budget with the budgets of the four other countries. This final part incorporates some recommendations to improve the presentation of the South African budget.



PART 2

The South African Budget

1. Introduction

The central government's budget\* is usually presented to Parliament by the Minister of Finance in the last week of March.\*\* Whilst the form of the government's accounts is governed by the Exchequer and Audit Act, No. 66 of 1975 (as amended), the format of the budget is an executive responsibility. In practice, the Treasury consults with the Parliamentary Select Committee on Public Accounts.

This part of the study describes and examines the presentation of the South African budget, with particular reference to the 1980 budget. Some historical perspectives are also provided.

2. Budget papers

This section briefly reviews the structure and content of the South African budgetary documents.

As currently presented, the budget comprises the following regular budget papers:

- (1) The printed version of the budget speech,
- (2) Estimate of Expenditure to be defrayed from State Revenue Account,
- (3) Estimate of Revenue,

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\* In order to distinguish the central government's budget from the so-called Railway and Post Office budgets, which are customarily presented to Parliament a little earlier in the parliamentary session, the former is sometimes referred to as the government's financial budget.

\*\* Occasionally the budget is postponed until later in the year when there is a general election, as in 1966, 1974 and 1981.



- (4) Comparative figures of revenue,
- (5) Taxation proposals,
- (6) Statistical/Economic review.

The budget papers (except item one above) are customarily tabled during the budget speech and are listed in the printed version of the speech.\*

The printed version of the budget speech

This part of the budget normally attracts most attention because it contains the facts and figures that users of the budget find most useful. The most important part of the document is the budget speech itself.

The budget speech introduces the Second Reading of the annual Main Appropriation Bill. Formally the speech therefore takes the form of a proposal of a motion that the Appropriation Bill be read a second time, representing therefore the Executive branch's formal request to Parliament for authority to spend funds.

In the main, the speech comprises a review of the State's financial affairs for the current year and forecasts of the expenditures and revenues for the coming year. The occasion is traditionally used to review also the state of the economy, its future prospects and to announce any general policy changes that the Finance Minister may care to make. The speech is usually a fairly long one, taking about 1½ - 2 hours to deliver to the House of Assembly.

The budget speech itself is of course published in Hansard<sup>5</sup>, but it is also made available in the form of a White Paper<sup>6</sup> (Hansard off-print) containing a collection of the three budget statements presented to Parliament by the Ministers of Finance, Transport and Posts and Telecommunications, respectively.

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\* Before 1964 it was the practice to publish the Estimate of Expenditure before budget day, but it was not debated by Parliament before the Second Reading.

It has become customary since 1965 to include in this so-called printed version of the budget speech a summary of the State's accounts (see Section 3 below)<sup>7</sup>, together with comparative figures of revenue for the current and coming year (see Section 8 below).<sup>8</sup>

#### Estimate of Expenditure<sup>9</sup>

The printed Estimate of Expenditure contains details of the government's proposed outlays excluding any last minute changes that are announced in the budget speech. Items are arranged under departmental votes and under each vote details of proposed outlays are given. By 1979 there were forty-one votes, but because of the rationalization of the public service the number of votes was reduced to thirty-one in the 1980/81 budget.<sup>10</sup>

In his 1974 budget speech<sup>11</sup> the Minister of Finance announced the introduction of a system of budgetting by objectives. A beginning was to be made in fiscal year 1976/77 in the Departments of Health and Agricultural Technical Services. The Minister also intimated that similar systems had already been implemented by the Department of Defence for internal use, and at interdepartmental level for departments and organisations participating in Bantu administration and development. With the exception of the Indian Affairs, Justice, Mineral and Energy Affairs and Public Works votes and part of the Health, Welfare and Pensions vote, all votes have been converted to the system of budgetting by objectives in the 1980/81 Estimate of Expenditure.<sup>12</sup>

The new format of the Estimate of Expenditure comprises presentations of estimates according to programs and standard items.<sup>13</sup> The new presentation also focusses on: (1) amounts to be voted; and (2) statutory amounts - i.e. amounts forming a direct charge on the State Revenue Fund in terms of Section 14 of the Republic of South Africa Constitution Act, 1961.

The new presentation also incorporates under each vote an economic classification of outlays into: (1) current expenditures; (2) capital expenditures; and (3) transfer payments.<sup>14</sup> However, in an accom-

panying abstract of votes this threeway classification is provided only in respect of the amounts to be voted, which rules out any comparison with data provided in the Statistical/Economic review (see below).

#### Estimate of Revenue<sup>15</sup>

This document is the Second and Final print of the Estimate of Revenue for the coming year. It incorporates any new revenue proposals announced in the budget speech. It also contains estimates of Standing Appropriations. Revenues are classified by source and collecting department. A summary table provides a grouping of the major classes of revenue into the following categories: direct taxation, indirect taxation, repayment of loans and other sources. See also Section 8 below.

#### Comparative figures of revenue

This is a rather unassuming and informal document containing the printed (original) estimate and revised estimate of revenue for the current year, and the estimate of revenue for the coming year (on the basis of existing tax rates), classified by source and collecting department. Standing Appropriations are not included. However, loan levies are incorporated in the tables. The figures contained in this document are incorporated in the printed version of the Budget Speech.

#### Taxation proposals<sup>16</sup>

This document sets out the government's formal proposals to change the existing tax legislation. It is mostly couched in legal terms.

#### Statistical/Economic review<sup>17</sup>

The Statistical/Economic review is usually a 30-40 page document containing tables and graphs covering mostly historical data on economic conditions (national accounts statistics and other economic

indicators), government receipts and payments, and the public debt. It also contains a rather detailed two-way functional and economic classification of government expenditures based on national accounting principles. See also Section 7 below.

#### Supplementary or explanatory memorandums

Occasionally, supplementary or explanatory memos are tabled with the other regular budget papers - e.g. in 1980 the Finance Minister tabled the following additional memos: a supplementary memorandum on taxation measures - Budget 1980-'81; proposals for improved social pensions, military pensions and civil pensions; and a supplementary memorandum on the relaxation of exchange control - Budget 1980-'81.<sup>18</sup>

### 3. The summary budget presentation

The summary of the government's prospective 1980-81 accounts, as subjoined in the printed version of the 1980 Budget Speech, is reproduced in Table 1.

The form and content of this summary budget presentation is an important aspect of budget presentation in South Africa, for several reasons: first, it is the only summary of budget aggregates given anywhere in the budget papers; second, the budget speech is (still) to a large extent structured on the accounting framework furnished by this summary; and lastly, the summary is widely used, together with the speech itself, as a framework for budgetary analysis and comment by Parliament, the press and the public.

The summary focusses on the four major elements of the government's proposals for the year ahead: expenditures, revenues, the deficit/surplus, and the financing of the deficit or use of the surplus. Budgetary expenditures and receipts (i.e., the narrow definition of the budget) thus form part of a broader and more comprehensive financial plan in which: (1) the government's expenditures and revenues are brought in relation with the financing of any deficit or surplus; and (2) the



Table 1.

COMPARATIVE STATEMENT OF THE STATE REVENUE ACCOUNT

|   | Revised figure |          | Budget figure |          | Percent-<br>age<br>change |
|---|----------------|----------|---------------|----------|---------------------------|
|   | 1979-'80       | 1980-'81 | 1979-'80      | 1980-'81 |                           |
| Expenditures:   | Rm             | Rm       | Rm            | Rm       | %                         |
| Printed Estimate (R.P. 2-'80; First print)                                |                |          |               |          |                           |
| Plus: Supplementary appropriations to be financed from 1979-'80 surplus:  |                |          |               |          |                           |
| Black Urban Areas   | 12             |          |               |          |                           |
| plus Black hospital   | 4              |          |               |          |                           |
| Consolidation of Black states   | 15             |          |               |          |                           |
| Loan Fund for Economic Co-operation                                       | 10             |          |               |          |                           |
| Project Fund for Co-operation and Development                             | 15             |          |               |          |                           |
| Local Authorities   | 12             |          |               |          |                           |
| Small Business Enterprises  | 10             |          |               |          |                           |
| Food: Contingency Provision   | 18             |          |               |          |                           |
| Plus: Supplementary appropriations to be financed from 1980-'81 revenues: |                |          |               |          |                           |
| Social pensions   | 55             |          |               |          |                           |
| Pension Bonuses   | 22             |          |               |          |                           |
| Civil pensions (statutory posts)  | 2              |          |               |          |                           |
| Housing   | 10             |          |               |          |                           |
| Food subsidies  | 70             |          |               |          |                           |
| East Rand schools   | 4              |          |               |          |                           |
| Total expenditure   | 11 480         | 13 083   | 12 823        |          | 14.0                      |

|   | Revised figure |          | Budget figure |          | Percent-<br>age<br>change |
|---|----------------|----------|---------------|----------|---------------------------|
|   | 1979-'80       | 1980-'81 | 1979-'80      | 1980-'81 |                           |
| Revenue: Printed for 1980-'81   |                |          |               |          |                           |
| plus Income and Excise and Inland Revenue at existing rates (excluding loan levies) |                |          |               |          |                           |
| Less: Taxation proposals i.r.o. Customs and Excise:                                 |                |          |               |          |                           |
| Surcharge on import duty  |                |          |               |          |                           |
| Inland Revenue:   |                |          |               |          |                           |
| Provision of Housing by Employers   |                |          |               |          |                           |
| Transfer Duty   |                |          |               |          |                           |
| Estate Duty   |                |          |               |          |                           |
| Taxation of Black Persons   |                |          |               |          |                           |
| Lump Sum Distributions  |                |          |               |          |                           |
| Physically Disabled Persons   |                |          |               |          |                           |
| Married Working Women   |                |          |               |          |                           |
| Income Tax on Individuals (including deductions for medical costs)                  |                |          |               |          |                           |
| Total Revenue   | 9 797          | 10 856   | 9 909         |          | 10.8                      |
| Deficit (before borrowing)  | 1 683          | 2 227    |               |          | 32.3                      |
| Loan Redemptions:   |                |          |               |          |                           |
| Domestic Loans:   |                |          |               |          |                           |
| Stock   | 937            | 1 094    |               |          |                           |
| Bonds   |                | 226      |               |          |                           |
| Foreign loans   | 168            | 100      |               |          |                           |
| IML credits   | 154            |          |               |          |                           |
| Loan levies   | 141            | 10       |               |          |                           |
| Financing Requirement:  | 1 400          | 1 430    |               |          |                           |
| Financing:  | 3 083          | 3 657    |               |          |                           |
| Domestic Loans:   |                |          |               |          |                           |
| Public Debt Commissioners   | 1 405          | 1 650    |               |          |                           |
| Re-investment of Loan Redemptions   |                | 850      |               |          |                           |
| New Government Stock Issues   | 1 040          | 600      |               |          |                           |
| Non-marketable Debt:  |                | 400      |               |          |                           |
| National Defence Bonds  |                | 50       |               |          |                           |
| Bonus Bonds   |                | 150      |               |          |                           |
| Treasury Bonds  |                | 200      |               |          |                           |
| Foreign Loans   | 277            | 100      |               |          |                           |
| Loan Levies   | 510            |          |               |          |                           |
| Surplus (carried forward from previous year)  | 147            | 96       |               |          |                           |
| Total Financing:  | 3 379          | 3 696    |               |          |                           |
| Balance:  | 296            | 39       |               |          |                           |
| Disposal of 1979-'80 balance:   | 160            |          |               |          |                           |
| Transfer to Special Defence Account   | 136            |          |               |          |                           |
| N.A.A. Account  | 96             |          |               |          |                           |

Source: Budget Speeches, 1980-'81, pp. 19-20.



overall financial implications of the budget are considered.

#### Expenditures

The first part of Table 1 summarises the government's proposed expenditures. These include spending for both current operating expenses and capital outlays, such as the purchase of land, structures and equipment. It also includes capital outlays in the form of lending and the purchase of investments.

The summary usually provides a breakdown between the printed (main) Estimates (tabled in the House) and proposals announced in the budget speech (included in supplementary Estimates). The latter usually highlight aspects of the government's fiscal recommendations, such as last minute adjustments or changes in old age pensions, disability grants and child allowances which require enabling legislation. Most of any proposed new expenditure initiatives would normally be incorporated in the printed Estimates, but the Minister may also draw attention to some of them in the budget speech.

#### Revenues

The second aspect of the government's financial plan involves the collection of taxes and other revenues. Budget receipts are usually classified under two headings: inland Revenue and Customs and Excise, corresponding to the two large revenue collecting departments of the government. The most important sources of revenue are individual and company income taxes, gold mining leases, customs duties, excise duties and the general sales tax. Revenues include loan recoveries. Forecasts of revenues arising from current budget proposals are highlighted - i.e. revenue totals are broken up into: (a) forecasts based on existing tax rates; and (b) the revenue effects of budget proposals.

#### The deficit

The third element in the government's financial plan is the budget deficit or surplus. The size of the deficit or surplus is often used

in South Africa as a basis for a 'Keynesian' analysis of the budget's demand or income expansionary effect. However, the budget's impact on economic activity also depends on the way in which the budget deficit is financed.

#### Financing of the deficit

The final element in the government's financial plan is, therefore, the financing of the deficit. This part of the plan lays out the manner in which the government proposes to finance any excess of expenditures over revenues. A traditional breakdown is between cash balances and borrowing. In the latter the Public Debt Commissioners play a major role.\* Cash balances include transfers from the Stabilization Account.

#### Current year estimates

Table 1 also gives the revised (budget outcome) figures for fiscal year 1979-1980 for purposes of comparison. Current year figures have been provided in the summary budget presentation for purposes of comparison with budget year figures only since 1978. Although comparative figures were provided in 1967<sup>19</sup> when the accounts were presented on a "cash basis" for the first time, this innovation was not repeated in subsequent budgets. As yet, the summary presentation has never included figures for comparative purposes over a longer time span than two years (current year plus prospective year).

#### 4. Time scale of the budget

The estimates of expenditure and revenue cover only one fiscal year, with the latter beginning on the 1 April and ending on the 31 March of the next year. The budget itself is normally identified by the year in which it commences; Table 1, representing the 1980 budget, therefore covers the period 1 April 1980 to 31 March 1981.

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\* See Section 6 below.

The South African government has not yet deviated from the traditional principle of budget annuality; though, some of the effects of longer-term planning is achieved by the practice of paying voted monies into separate funds.\* Neither is there anything in the budget presentation to show the out-year budgetary implications of current budgetary proposals.

5. Fund basis of the budget

Table 1 covers the transactions of the State Revenue Account. Until recently this account was one of two accounts in the State Revenue Fund, which lies at the heart of the central government's entire financial system. The Fund is for all practical purposes equivalent to the Exchequer Account because all monies over which Parliament has powers of appropriation must be paid into the Fund, and all expenditures are made from the Fund.

Until 1980 the State Revenue Fund comprised two separate accounts: the State Revenue Account and the South West Africa account. However, the latter account was abolished on 1 April 1980 so that the former is now identical to the State Revenue Fund.

The State Revenue Fund replaced the former Consolidated Revenue Fund in 1976. The latter (created by Section 17 of the South Africa Act 1909, superceded by Section 98 of the Republic of South Africa Constitution Act No. 32 of 1961) comprised several accounts over its long history. The most important ones - the Revenue Account and a Loan Account - had existed ever since the formation of Union in 1910. In 1955, a new Bantu Education Account was created in the Consolidated Revenue Fund but it was abolished on the 31 March 1972. A South West Africa account was established in the Fund on 1 April 1969. The Franzsen Commission recommended that the distinction between the Revenue Account and the Loan Account be abolished.<sup>20</sup> Legislation was accordingly passed in 1975 in terms of which a new State Revenue Fund was

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\* See Section 6 below.

created to replace the former Consolidated Revenue Fund.<sup>21</sup> The new State Revenue Fund consisted of a State Revenue Account, which replaced the separate Revenue Account and Loan Account, and the South West Africa Account which was retained. As already mentioned, the latter account was abolished at the close of the 1979/80 fiscal year.

Ever since 1965 when the tradition of incorporating the summary (or summaries) of the government's accounts in the printed version of the Budget Speech was started, the practice has been to present the Revenue Account and Loan Accounts alone. After the abolition of the distinction between the Revenue and Loan Accounts in 1976, the practice of excluding the South West Africa account from the printed version was continued. The South West Africa account, and formerly also the Bantu Education account, thus never formed part of the summary presentation in the printed version of the Budget Speech, notwithstanding the fact that estimates of expenditures from these accounts were tabled in Parliament together with the main estimates and that the two smaller accounts were often referred to in the budget speech. Consequently, those interested in the budget as a whole were required to make the necessary consolidation.<sup>22</sup> However, since the combined Revenue Account and Loan Account, and thereafter the State Revenue Account, comprised by far the most important part of the budget, the summary provided in the printed version of the speech has always been accepted as "the budget". In any case, after the abolition of the South West Africa account on 1 April 1980 "the budget" may now be regarded as comprehensive, in this sense. How comprehensive the State Revenue Account and the budget really are of the activities of the central government as a whole, will be considered in the next section.

##### 5. Coverage of the budget

According to R.A. Musgrave and P.B. Musgrave the basic requirements of good budgetting call for: (1) comprehensiveness; (2) a meaningful presentation of the state of balance; and (3) an appropriate grouping of expenditure plans.<sup>23</sup> Other sections to come will deal with the deficit and the classification of transactions. This section,



however, deals with the comprehensiveness of the South African budget.

It is essential that a budget present the full scope of the government's activities. The 1978 budget of the United States of America listed its advantages thus:

*"Comprehensive coverage is necessary to inform the public fully what the government is spending. It contributes to the rational establishment of priorities for allocating economic resources among alternative government programs, because it subjects each program to the discipline of a budget process in which the benefits from additional (or lesser) spending on one program are compared with the benefits of additional (or lesser) spending on all the others. Likewise, comprehensive coverage contributes to establishing priorities in the distribution of total available resources between public and private activities, and it assists in understanding the government's impact on the economy".<sup>24</sup>*

As we have seen, the South African budget traditionally focusses exclusively on the transactions of the State Revenue Fund (formerly the Consolidated Revenue Fund). The adoption of a so-called 'unitary' budget in 1976 has not changed this position. An important question is thus: How comprehensive is the conventional South African budget of the activities and transactions of the central government sector as a whole? The purpose of this section of the study is to analyse the structure of the government's accounts and the budget from this point of view.

It is necessary to distinguish between two broad sub-sectors in the South African central government universe: the budget sector and the extra-budgetary sector. Whilst it is a relatively simple matter to define the budgetary sub-sector, it is much more difficult to demarcate the extra-budgetary sector, especially for budgetary purposes.

#### The budget sub-sector

The budget sub-sector of the central government may be described as all regular government departments and other boards, councils, commissions and agencies whose transactions are itemized in the State



Revenue Fund. Budgetary expenditures and revenues represent the largest part of the central government's transactions; however, it is not the only part, since there is also a substantial volume of off-budget activity.

#### The extra-budgetary sector

That is to say, in addition to the budget sub-sector, the central government includes also a considerable number of separately organised or extra-budgetary bodies and funds, in respect of which independent accounting arrangements exist outside the State Revenue Fund.

The precise scope of this extra-budgetary sub-sector depends on how wide the outer boundary line of the central government is drawn. However, there are many problems. For example, what criteria should be used to decide on the line of demarcation between the central government as a whole, on the one hand, and other sectors, on the other? In the national accounts, for example, the self-governing national states are treated as part of the central government. However, the Provincial Administrations too may be regarded as extensions of the central government and are also subsidized. Yet they are excluded from the central government in the national accounts. The universities again are treated as part of the private sector despite their being heavily subsidized by the State. Also, should the government's pension schemes be treated as part of the central government, or do they belong in the private sector?

It is worth noting also that the public corporations too are traditionally excluded from the budget, except in so far as the government contributes to the capital of the corporations or profits or dividends are paid over to the State Revenue Fund.

This section does not attempt to provide answers to the questions raised above, but uses an institutional framework which has been established in an earlier study<sup>25</sup> to illustrate the budget's lack of comprehensiveness and some of the consequences flowing from it.

Composition of the extra-budgetary sector

The various bodies and funds that exist outside the traditional budget format are a heterogeneous group which differ widely in many respects. They are consequently difficult to classify. From an organisational point of view, however, one might distinguish between two broad groups: (1) special funds; and (2) autonomous institutions and grant-aided bodies, bearing in mind that the distinction between the two groups is not always a clear-cut one.

The so-called special funds are merely separate funds which are managed or operated by permanent government departments, either directly or through departmental boards or commissions. Some of the funds included in this group are well-known ones, such as the National Housing Fund, the National Road Fund, the South African Development Trust Fund and the Unemployment Insurance Fund. Others, such as the Loan Levy Interest Fund and the National Supplies Procurement Fund, are less well-known. The State Oil Fund was established recently. The various governmental pension and provident funds administered by the Department of Social Welfare and Pensions may also be classified as special funds. Some of the special funds are classified as government enterprises in the national accounts.

The autonomous institutions and grant-aided bodies are not generally operated by the permanent government departments themselves, as are the special funds, but by specially constituted boards or councils, usually appointed by the government. The various bodies are financially and administratively separately organised and enjoy a large measure of independence. From the point of view of the essentially governmental functions which they perform as well as their financial dependence on the budget, some of the autonomous institutions are indistinguishable from the special funds, and even from permanent departments, but administratively they usually enjoy a much greater degree of independence from central control.

A large number of grant-aided governmental research institutions, cultural and historical bodies, educational institutions, parks and gardens

and others are included in this group. Some of the most important bodies in this category are the Atomic Energy Board, the Council for Scientific and Industrial Research, the South African Bureau of Standards and the Armaments Board.

Three important central government bodies deserve special mention: the South African Railways, the Post Office and the Public Debt Commissioners. The Railways and Post Office are extra-budgetary in the sense that separate budgets are introduced into Parliament every year for them by, respectively, the Minister of Transport and of Posts and Telecommunications. Despite the fact that there are important direct and indirect links between the central government budget and these subsidiary budgets, the government has never attempted to show the combined effect of the three budgets on the economy.

The Railways and Post Office in turn have their own internal or extra-budgetary funds. The separate funds of the Railways are not very well known, but include *inter alia* the Rates Equalisation Fund, the General Renewals Fund, the Betterment Fund and the Level Crossing Elimination Fund (all part of the Railways and Harbours Fund), as well as the Railways and Harbours Superannuation Funds and the Sick Fund (not part of the Railways and Harbours Fund). In addition, the Post Office Savings Bank and the National Savings Schemes may be regarded as the Post Office's own separate funds.

The Public Debt Commissioners also deserve special mention. This body occupies a unique position in the central government and the public sector as a whole. From a purely financial point of view, the Commissioners perform the role of a state financial intermediary, charged with the investment of public, and in certain instances, private monies. From a budgetary point of view, however, the Commissioners' activities may be regarded as complementary to those of the Treasury with regard to the regulation of the government's overall liquidity and the management of the public debt.

The Commissioners have extra-budgetary control over an enormous pool of



financial resources, and are capable of exercising considerable direct and indirect influence on the flow of liquidity to the public. Yet they operate in the background, outside the State Revenue Fund and are generally given very little coverage in the presentation of the annual budget by the Minister of Finance.

Before concluding this section, it is also necessary to mention the large number of trust and deposit accounts which are operated by the permanent government departments.

Unlike the special funds, which are also administered by permanent departments, the departmental trust and deposits accounts have not been created in connection with the financing of government programs. The monies standing to the credit of the trust and deposit accounts are merely administered by departments on behalf of the true owners. Their expenditures and revenues are not governmental in character. The accounts themselves may be considered governmental only in the sense that the deposit and management facilities provided by the government departments represent a service to the public. Cash surpluses, if any, are mostly channelled to the Public Debt Commissioners, and in this way there is an indirect link between the accounts and the Exchequer. Some of the largest trust and deposit accounts are the Guardian's Fund and the Tribal Levies and Trust Accounts. Some of the monies administered by the Public Debt Commissioners could also be regarded as falling in this category.

To summarise, the extra-budgetary sector might be seen as consisting of:

- (a) Special funds,
- (b) Autonomous central government institutions and grant-aided bodies,
- (c) the Public Debt Commissioners, and
- (d) the Railways and Post Office, together with their respective separate or internal funds.

In addition, some of the permanent departments as well as the Public Debt Commissioners administer a large number of so-called departmental trust and deposit accounts, but these accounts do not form part of the extra-budgetary sector as such.



Budgetary treatment of extra-budgetary bodies and funds

It is a fundamental of the budget that whilst it records all transactions between the State Revenue Fund, on the one hand, and the extra-budgetary bodies and funds (including the Public Debt Commissioners), on the other, the transactions between the various extra-budgetary bodies and funds themselves and the transactions they in turn have with other sectors of the economy are treated as non-budgetary and therefore fall outside the scope of the budget. On the whole, the extra-budgetary bodies and funds themselves or their own transactions receive little or no explicit coverage in the budget.

A degree of financial unity is nevertheless achieved in the government's accounts and the budget through a complex system of internal grants, loans and borrowing via the Public Debt Commissioners. The balance of the present section focusses briefly on this aspect of the government's finances. Because the government's internal fund structure is so highly complex, our exposition of internal cash flows must necessarily be a very simplified one.

The first point that must be noted is that most of the extra-budgetary sector depends on the Exchequer in one way or another. However, this financial dependence varies considerably from fund to fund. Some bodies like the Unemployment Insurance Fund have had important independent sources of tax revenue assigned to them which do not have to pass through the State Revenue Fund. Many of them, however, have only minor or no independent sources of revenue and are financed entirely or almost entirely, from funds voted to them each year from the budget. In at least one case extensive use of Reserve Bank credit is made.

The Railways and Post Office are also dependent on the Exchequer for the financing of at least a part of their own capital expenditures. These organisations in turn make annual budgetary contributions to their own separate funds. They can also borrow locally and overseas.

A second point is that, unlike the regular government departments, whose own expenditures are subject to the usual parliamentary and

Treasury controls, and who must, therefore, surrender to the Exchequer any unspent voted monies at the close of the financial year, the extra-budgetary funds and bodies of the various kinds do not generally surrender unspent voted monies or other current surpluses. Such funds are, therefore, available for future use and are carried forward from one year to another until needed.

This has led to the establishment of secondary or indirect links with the Exchequer via the Public Debt Commissioners. In other words, with a few exceptions, all unspent surpluses which accrue outside the State Revenue Fund, and are in excess of the day to day requirements of the various bodies and funds in the extra-budgetary sector, are placed with the Public Debt Commissioners for investment in government and other public sector securities. Effectively, this means that cash flows to the Public Debt Commissioners from internal sources become available to the Treasury in the form of a pool which can be drawn upon in order to finance at least a part of any current deficit in the annual budget. In fact, the financing of budget deficits from internal or extra-budgetary sources in the form of annual contributions from the Public Debt Commissioners has over the years become an important factor in the budgetary process, and the Public Debt Commissioners are currently a major holder of public debt.

A third important point is that the flow of unspent extra-budgetary monies to the Exchequer via the Public Debt Commissioners is not necessarily an uninterrupted or perfect one. On the contrary, there may be several leakages from or injections into this flow. For example, cash balances may be accumulated outside the Exchequer, most often in the accounts of the Public Debt Commissioners, and may be run down when needed to finance expenditures. The Public Debt Commissioners may also invest in other public sector securities, or may engage in substantial open market dealings in government securities. As we have seen, the amounts standing to the credit of the departmental trust and deposit accounts likewise affect the amounts available to the Public Debt Commissioners for subscriptions to government securities. Until recently, the monies raised by the Post Office through the Post Office Savings

Bank and the National Savings Schemes also passed through the Public Debt Commissioners' hands on its way to the Exchequer. As a result, the Public Debt Commissioners' contribution to the financing of the budget would normally reflect the combined outcome of a mix of extra-budgetary expenditures, revenues and financial and cash transactions which could not possibly be unravelled *ex ante*, and could only be unravelled months after year-end by the most highly skilled interpreters of the government's accounts.

#### Budgetary distortions

Anyone trying to determine from budgetary data precisely how much the central government proposes to spend, lend, collect in taxes or borrow in the forthcoming year would face insurmountable problems. There are several reasons for this. For one, as we have seen, budgetary expenditures and revenues include some State Revenue Fund items which are purely internal to the central government sector and do not necessarily reflect flows of cash to the other sectors of the economy. At the same time, the budget omits certain central government activities which are external to, or one stage removed from, the State Revenue Fund. As a result, budgetary aggregates (see Table 1) are unlikely to reflect the true levels and scope of the central government's proposed spending, revenues and deficit.

Proposed spending on individual programs funded through separate funds too might be overstated or understated as when budgetary payments are held in check at a time when spending from the corresponding accounts is stepped up, or vice versa.

Besides, the existence of extra-budgetary funds into which funds can be channelled for future use could provide scope for fiscal window-dressing.

Further, experience has shown that the Public Debt Commissioners' contribution towards budget financing is not only highly variable, but almost impossible to predict, given the present format of the budgetary accounts. Apart from the fact that this unpredictability would almost certainly impart an unwelcome degree of uncertainty to the government's



budgeting and cash management, the value of the budget as an instrument of public scrutiny of government actions is reduced accordingly.

The distorting effect of the government's extra-budgetary transaction on the presentation of budget financing is particularly important. The accumulation of cash balances outside the scope of the State Revenue Fund, the Public Debt Commissioners' operations in government securities in the open market and other borrowing outside the budgetary accounts, all have the effect of rendering the central government budget an unreliable indicator of the government's anticipated influence on monetary or credit conditions. See also Section 11 below.

#### 7. Expenditures

A second budget requirement listed by R.A. Musgrave and P.B. Musgrave is an appropriate grouping of expenditure plans.\* In other words, whilst comprehensiveness of the budgetary accounts is essential if the budget is to give a true reflection of the government's activities, Parliament, the press and the general public expect the budget document also to present the budgetary material in a meaningful manner. The arrangement of budgetary transactions into appropriate groupings is therefore an important aspect of budget presentation. This section gives special emphasis to the classification of budgetary expenditures into economic and functional categories.

The budget summary is customarily supplemented by several more detailed classifications of expenditures. Three broad types of groupings are currently furnished in the budget documents - i.e., by departmental vote, functional categories and economic type.

The classification of expenditures by departmental vote is given in the printed Estimate of Expenditures.<sup>26</sup> Though the form of the latter is most useful for purposes of parliamentary and Treasury control, it is

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\* See Page 18.



not usually considered ideally suited for purposes of economic analysis or as an aid in understanding the government's longer-term objectives with regard to the allocation of resources and the distribution of income. The budget speech nevertheless often uses the departmental classification by drawing attention to individual votes to emphasize some functional area of the government's activity. However, the printed version of the Budget Speech does not give a summary of all the votes, this being only provided in the printed Estimate of Expenditure<sup>27</sup> itself. It is therefore difficult to get an overall picture of proposed government spending without also referring to the latter.

Since 1966 the Statistical/Economic Review has given a detailed two-way functional and economic classification of proposed government spending.<sup>28</sup> The classifications are compiled on the basis of recognised statistical and national accounting principles, and the relevant tables usually also incorporate comparative figures for the previous year.

The purpose of this type of classification is to highlight major changes over time in the structure of the government's expenditures, both from a short-term stabilization point of view, and the longer-term allocation of resources in the economy.

The shortcomings of the classifications in the Review centre around two presentational aspects. First, the classification lacks comparability with the figures of Table 1. There are several reasons for this: (1) the economic/functional classification only covers the printed Estimate of Expenditure, so expenditure increases or decreases that are announced in the budget speech itself are not incorporated; (2) until the year 1977/78 the economic/functional classification used to cover the expenditures from the South West Africa Account. It also covered expenditures from the Bantu Education Account until 1971/72. As already indicated, these accounts had never formed part of the summary presentation in the printed version of the Budget Speech; (3) since 1977 the classification given in the Statistical/Economic Review has included Standing Appropriations from revenue (they were excluded from 1966-1976). In contrast, the summary presentation has always and still does exclude the Standing Appropriations; (4) other adjustments of a statistical

nature are required to work from Table 1 to the economic/functional classification; (5) another source of confusion was incorporated in the 1980/81 economic/functional classification. The latter namely incorporates the expected balance in the Special Defence Account on 31 March 1980. In contrast, Table 1 covers the transactions of the State Revenue Account (Fund) alone and thus excludes any extra-budgetary defence spending.

It is worth noting also that, as a result of differences in definitions and coverage, there is no apparent relation between the economic classification of expenditures currently given in the Estimate of Expenditure (see Section 1 above), on the one hand, and in the Statistical/Economic Review, on the other.

A second presentational aspect of the classification given in the Review which is worth mentioning is that it is hidden in a thoroughly unreadable and unimaginative pull-out table right at the back of the Review. Moreover, it is a fact that neither this table nor anything else contained in the Review is ever thought important enough to deserve mention in the budget speech itself. Further, none of the usual aids is used to highlight structural aspects of the government's spending plans, such as diagrams, charts and graphs. As a result, the classification provided in the Review currently contributes little to the overall fiscal picture provided by the budget or to the public's understanding of the government's role and functions in the economy.

#### 8. Revenues

The budget summary (table 1) usually supplies a breakdown of budgetary receipts into: (1) Inland Revenue; and (2) Customs and Excise. Furthermore, a distinction is customarily made between: (a) forecasts based on existing tax rates or charges; and (b) the revenue effect of proposals that are announced in the budget speech itself. As already indicated, revised estimates of current year revenues are also provided for purposes of comparison.

It must be noted that the revenue figures of Table 1 are net of: (a) amounts collected and paid over to the South West Africa Account (now the Central Revenue Fund); (b) amounts collected and paid over to the respective governments in terms of Customs Union Agreements with neighbouring countries; and (c) Standing Appropriations from State Revenue Account. On the other hand, the revenue figures of Table 1 include both loan recoveries and some commercial revenues.

Another point worth making is that some confusion might possibly arise regarding the economic nature of the government's revenues, especially if Inland Revenues become associated in the mind of the budget user with income taxes or direct taxation and Customs and Excise with commodity based taxation or indirect taxes. In reality, the division of revenues into Inland Revenue and Customs and Excise is a purely administrative arrangement concerning the division of responsibilities for the collection of the different types of revenues. It therefore has nothing to do with the traditional distinction between direct and indirect taxes, which point is illustrated by the fact that the collection of the General Sales Tax (an indirect tax) has been assigned to the Inland Revenue Department.

The comparative tables of revenue (subjoined in the printed version of the Budget Speech) classify revenues by collecting departments and by sources. Further details furnished in the tables include:

- (1) Current year: original (printed) estimates and revised estimates;
- (2) Prospective year: estimates on the basis of existing tax rates.

A presentational aspect worth mentioning is that the direct comparability of the comparative tables of revenue with the figures of Table 1 is affected by the fact that the comparative tables include loan levies whereas the levies are treated as a budget financing item in Table 1.

The Estimate of Revenue classifies revenues according to: (1) collecting departments; and (2) revenue sources. In addition, the broad classes of revenue are grouped by broad economic types of



receipt - i.e. direct taxes, indirect taxes, repayment of loans and other sources. Apart from the latter grouping the budget papers have never supplied an economic classification of revenues. In any case, nothing of the kind is provided for easy reference in the printed version of the Budget Speech.

It must further be noted that apart from the several tabulations mentioned in this section, there is also on the revenue side a complete absence of the usual aids to highlight or clarify aspects of the government's revenues, such as diagrams, charts, graphs, etc. Consequently, anyone interested in, for example, the percentage or proportion of total revenues derived from a particular type of tax or in movements in these proportions over time, must do such calculations for himself.

A final point concerns the usefulness of the revenue figures for purposes of fiscal analysis. The various budgetary documents which supply revenue figures - the summary budget presentation, the accompanying comparative tables of revenues and the Estimate of Revenues - give the following details:

- (a) Original estimates of revenue for the current year;
- (b) Revised estimates of revenue for current year;
- (c) Estimates of revenue for the coming year on the basis of existing tax rates;
- (d) Revenue effects of tax proposals; and
- (e) Estimates of revenue for the coming year.

Although it is not stated explicitly in the budget papers, the revenues calculated on the basis of existing tax rates (refer (c) above) presumably remove from the forecast the direct effect of the tax proposals, but not the indirect effect of changes in the level of economic activity and prices resulting from the budget measures. If our presumption is correct, it follows that (c), (d) and (e) above are all calculated on the basis of the same (post-budget) level of income. In that case, a useful way of interpreting these figures would be to consider the difference between (b) and (c) as an approximate indicator of the automatic effect of changes in the economy on



tax revenues, and (d) (the difference between (c) and (e)) as an indicator of the discretionary policy changes on the revenue side of the budget.

9. Government loans

Another aspect of budgetary classification is the division of outlays into loans and other expenditures.

Governments often perform the function of suppliers of credit. In many countries the importance of this particular function has grown considerably in recent years. As a result, a distinction is often drawn in the budgetary accounts between loans and other outlays.

The budgetary exposure of loan transactions is important for several reasons. First, loans are not considered to have the same impact on spending as government purchases of goods and services. Second, to the extent that government credit is provided to a borrower in another sector at a cost which is lower than what is otherwise available in the market, there is a subsidy element in the loan. Third, the government's participation in the credit market is an important determinant of financial conditions in the economy. Fourth, because of the traditional asymmetrical budgetary treatment of government borrowing and lending, government financial intermediation becomes one of the determinants of the size of the budget deficit. For example, an extension of the government's role as a financial intermediary will have the effect of increasing the deficit (before borrowing), and vice versa. Knowing the scope of government lending would therefore help to explain movements in the government's borrowing requirement and could be a significant presentational aid. This latter aspect is of particular interest in a country like South Africa where there is currently no budget balancing rule, and fiscal policy in practice regularly produces an open-ended deficit.

This section considers the budgetary treatment of loans in South Africa.

The South African government and its various agencies are suppliers of credit to a wide spectrum of governmental authorities and private institutions and persons in agriculture, housing, industrial development and other fields. Some of this credit is provided through public corporations, such as the Land Bank and the Industrial Development Corporation, which are both traditionally considered extra-budgetary outside the central government. These corporations have recourse to local and overseas capital markets, but may also be allocated funds from the budget.

Credit is also provided through the medium of some of the central government's own extra-budgetary funds, such as the National Housing Fund, the Local Loans Fund and the Economic Co-operation Promotion Loan Fund, which are dependent on the budget for their capital resources. Credit is also provided through departmental votes. In addition, the Treasury channels considerable sums of loan money to the Provincial Administrations, Public Corporations, the South African Railways, the separate national authorities and others. These latter sums are therefore merely channelled through the Exchequer to other parts of the public sector who are the true borrowers but do not themselves enter the capital market in their own right.

It may, in conclusion, also be mentioned that the Public Debt Commissioners too are important investors in the securities of public corporations and municipalities.

Relatively little of the foregoing is exposed in the South African budget. Because of the budget's focus on the State Revenue Account alone, coverage of the government's loan transactions will be limited to those loans which are channelled through the Exchequer. However, the proposed loans from the latter are buried in the Estimate of Expenditure and it is therefore difficult to get an overall picture of the government's loan activities, especially since the summary budget presentation (Table 1) also draws no distinction between loans and other outlays.

On the expenditure side, the economic/functional classification in the

Statistical/Economic Review groups loans and other credit under the following heads:<sup>29</sup>

Purchase of shares in and granting of loans  
Transfers and loans to other general government institutions and funds

However, because transfers and loans are lumped together it is not possible to ascertain from this classification what amount of loans the government proposes to make from the budget.

On the revenue side, loan recoveries are treated as Inland Revenue and are presented in broad categories in both the Comparative figures of revenue<sup>30</sup> and the Estimate of Revenue<sup>31</sup>. However, there is no convenient way of linking this information up with the amounts and destinations of loans on the expenditure side of the budget to get an idea of the net figures involved.

The general conclusion emerging from the discussion of this section is therefore that the budget, as currently presented, gives inadequate exposure to the government's role as a financial intermediary. In particular, the amounts and destinations of the credit to be granted in the coming year from the budget to other sectors is not given in a convenient form but must, if need be, be researched from the Estimate of Expenditure. Further, because of the budget's lack of coverage, there is no way to ascertain from budgetary data how much credit the central government as a whole proposes to grant to other sectors of the economy. Lastly, the present presentation omits any explicit reference to the role of government lending as a determinant of the government's financial deficit.

10. The budget deficit

As we have seen, Musgrave and Musgrave's third requirement of good budgeting is a meaningful presentation of the state of balance in the budget.\* The budget embodies the government's fiscal policy recommendations; it is therefore desirable that it should include a mean-

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\* See Page 18.

ingful presentation of the economic impact of the budget and understandable descriptions of the government's fiscal recommendations. The present section deals with this latter aspect of the South African budget, with special reference to the presentation of the budget deficit. Section 11 below considers the financing of the deficit.

The format of the summary budget presentation (see Table 1) gives the traditional framework to analyse the approximate overall income creating effect of the budget in accordance with the formula: Expenditure - Revenues = Deficit. Because it is difficult to judge whether a particular absolute level of budget totals is by itself expansionary, restrictive or neutral, but it is generally possible to say that an increase in a budget deficit is expansionary, that a decrease in the surplus is expansionary, that an increase in the surplus is restrictive, and that a decrease in the deficit is restrictive, current year estimates of the aforementioned formula are also provided in Table 1 for purposes of comparison.

However, the use that can be made of this admittedly crude framework for fiscal analysis as a presentational aid, is subject to an important qualification on account of the budget's lack of coverage. It is worth reiterating the point made earlier (see Section 6 above) that the budget, as currently presented, is not comprehensive of all the expenditures and revenues of the central government. As we have seen, budgetary outlays and revenues include some transactions which are purely internal to the central government. Some other central government transactions again are excluded from the budget because they are external to the State Revenue Fund. For this reason, the figures of Table 1 could be misleading. They are certainly unlikely to reflect accurately the movements in the central government's total expenditures, total revenues and the net deficit. More particularly, the possibility of discrepancies between movements in the budgetary deficit and in the corresponding movements in the true central government deficit must rule out the use of the former as a reliable fiscal indicator, especially if the observable year-to-year variations in the budget deficit are relatively small.



Attempts to overcome the problems created by the budget's lack of coverage by making crude adjustments to budget totals in order to take account of extra-budgetary cash flows through the accounts of the Public Debt Commissioners would prove to be unhelpful. The reason is that the mix of extra-budgetary transactions is so complex that little meaning can be read into the budget deficit net of the Public Debt Commissioners' subscriptions, even if the problem of the latter's unpredictability could be overcome. The result would reflect neither the central government's overall deficit nor the central government's overall cash shortfall which must be financed by borrowing from the public.

There is the further criticism that, apart from a useful breakdown of revenues referred to in Section 8 above (Page 31), there is no explicit treatment in the budget of automatic versus discretionary fiscal action or of the appropriateness of the budget proposals in terms of the goals of the economy. As yet the government has not yet adopted a full-employment budget concept, which would be more suited for the above purposes than the traditional framework, even if used only as a purely presentational aid. On the whole, the budget format gives inadequate coverage to policy changes and proposals for discretionary increases or decreases in spending and fails to highlight the government's policy initiatives.

#### 11. Budget financing

Budget financing focusses on: (1) the extent to which a government must either draw on its own cash resources or increase the public debt (an accounting aspect); and (2) the implications of the government's spending plans for financial markets (a policy aspect). This section deals with the format and interpretation of the financing section of the South African budget.

The government's plan for the financing of the 1980/81 budget deficit is set out in the lower part of Table 1. Budget financing often features prominently in the budget speech too, although it does not

of course form part of the budget (narrowly defined), which is presented to Parliament for formal approval.

The summary presentation customarily draws a distinction between the Net Deficit (before borrowing) and the Financing Requirement. However, a qualification must be noted: both redemptions and the financing requirement are usually understated to some extent because of the way in which the Public Debt Commissioners' contribution to budget financing is recorded. This point can be illustrated with reference to Table 1. The table shows that an amount of R1 650 million was expected from the Public Debt Commissioners in 1980-81. At first glance this figure might seem to refer to the Commissioners' gross subscriptions. In fact, the figure refers to subscriptions net of stock offered for redemption by the Commissioners.<sup>32</sup> It follows that both redemptions (R1 430 million) and the Financing Requirement (R3 657 million) are understated by the amount of stock that the Public Commissioners were expected to offer for redemption in the budget year.

The financing section complements the upper half of Table 1 to show the budget's total effect on the economy. However, in this respect too some qualifications must be noted.<sup>33</sup> First, much of the details of the plan are provisional and highly tentative, for several reasons. For one, since fluctuations in domestic and international money and capital market conditions may have a significant effect on the government's debt policies, the financing of any given deficit or of maturing debt may be quite different from that envisaged in the budget. Moreover, the total amount eventually obtained from internal or extra-budgetary sources via the Public Debt Commissioners may differ substantially from the figures envisaged in the budget, and this means that there could be a considerable amount of uncertainty with regard to the amounts that must be borrowed from other sources. Lastly, since the financing section contributes to the total fiscal picture projected by the budget, the tentative nature of the information provided in it could tempt a Finance Minister to engage in a bit of window dressing for the sake of a better overall picture.

Second, the lower part of Table 1 lacks sufficient detail to determine

the central government's effect on the money supply and monetary conditions. Borrowing from the banking sector, as opposed to borrowing from the private non-bank sector, is a major determinant of the budget's effect on financial conditions. However, the budget does not, and could not, provide enough detail to ascertain the Treasury's proposed reliance on the banking sector for short-term accommodation. In addition, it is difficult to predict the scope of the Public Debt Commissioners' own debt transactions or the amount of money that could be obtained from the latter in a non-inflationary way. For these reasons the financing section of Table 1 could be highly misleading if it is used as an indicator of the budget's effect on the money supply and financial conditions.

Another point is that the manner in which the financing section of the South African budget is currently set out has probably contributed to a tendency in this country to view the financing of the deficit as solely the concern of fiscal policy, and therefore as an exogenous factor as regards monetary policy. However, the mix of financing techniques depends on many factors related to the day to day finances of the Exchequer. Although one of these factors is the size of the revenue shortfall which has to be financed in one way or another, there are other factors of monetary concern which are perhaps equally important, including the state of the local and overseas money and capital markets, exchange rates, the management of the public debt and the monetary objectives of the authorities. In the final analysis, the question of how the deficit is financed is a function of both broad fiscal and monetary policy, including exchange rate policy. However, the practice currently followed in South Africa is to publish a detailed outline of how the proposed budget deficit is to be financed at a point in time when essentially only one factor affecting the latter is known, namely the government's proposed revenue shortfall. This must encourage the idea that the budget can be viewed in isolation from other instruments.

Finally, the manner in which the lower part of Table 1 is set out is symptomatic of the government's conventional approach to the presentation of the budget, often at the cost of obscuring the true fiscal



picture. The budget is namely presented to Parliament in essentially accounting terms. On reading the South African budget speeches, one is especially struck by the fact that they still present a picture of a Minister engaged in the exercise of balancing a set of books. For example, there are customarily frequent references in the speech to the government's accounts. Also, as we have seen, a summary of the government's accounts actually furnish the legislative, press and public with the only summary presentation of the budget aggregates.

The stress laid on the budget's accounting framework could have a significant effect on the picture that is conveyed to the user. The point can be illustrated by reference to the data given under the heading Balance in Table 1. This section indicated the manner in which fiscal year 1979/80's surplus of R296 million in the State Revenue Account was disposed of, namely, R96 million to finance the coming year's deficit, a R40 million transfer to the South West Africa Account, and a R160 million transfer to the Special Defence Account. The latter amount presumably disappeared from the face of the earth, at least as far as Table 1 was concerned. In reality, if the amount transferred to the Special Defence Account was planned to be spent in 1980/81, it would have been much more appropriate, in the interest of budget accuracy, to include this amount in the 1980/81 Estimates of Expenditure (main or supplementary) in the upper half of Table 1, and to enter its financing under the head "use of surplus of previous year" in the lower part of the table. On the other hand, if it was anticipated that the sum of R160 million would be placed with the Public Debt Commissioners for use in future years, the procedure of transferring the sum to the Special Defence Account anyway had, other things remaining equal, the effect of channelling the money to the Exchequer through the back door to reduce the need for non-Public Debt Commissioners sources of finance. Either way, the presentation's emphasis on the budget's accounting basis had the effect of distorting the size of the deficit and/or its financing in fiscal 1980/81.



PART 3

Notes on the Budgets of Selected Countries

A. The United States of America

1. Budget documents

By law the United States President's budget for the forthcoming fiscal year is required to be transmitted to Congress annually within 15 days after the start of each new session in January.

The budget document customarily comprises several parts. The 1979 budget\* was published in the following four parts: (1) The Budget of the United States Government, 1979. This is the basic budget document. In 1979 it comprised over 400 pages. It features discussions on numerous aspects of the budget and incorporates the text of the President's budget message. This document also contains a description of the United States budgetary system, including descriptions and definitions of budgetary concepts used; (2) The Budget of the United States Government, 1979 - Appendix. This document usually comprises well over 1 000 pages. It contains detailed information on the various appropriations and funds that comprise the budget. The Appendix is the most detailed of all the budget documents; (3) Special Analyses, Budget of the United States Government, 1979. These analyses are designed to highlight specific aspects of the budget. In 1979 altogether 16 different issues were covered; (4) The United States Budget in Brief, 1979. This is a condensation of the budget designed for the layman.

2. Competing budget concepts

Before 1969 several competing budget concepts featured in the United States budget presentation, namely: the administrative budget, the

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\* The federal budget is traditionally identified by the year in which the fiscal year ends. Thus the 1979 budget, which was presented to Congress in January 1978, ran from 1 October 1978 to 30 September 1979.

consolidated cash budget and the national income accounts budget.<sup>34</sup>

Whilst the three competing presentations provided a vast amount of information needed for the purpose of budget interpretation and analysis, it also made for a great deal of confusion on the part of the public and the media on account of what often seemed to be conflicting data.

#### Administrative budget

The administrative budget included the receipt and expenditure of so-called federally-owned funds, but excluded trust fund receipts and payments for which the federal government acts technically only as trustee. An important shortcoming of the administrative budget was therefore that it lacked comprehensiveness.

#### Consolidated cash budget

In contrast, the consolidated cash budget was a measure of all cash transactions between the federal government and the public. It was "consolidated" in the sense that it included both "federal funds" and "trust funds", and was "cash" in the sense that all receipts and payments were on a cheque paid basis compared to the cheques issued basis of the administrative budget. Consequently, the consolidated cash budget had the merit of being more comprehensive than the administrative budget, and since all intra-governmental transactions were eliminated from budget totals, it showed only cash transactions between the government and the public.

#### National income accounts budget

The national income accounts budget (the federal sector in the national income accounts) was used in the United States as a measure of the government's fiscal impact on the economy. The concept's most important features were that all receipts (taxes) and certain types of expenditures were on an accrual basis, and that all federal lending was excluded. The latter was excluded on the ground that the effect

on the economy of government loans is not the same as the effect of expenditures on goods and services: whilst loans to the private sector increase the purchasing power of the public, there is an equal increase in the latter's liability to the government.

3. President's commission on budget concepts

In March 1967, President Lyndon Johnson appointed a commission of experts to make a thorough study of the United States budget and the manner in which it was presented to the United States Congress and the public. The decision to appoint a commission climaxed many years of discussion and criticism about the inadequacy of the federal budget and the best way of reporting the activities of the federal government. The criticism grew primarily because of the use of the aforementioned competing budget concepts and the accounting treatment of individual items or groups of items in these concepts.

In its report of October 1967<sup>35</sup> the commission recommended the adoption of a unified budget concept, designed to: "reduce confusion but at the same time provide the necessary information for decisions on fiscal policy that affect the level of economic activity and for decisions on the allocation of resources among federal government programs".<sup>36</sup> The commission argued that the growth which had taken place in trust fund activities, in absolute terms as well as relative to total federal government receipts and expenditures, had rendered the traditional administrative budget much less significant than before. The current deficits/surpluses of the various trust funds had therefore to be considered "in calculating the effect of federal government activities on the level of income and employment, in managing Treasury cash balances, in deciding on Treasury cash borrowing needs, and in program evaluation".<sup>37</sup>

The commission regarded the administrative budget deficit/surplus as "a misleading guide for measuring the fiscal impact of the budget on the economy".<sup>38</sup> In fact, it recommended that: "the President's budget presentation give no attention to a surplus or deficit calculated on the basis of the administrative budget".<sup>39</sup> In view of the limited

coverage of the administrative budget, the commission found that the latter "does not portray or price out the President's full program, nor does the administrative budget alone accurately measure congressional action on the President's requests".<sup>40</sup>

The following is a summary of the commission's major recommendations:

- (1) That a unified budget statement, with complementary rather than competing concepts, be adopted to replace the former concepts.
- (2) That the budget be given broad coverage to include all activities of the federal government, including trust funds.
- (3) That a breakdown of total government outlays between loans and other expenditures be made within the unified budget.
- (4) That receipts which are enterprise or market-oriented be netted, i.e. treated as off-sets to expenditures to which they relate.
- (5) That the budget include a "means of financing" section utilizing a debt concept which emphasizes net federal borrowing from the public.
- (6) That both receipts and expenditures be reported on an accrual basis instead of a cash basis.<sup>41</sup>

#### 4. Unified budget concept

The recommendations of the commission were substantially adopted by the United States government, and incorporated in the official format of the budget presented to Congress in January 1968 (fiscal year 1969). The fiscal 1969 summary budget presentation is reproduced in Table A1.

In emphasizing the four major sub-divisions of the budget the recommended format tied together more closely the thread that runs from (1) budget appropriations to (2) receipts, expenditures and net lending, to (3) the means of financing the budget deficit (or use of the surplus), and finally to (4) outstanding federal securities and loans.

In sharp contrast with the earlier concepts, the new budget did not concentrate on a single number (deficit/or surplus) but provided a



Table A1.

SUMMARY OF THE BUDGET AND FINANCIAL PLAN  
 [Fiscal years. In billions]

| Description  | 1967<br>actual          | 1968<br>estimate | 1969<br>estimate |
|--|-------------------------|------------------|------------------|
| <b>Budget authority (largely appropriations):</b>  |                         |                  |                  |
| Previously enacted.....  | \$135.4                 | \$125.1          | -----            |
| Proposed for current action by Congress.....   | -----                   | 3.3              | \$141.5          |
| Becoming available without current action by Congress.....                               | 58.7                    | 69.9             | 73.1             |
| Deductions for interfund and intragovernmental transactions and applicable receipts..... | -11.5                   | -11.8            | -12.9            |
| <b>Total, budget authority.....</b>  | <b>182.6</b>            | <b>186.5</b>     | <b>201.7</b>     |
| <b>Receipts, expenditures, and net lending:</b>  |                         |                  |                  |
| <b>Expenditure account:</b>  |                         |                  |                  |
| Receipts.....  | 149.6                   | 155.8            | 178.1            |
| Expenditures (excludes net lending).....   | 153.2                   | 169.9            | 182.8            |
| <b>Expenditure deficit (-).....</b>  | <b>-3.6</b>             | <b>-14.0</b>     | <b>-4.7</b>      |
| <b>Loan account:</b>   |                         |                  |                  |
| Loan disbursements.....  | 17.8                    | 20.9             | 20.4             |
| Loan repayments.....   | -12.6                   | -15.1            | -17.1            |
| <b>Net lending.....</b>  | <b>5.2</b>              | <b>5.8</b>       | <b>3.3</b>       |
| <b>Total budget:</b>   |                         |                  |                  |
| Receipts.....  | 149.6                   | 155.8            | 178.1            |
| Outlays (expenditures and net lending).....  | 158.4                   | 175.6            | 186.1            |
| <b>Budget deficit (-).....</b>   | <b>-8.8</b>             | <b>-19.8</b>     | <b>-8.0</b>      |
| <b>Budget financing:</b>   |                         |                  |                  |
| Borrowing from the public.....   | 3.6                     | 20.8             | 8.0              |
| Reduction of cash balances, etc.....   | 5.3                     | -1.0             | *                |
| <b>Total, budget financing.....</b>  | <b>8.8</b>              | <b>19.8</b>      | <b>8.0</b>       |
| <b>Outstanding debt, end of year:</b>  |                         |                  |                  |
| Gross amount outstanding.....  | 1966<br>actual<br>329.5 | 341.3            | 370.0            |
| Held by the public.....  | 265.6                   | 269.2            | 290.0            |
|  |                         |                  | 298.0            |

\*Less than \$50 million.

Source: The Budget of the United States Government, 1969, p. 10.

unified set of summary data on appropriations, spending, receipts and the means of financing the deficit.<sup>42</sup>

5. Off-budget federal activity

A substantial volume of off-budget federal activity has emerged since the introduction of the unified budget in fiscal 1969. The off-budget entities are federally-owned and controlled, but their transactions have been excluded from the budget totals under provisions of law.

The Export-Import Bank was the first federal entity excluded from the unified budget in 1971. Since then further departures from the unified budget have occurred. The Postal Service Fund, Rural Telephone Bank, Rural Electrification and Telephone Revolving Fund and the Housing for the Elderly and Handicapped Fund were actually removed from the budget. The Environmental Financing Authority Fund, the Federal Financing Bank, the United States Railway Association, and the Pension Benefit Guaranty Corporation were established off-budget. The Exchange Stabilisation Fund, formerly a deposit fund, was reclassified as an off-budget fund.

Except for the Postal Service Fund and one or two other funds, the excluded outlays of the off-budget federal entities are incurred for carrying out loan programs and are similar to the direct loan programs of the budget.

6. Off-budget transactions in the United States budget presentation

The fiscal activities of the off-budget entities are not reflected in United States budget outlays/receipts. However, the federal government's off-budget transactions feature prominently in the budget as currently presented. To illustrate this the 1979 United States budget summary is reproduced in Table A2.

Table A2.

Table 1. BUDGET SUMMARY (in millions of dollars)

| Description   | 1977<br>actual | 1978<br>estimate | 1979<br>estimate |
|---|----------------|------------------|------------------|
| <b>Budget authority (largely appropriations):</b>           |                |                  |                  |
| Available through current action by Congress:               |                |                  |                  |
| Enacted and pending.....                                    | 317,620        | 319,333          | .....            |
| Proposed in this budget.....                                | .....          | 6,815            | 343,552          |
| To be requested separately.....                             | -120           | 1,229            | 23,377           |
| Available without current action by Congress.....           | 206,925        | 235,337          | 264,822          |
| Deductions for offsetting receipts <sup>1</sup> .....       | -59,194        | -59,807          | -63,579          |
| <b>Total budget authority.....</b>                          | <b>465,231</b> | <b>502,907</b>   | <b>568,172</b>   |
| Budget authority, off-budget Federal entities.....          | (9,951)        | (14,064)         | (16,087)         |
| Budget authority including off-budget Federal entities..... | (475,182)      | (516,971)        | (584,258)        |
| <b>Receipts, outlays, and surplus or deficit:</b>           |                |                  |                  |
| <b>Receipts:</b>  |                |                  |                  |
| Total budget receipts <sup>2</sup> .....                    | 356,861        | 400,387          | 439,588          |
| <b>Outlays:</b>   |                |                  |                  |
| Total budget outlays <sup>3</sup> .....                     | 401,902        | 462,234          | 500,174          |
| Outlays, off-budget Federal entities.....                   | (8,693)        | (11,514)         | (12,538)         |
| Outlays, including off-budget entities.....                 | (410,594)      | (473,748)        | (512,712)        |
| <b>Surplus or deficit (-):</b>                              |                |                  |                  |
| Total budget deficit (-).....                               | -45,040        | -61,847          | -60,586          |
| Deficit, off-budget Federal entities.....                   | (-8,693)       | (-11,514)        | (-12,538)        |
| Total deficit (-).....                                      | (-53,733)      | (-73,361)        | (-73,124)        |
| <b>Outstanding debt, end of period:</b>                     |                |                  |                  |
| Gross Federal debt.....                                     | 646,379        | 709,138          | 785,583          |
| Held by:  |                |                  |                  |
| Government agencies.....                                    | 148,052        | 157,295          | 167,740          |
| The public.....   | 498,327        | 551,843          | 617,843          |
| Federal Reserve System.....                                 | 96,702         | 105,004          | .....            |
| Others.....   | 401,625        | 446,839          | .....            |
| <b>MEMORANDUM</b>   |                |                  |                  |
| <b>Outstanding loans, end of year:</b>                      |                |                  |                  |
| Direct loans—on-budget accounts.....                        | 65,610         | 68,160           | 76,091           |
| Direct loans—off-budget accounts.....                       | 23,750         | 32,733           | 43,882           |
| Guaranteed and insured loans <sup>4</sup> .....             | 169,873        | 183,924          | 200,385          |
| Government-sponsored enterprise loans <sup>5</sup> .....    | 87,895         | 98,928           | 115,237          |

<sup>1</sup> These consist of intragovernmental transactions and proprietary receipts from the public.  
<sup>2</sup> The amounts of earned income credit in excess of tax liabilities are now shown as negative budget receipts rather than as budget outlays. Accordingly, the 1977 budget totals have been adjusted retroactively. These adjustments decrease budget receipts and outlays by \$901 million in 1977; \$947 million in 1978; and \$900 million in 1979.  
<sup>3</sup> The transactions of the housing for the elderly or handicapped fund, formerly excluded from the budget by law as of Sept. 1, 1974, are included in the budget totals in accordance with Public Law 95-119. Accordingly, the budget totals for 1975-77 have been adjusted retroactively. These adjustments change budget outlays by -\$13 million in 1975; -\$15 million in 1976; -\$3 million in the TQ; \$5 million in 1977; \$335 million in 1978; and \$713 million in 1979.  
<sup>4</sup> Excludes loans held by Government accounts and sponsored credit enterprises.  
<sup>5</sup> Net of lending between Government-sponsored enterprises or between such enterprises and Federal agencies; excludes Federal Reserve banks.

Source: The Budget of the United States Government, 1979, p. 427.

The table shows that the net outlays of the off-budget entities are added to the unified budget deficit to make up the total federal government deficit that has to be financed by borrowing from the public or by other means. The budget usually also includes an explanatory section on "Fiscal Activities outside the Budget" covering not only the off-budget federal entities, but also the activities of the so-called privately-owned government sponsored enterprises and guaranteed loans.<sup>43</sup> In addition, financial statements for the off-budget federal entities are published in the Appendix.<sup>44</sup>

Congress has on several occasions expressed concern about off-budget outlays, and since 1976 the trend to create new off-budget entities has been reversed. The Export-Import Bank was returned to the budget in 1976, and the Housing for the Elderly and Handicapped Fund in 1977.

In his January 1977 Budget Message President Ford expressed his concern thus:

*"As the budget documents illustrate, there has been a trend over the last few years toward so-called "off-budget" spending. This is an undesirable practice because it obscures the real impact of the Federal Government and makes it more difficult for any one but the most technically knowledgeable citizens to understand what their Government is doing. Therefore, I am calling for legislation to halt this practice so that our budget system will fully reflect the financial activities of the Government".<sup>45</sup>*

The 1979 budget recorded that steps were being taken to return the Exchange Stabilization Fund to the budget.<sup>46</sup>

#### 7. The federal budget in the national income accounts

The former National Income Accounts Budget (the federal budget in the national income accounts) has continued to play an important part in the presentation of the unified budget: since fiscal 1969 the federal transactions in the national income accounts have been discussed regularly in a Special Analysis.<sup>47</sup> However, the budget in the national accounts no longer enjoys the status of a competing concept, but is



used as a presentational aid in the analysis of the federal government's impact on the economy.

#### 8. Tax expenditures

The concept of a tax expenditure account has recently been introduced in several countries. Herber described this facet of budget coverage as follows:

*"... (it) attempts to estimate the tax revenues, by functional area of budgetary activity, which the government does not collect as a result of 'special provisions' under federal income tax law. Thus, the estimated 'tax loss value' of the numerous special exclusions, deductions, credits, differential rates, and the like are presented in terms of functional expenditure categories. Such an approach is significant since 'taxes not collected' have the same impact on an eventual budget deficit or surplus as do the 'direct expenditures' of the federal government".<sup>48</sup>*

The United States has been publishing details of tax expenditures since 1969.

The first major effort to systematically record tax expenditures using the conceptual framework of the budget appeared in the Annual Report of the Secretary of the Treasury, 1968.<sup>49</sup> The analysis was extended to cover the tax expenditures implicit in the fiscal 1970 budget in the testimony of secretary of the Treasury before the Joint Economic Committee, January 17, 1969.<sup>50</sup> The publication of a tax expenditure account in the budget became required by law in 1974.<sup>51</sup>

#### 9. Economic and functional classifications

In the United States budget documents, both budget authority and outlays are reported by agency and function.\*

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\* In terms of the Congressional Budget Act, the Congress must pass resolutions establishing budget targets and ceilings by functional categories.

A classification of outlays in accordance with economic class - purchases of goods and services, transfer payments, federal aid to state and local government, net interest paid and net subsidies - is contained in the national income accounts presentation.<sup>52</sup>

10. Credit transactions

The President's Commission on Budget Concepts argued important differences in the economic impact of loans and other expenditures, and thus recommended that: "the summary budget presentation should show most direct loans (on the basis of their unsubsidized value) separately from expenditures"<sup>53</sup>, and that "a surplus or deficit should therefore be presented in the budget, to be calculated by comparing expenditures other than loans with total budget receipts, for purposes of providing a measure of the economic impact of Federal programs".<sup>54</sup>

As already mentioned, these recommendations were accepted by the President and incorporated in the 1969 budget format as shown in Table A1.

However, in fiscal 1974 the spending/lending distinction was dropped from all tabulations, including the summary presentation, in order to simplify the presentation and because of a lack of interest in this information. The subject of government lending has nonetheless continued to receive prominence in the annual budget. For one, federal credit programs (budgetary as well as off-budgetary) are reviewed as a regular feature in a Special Analysis.<sup>55</sup> Moreover, the United States federal debt and outstanding loans are related to each other in the budget summary, as indicated in Table A2.

11. Means of financing section

Table A3 illustrates the Means of Financing section of the United States budget, as it is currently presented to Congress. The table

shows that estimates are given of the means of financing the overall deficit from sources other than borrowing, such as the use of cash balances, seigniorage and deposit fund balances.\* However, apart from the details given in respect of these miscellaneous "internal" sources of finance, the budget contains no information on how the deficit as a whole is likely to be financed.

Table A3.

| BUDGET FINANCING AND CHANGE IN DEBT OUTSTANDING                 |                |                  |                  |
|---|----------------|------------------|------------------|
| (In billions of dollars)  |                |                  |                  |
| Description   | 1977<br>actual | 1978<br>estimate | 1979<br>estimate |
| Budget surplus or deficit (-)                                   | -45.0          | -61.8            | -60.6            |
| Deficit (-) of off-budget Federal entities                      | -8.7           | -11.5            | -12.5            |
| Total, surplus or deficit (-)                                   | -53.7          | -73.4            | -73.1            |
| <b>Means of financing other than borrowing from the public:</b> |                |                  |                  |
| Decrease or increase (-) in cash and monetary assets            | -2.2           | 7.1              | *                |
| Increase or decrease (-) in liabilities for:                    |                |                  |                  |
| Checks outstanding, etc.  | 1.8            | 0.2              | -.1              |
| Deposit fund balances   | .3             | -.5              | -.2              |
| Seigniorage on coins  | .4             | .6               | .5               |
| Total, means of financing other than borrowing from the public  | .2             | 7.4              | .1               |
| Total, requirements for borrowing from the public               | -53.5          | -66.0            | -73.0            |
| Change in debt held by the public                               | 53.5           | 66.0             | 73.0             |
| Change in Federal agency investments in Federal debt:           |                |                  |                  |
| Federal funds   | .6             | .2               | .8               |
| Trust funds   | 8.3            | 10.0             | 13.9             |
| Off-budget Federal entities                                     | .3             | .2               | .3               |
| Total, change in Federal agency investments in Federal debt     | 9.2            | 10.4             | 15.1             |
| Change in gross Federal debt                                    | 62.8           | 76.4             | 88.1             |

\*\$50 million or less.

Source: The Budget of the United States Government, 1979, p. 257.

\* It is interesting to note that the latter balances (more or less equivalent to our own departmental trust and deposit account balances: see Part 2, Section 6) help to finance the overall deficit and is therefore not deficit determining.

B. Canada

1. Budget papers<sup>56</sup>

The Canadian budget process starts with the publication of the Main Estimates of expenditure, representing the detailed amounts required by the government to carry on its activities in the prospective year. The Main Estimates are customarily presented to Parliament for approval a few months before the date of the presentation of the government's tax proposals in the annual budget statement.

When the Main Estimates are tabled, the Treasury normally publishes a very useful summary and explanation, entitled: How Your Tax Dollar is Spent.

The budget speech follows next after the Main Estimates. The speech is of greatest interest in connection with revenues, since its main purpose is to formulate the tax changes needed to support the expenditure program, as set out in the Main Estimates. The speech itself is published, together with fiscal tables setting out the summary Public Accounts presentation, the National Accounts presentation (incorporating the economic classification of government expenditures and revenues), together with reconciliations, in a document entitled: Budget Speech.

The latter is customarily accompanied by a separate document entitled: Budget Papers. This document usually incorporates: (a) the texts of Notice of Ways and Means Motions; and (b) a section entitled Supplementary Information. The latter contains explanations of, or background information to, budget proposals. An interesting feature of the supplementary information is a table setting out the Federal Revenue Effects of Budget Tax Measures (see later: Tax Expenditures).

At budget time the government also issues a Budget in Brief. This is a short précis of the budget designed for the layman.



In the December 1979 budget the government published a separate 21 page document entitled: The Economic Assumptions Underlying the Fiscal Projections of the Budget.<sup>57</sup>

2. Public accounts

The Canadian system of public accounts is premised on the idea of a single fund. All revenues, other than those reserved to the provinces, form one Consolidated Revenue Fund, and the balance of the Fund, after certain prior charges, is appropriated by the Parliament of Canada. Since all cash receipts are to be paid into the Fund, and all cash payments are to be made from the Fund, the record of cash transactions into and out of the Fund is complete.

3. Federal government<sup>58</sup>

The federal government is defined as the total of all its departments, agencies, boards, commissions, councils, funds and other bodies that pay their receipts into and have their outlays financed from the Consolidated Revenue Fund, with one exception: excluded are six "Schedule C" crown corporations which are by law required to use the Consolidated Revenue Fund for banking purposes, but are treated in the same way as other "Schedule C and D" corporations and are therefore excluded from the definition of the government of Canada as an accounting entity. Included, however, are a small number of so-called departmental crown corporations which are considered to resemble departments and use the Consolidated Revenue Fund for banking purposes. With the exception of these departmental corporations, all crown corporations are considered outside the government of Canada as an accounting identity.

Put another way, the government of Canada is defined as the aggregate of all departments, agencies, boards, commissions, councils, crown corporations, funds and other bodies, with two exceptions, namely (1) the so-called "Agency" and "Proprietary" Crown Corporations, listed

respectively in Schedules C and D of the Financial Administration Act and (2) those crown corporations that are not subject to the Financial Administration Act.<sup>59</sup>

4. Annual budget statement

The Canadian government's annual Budget Statement is comprehensive of all the financial transactions of the federal government, as defined above. However, Canada's Public Accounts draw a distinction between so-called budgetary and non-budgetary transactions, and this division in the government's accounts is also found in the annual budget statement. The so-called Public Accounts presentation of the Canadian budget is presented in Table B. A major feature of this table is the division that exists between budgetary and non-budgetary transactions.<sup>60</sup>

5. Budgetary transactions

The statement of budgetary transactions in the upper part of Table B serves administrative and control purposes. This is the traditional budget (narrowly defined) which is presented by the Finance Minister to Parliament, and which incorporates the departmental estimates of expenditures and revenues.

The difference between budgetary revenues and budgetary expenditures - the surplus or deficit - has been used in the past to evaluate the federal government's fiscal policy. However, more sophisticated means are now available to the Canadian government. See, for example, the cash requirements analysis below. The budgetary expenditures are detailed in the Estimates, both main and supplementary, as presented to and then approved by Parliament. These expenditures are financed from budgetary revenues and such other sources as may be used to finance any shortfall of budgetary revenue. Budgetary expenditures include certain internal transactions that do not lead to changes in the balance in the Consolidated Revenue Fund: for example, interest charges and government contributions that are credited to superannua-

Table B.

**Table 1  
Government of Canada  
Summary Statement of Transactions  
Public Accounts Presentation**

|   | 1978-79*      | 1979-80 <sup>(1)</sup> | 1980-81 <sup>(1)</sup> | 1981-82 <sup>(1)</sup> | 1982-83 <sup>(1)</sup> | 1983-84 <sup>(1)</sup> |
|---|---------------|------------------------|------------------------|------------------------|------------------------|------------------------|
|   | (\$ millions) |                        |                        |                        |                        |                        |
| <b>Budgetary transactions</b>   |               |                        |                        |                        |                        |                        |
| Revenues  | 35,215        | 40,720                 | 46,835                 | 53,040                 | 59,715                 | 66,640                 |
| Expenditures <sup>(2)</sup>   | -47,318       | -51,950                | -57,300                | -62,800                | -68,975                | -75,700                |
| Surplus or deficit (-)  | -12,103       | -11,230                | -10,465                | -9,760                 | -9,260                 | -9,060                 |
| <b>Non-budgetary transactions</b>   |               |                        |                        |                        |                        |                        |
| Loans, investments and advances <sup>(2)</sup>  | -1,052        | -1,150                 | -1,100                 | -1,450                 | -1,700                 | -2,050                 |
| Annuity, insurance and pension accts  | 2,377         | 2,145                  | 2,575                  | 3,210                  | 3,985                  | 4,740                  |
| Other transactions  | -161          | 295                    | 790                    | 700                    | 1,295                  | 1,580                  |
| Net source or requirement (-)   | 1,164         | 1,290                  | 2,265                  | 2,460                  | 3,580                  | 4,270                  |
| <b>Financial requirements<br/>(Excluding foreign exchange transactions)<sup>(3)</sup></b> |               |                        |                        |                        |                        |                        |
|   | -10,939       | -9,940                 | -8,200                 | -7,300                 | -5,680                 | -4,790                 |

<sup>(1)</sup> Numbers in these forecast columns should be interpreted as mid-points of ranges of estimates.

<sup>(2)</sup> Total outlays are composed of budgetary expenditures plus loans, investments and advances.

<sup>(3)</sup> These figures do not reflect foreign exchange transactions in 1978-79 which provided a source of \$4,088 million, thereby reducing total financial requirements to \$6,851 million. Foreign exchange transactions, to the end of November 1979, have provided a source of \$456 million in the current fiscal year. No forecast is made of foreign exchange transactions in the balance of the period.

\* —This table reflects the major changes in the Accounts of Canada set out in the 1978-79 *Public Accounts*. In particular, figures for 1978-79 have been adjusted to the accounting basis which will be in effect in subsequent years and thus differ from those published in the 1978-79 *Public Accounts* which are on the old accounting basis with a separate 'once-and-for-all' provision for conversion to the new accounting basis. See Appendix A-2 for the 1979-80 forecast on old and new accounting basis, and Appendix A-3 for historical data on the two bases.

—Financial requirements do not include direct market borrowing of agent Crown corporations. See final paragraphs of the loans, investments and advances subsection of Appendix A-1.

Source: Budget Speech, 11 December, 1979, Department of Finance, Canada, p. 21.



tion and other annuity, insurance, pension funds, the Unemployment Insurance Fund and the Canada Pension Plan; also included are the undisbursed balances of appropriations to special accounts and certain other accounts. Excluded are pensions paid under the Canada Pension Plan, unemployment insurance payments, any payments financed from receipts credited directly to special accounts or expenditures charged to working capital advance accounts and revolving funds, all of which are treated as non-budgetary.

Projections of budgetary revenues are found in the Budget Statement only. In general the budgetary revenues consist of all revenues that have not been allocated to a specific purpose. It includes all tax revenues from income tax, excise taxes and duties, customs import duties, returns on investment, postal revenue and certain other non-tax revenues. It also includes certain internal transactions that do not lead to changes in the balance in the Consolidated Revenue Fund. Budgetary revenues exclude: the public's contributions to the Canada Pension Plan and unemployment insurance; receipts and revenues credited to special accounts and revolving funds; and taxes collected by the government of Canada, but paid to participating provinces.

The budgetary transactions also include some ear-marked revenues and payments to the municipal governments.

The budgetary revenues and expenditures represent only a part - although the largest part - of the federal government's general financial operations. Beyond the scope of the traditional administrative budgetary framework and the budgetary transactions is a sizeable amount of so-called non-budgetary or extra-budgetary transactions, both revenues and expenditures, which do not require the approval of Parliament.\* These are discussed below.

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\* Except for loans, advances and investments which are included in the annual main or supplementary estimates. The focus in the Budget Statement is thus on total outlays: that is, the sum of the main estimates plus loans, investments and advances.



## 6. Non-budgetary transactions

Generally, the non-budgetary transactions of the federal government are those that lead to changes in the government's net debt position: the acquisition or disposal of a financial asset or to the creation or discharge of a financial liability.

The non-budgetary transactions are recorded in the lower part of Table B.

Non-budgetary transactions include the transactions of the Social Security Accounts - i.e. the collections and disbursements of the Unemployment Insurance Account and the Canada Pension Plan are outside the traditional budget, but government contributions to these accounts are budgetary.\* The non-budgetary outlays of the Canada Pension Plan include investment of surpluses in Canadian government and provincial securities. Non-budgetary transactions also include the transactions of the superannuation accounts for the Public Service, Canadian Forces and the Royal Canadian Mounted Police, the government annuities account and a number of smaller insurance and pension accounts operated by the government of Canada. However, government contributions to all these funds are classified as budgetary. Although included in the Estimates and requiring annual parliamentary approval, all loans, advances and investment (including repayments) to crown corporations and other domestic and external borrowers are classified as non-budgetary. However, investment income is budgetary.

The transactions of the Foreign Exchange Account are also non-budgetary. Since the Account is used to stabilize the Canadian dollar in international currency markets, it is not possible to provide a projection of the transactions for the Budget Statement, but the actual amounts are recorded in the Public Accounts.

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\* The Old Age Security Fund ceased to exist at the end of June 1975. Payments of Old Age Security Benefits are now made out of the Consolidated Revenue Fund. Old age security transactions are thus treated as budgetary rather than non-budgetary.

Other non-budgetary transactions include accounts payable, outstanding cheques and interest accrued. Finally, non-budgetary transactions also include the receipts and payments of deposit and trust accounts as well as the undisbursed balances of budgetary appropriations to special accounts.

The financial operations of the crown corporations (other than the departmental corporations) are not included in the budget presentation but are reflected there only to the extent of government investment in, or earnings on investments in, these corporations. Thus profits and interest, when paid over to the government, are budgetary revenue. Government grants to the corporations are also budgetary. However, government loans to corporations and repayments are non-budgetary items.

Finally, it is of interest to note that the Public Accounts usually contain a detailed statement of the federal government's financial assets and liabilities, and that any change in the government's net debt position corresponds identically with the surplus or deficit on the budgetary accounts.<sup>61</sup>

## 7. Overall cash requirements analysis

The budgetary and non-budgetary transactions of the federal government are brought together in the cash requirements analysis. Table B shows that whilst the non-budgetary transactions do not enter into the calculation of the traditional budgetary surplus or deficit as such, they nonetheless occupy a position of prominence in the summary budget presentation and full account is taken of them when the scope of the government's financial operations and their effect on the nation's economy are considered in the budget speech.

Budgetary and non-budgetary transactions together constitute the total cash transactions of the federal government and indicate the overall cash borrowing requirement of the government. In other words, the traditional budgetary analysis is supplemented by an analysis of the federal government's overall cash needs so that the net surplus or

deficit in the budgetary analysis is combined with the net result of the non-budgetary or extra-budgetary transactions to arrive at the total cash requirement for the federal government which is useful for cash management purposes.

The cash requirement analyses the funds in the hands of the federal government, whether these funds are directly attributable to revenue and expenditures, are simply funds ultimately attributable to trust accounts held by the government or are loans and advances. To this extent the budget speech discusses the total government financial position, including budgetary revenues and expenditures, loan transactions, changes in unmatured debt and the cash balance.

It is worth noting that balances available in the trust accounts and other adjustments such as cheques outstanding are treated as non-budgetary items, which means that they help to determine the combined deficit that must be financed from borrowing.

It is further of interest to note that no indication is given in Table B or elsewhere in the budget papers of how the financial requirement (excluding foreign exchange transactions) might be financed in the prospective year.

8. The budget in the national income accounts

The Canadian government accounts and the traditional budgetary presentation are designed primarily to permit parliamentary and administrative control over the public finances. Therefore, they do not readily permit an assessment of the impact of government activities on the economy. For this reason, the Finance Minister's annual budget statement has since 1964 incorporated a so-called national accounts presentation of the federal government's expenditures and revenues. This presentation has been described thus:

*"The national accounts budget is designed to permit an assessment of the interaction of the government sector (in particular the federal government) with the other sectors of the economy*

*by providing measurements both of the magnitude of government operations and of the timing of their impact. The national accounts budget is, in fact, merely a part of the national accounts as developed by Statistics Canada. Thus the measurements are cast in the same terms as measurements of all other economic activity so that revenues may be related more directly to income and expenditure flows and federal expenditures compared to expenditures by other sectors".<sup>62</sup>*

The national accounts presentation differs from Canada's parliamentary budgetary presentation in several main ways<sup>63</sup>: first, in respect of coverage the national accounts presentation includes the operations of a number of non-budgetary transactions, but excludes a number of items included in the budgetary presentation. Second, an important difference is in the matter of timing. Accrual accounting is usual throughout in the national accounts presentation, whilst the so-called modified cash basis is used in the traditional budgetary presentation. Finally, the national accounts presentation include only income and expenditure transactions that have an immediate and direct impact on the flow of income in the economy. Pure financial transactions - e.g. borrowing and lending - are excluded.

The government's financial transactions may, of course, have a considerable impact on the economy through their effect on the size and composition of the community's financial assets. Following the recommendations of the Report on the Study of the Accounts of Canada<sup>64</sup>, the budget statement has since 1976 included a so-called Extended National Accounts presentation. This presentation uses the traditional national accounts presentation as a starting point, but then incorporates the government's non-budgetary transactions to give the overall cash requirement (which is identical to that shown in the budgetary or Public Accounts framework).

It is worth mentioning in conclusion that since 1964 the budget has incorporated tables reconciling the traditional Public Accounts presentation of budgetary data with the national accounts presentations.

#### 3. Tax expenditures

Information on tax expenditures in Canada has been available for a

number of years in the Supplementary Budget Papers at the time of their introduction or on the occasion of significant changes.<sup>65</sup> However, a Canadian federal tax expenditure account was introduced for the first time with the December 1979 budget.<sup>66</sup>

#### 10. Classification

As explained in Section 8 the Canadian budget has since 1964 presented budgetary expenditures and revenues on a national accounts (economic) basis as an aid in understanding the economic impact of the budget. However, when comparing these classifications with the budgetary data on a cash basis, there are obstacles relating to coverage, accounting basis, etc.

As regards the functional classification of Canadian budgetary outlays, we quote from a letter received from the Treasury Board, Canada:

*"The annual Main Estimates of the Government as presented to Parliament have historically contained a functional classification which is roughly equivalent to the international system of categorization for this purpose. However, the Government is currently developing a new expenditure management system which will divide their anticipated outlays into the following categories called 'envelopes'.*

- 1) Fiscal Arrangements
- 2) Public Debt
- 3) Economic Development
- 4) Social Affairs
- 5) Justice and Legal
- 6) External Affairs
- 7) Defence
- 8) Parliament
- 9) Services to Government

*It is expected that this classification system along with the functional one will form the basis of conveying summary data in documents such as the budgetary papers, Estimates and Public Accounts".<sup>67</sup>*

#### 11. Government loans, advances and investments

The federal government is an important supplier of credit.<sup>68</sup>



The government's net loans, advances and investments are clearly set out in the lower part of Table B. In other words, the role of these capital items as a determinant of the federal government's overall cash requirement can be identified quite easily in Canada's summary budget presentation.

The traditional budgetary analysis (based on the budgetary section of Table B) has always excluded the federal government's lending programs. For this reason, there has been increasing emphasis in recent years in the federal budget presentation on total outlays (inclusive of loans, investments and advances) and the government's total cash needs. See Section 5 above.

C. Australia

1. Budget papers

The Australian Budget document is formalised into a fairly lengthy list of so-called Budget Papers. For example, in the 1980/81 budget there were altogether eleven such papers.

Budget Paper No. 1 - Budget Speech and Statements - is the basic budget document. In 1980/81 this document comprised over 300 pages of explanations, tables and charts. It customarily contains the full text of the budget speech, as well as a number of accompanying Statements elaborating on aspects of the budget and the background to the budget. In 1980/81 the Statements contained, *inter alia*, a summary of the budget, an explanation of the relation between the budget and the economy, and an appendix detailing various conceptual aspects of the budget, such as coverage, expenditure/revenue netting and classification conventions adopted in the budget.

The other Budget Papers in the 1980/81 series are listed below to illustrate the broad coverage of subjects provided by the budget document:

- No. 2 Appropriation Bill (No. 1).
- No. 3 Appropriation Bill (No. 2).
- No. 4 Estimates of Receipts and Summary of Estimated Expenditure 1980-81.
- No. 5 Civil Works Program 1980-81.
- No. 6 Government Securities on Issue at 30 June 1980.
- No. 7 Payments to or for the States, the Northern Territory and Local Government Authorities 1980-81.
- No. 8 Australia's Overseas Development Assistance Program 1980-81.
- No. 9 National Income and Expenditure 1979-80.
- No. 10 National accounting estimates of Receipts and Outlays

of Commonwealth Government Authorities.  
No. 11 Income Tax Statistics.<sup>69</sup>

2. Commonwealth government

The Commonwealth government's activities are formally divided into a budget sub-sector, on the one hand, and Commonwealth government authorities operating outside the budget, on the other.

3. Budget sub-sector<sup>70</sup>

The Commonwealth budget reports the transactions of those authorities of the Commonwealth government whose receipts and payments are recorded in the Commonwealth Public Account. The Public Account, in turn, comprises three separate funds, namely, the Consolidated Revenue Fund, the Trust Fund and the Loan Fund.

The Consolidated Revenue Fund is the principal operating fund and is financed mainly by taxation, fees and other current receipts. Commonwealth government tax revenues credited to this account include customs and excise duties, sales taxes and individual and corporate income taxes. Expenditures charged to the Fund - mainly those of the government departments - are appropriated by annual and special parliamentary appropriations, the schedules to which are the detailed estimates of expenditure.

The Loan Fund receives its funds from the sale of securities and the expenditures from the Fund are made in accordance with the purpose of issue of each loan. The main disbursements from the Loan Fund are to the States by way of distribution of the proceeds of loans raised by the Commonwealth government on their behalf and by capital assistance grants. Other appropriations from the Fund are for Commonwealth government purposes.

The Trust Fund is a separate account established to record transactions

relating to trust monies. The Trust Fund is divided into four separate groups of accounts: Group 1 for 'trustee type' monies which are held in trust for persons and authorities other than the Commonwealth. This group includes the Superannuation Fund, established under the Commonwealth Superannuation Scheme which provides pensions to retired employees of the Commonwealth and some of the Commonwealth's authorities; Group 2 for the working accounts of Commonwealth government factories and other quasi-commercial activities including staff cafeterias and certain stores and transport operations; Group 3 for monies held in trust to meet future expenditures. The principal accounts are the National Welfare Fund, the Loan Consolidation and Investment Reserve and the Health Insurance Fund (the latter fund is no longer operative). The remaining accounts relate mainly to stabilization funds and research funds for certain sections of primary industry; and Group 4 for the National Debt Sinking Fund.

4. Budget summary

The transactions of the three Funds are brought together in the annual budget presentation. Table C presents the 1980/81 Commonwealth budget summary. The budget outlays and receipts indicated in this table

Table C.

**BUDGET AGGREGATES**

The key Budget aggregates for 1980-81 are summarised in the following table, together with comparable data for 1979-80.

|                                  | 1979-80    |                   |          | 1980-81    |                   |          |
|----------------------------------|------------|-------------------|----------|------------|-------------------|----------|
|                                  | Actual     | Change on 1978-79 | per cent | Estimate   | Change on 1979-80 | per cent |
|                                  | \$ million | \$ million        | per cent | \$ million | \$ million        | per cent |
| Outlays                          | 31 694     | 2 649             | 9.1      | 36 037     | 4 342             | 13.7     |
| Receipts                         | 29 661     | 4 094             | 16.0     | 34 471     | 4 810             | 16.2     |
| Deficit (-)                      | -2 034     | +1 444            |          | -1 566     | +468              |          |
| Overseas Deficit (-)             | -1 467     | - 247             |          | -1 605     | -138              |          |
| Domestic Deficit (-) Surplus (+) | - 567      | +1 691            |          | + 39       | +606              |          |

Source: Budget Speech 1980-81 and Statements, Statement No. 1 - Summary of the 1980-81 Budget, Australian Government Publishing Service, Canberra, p. 2.



represent a consolidation of the Consolidated Revenue Fund, the Loan Fund and the Trust Fund. The aim in the budget is therefore to record only transactions between the budget sector and other sectors in the economy. For example, payments from the Consolidated Revenue Fund to Trust Accounts are not shown as part of outlays; rather, the expenditures from the Trust Accounts are included.

An interesting aspect of the Trust Fund is that, for budgetary purposes, a distinction is drawn between "Commonwealth government" and "other" balances in the Trust Fund. "Commonwealth government balances" are those which record the receipts, expenditures and investment of Commonwealth government money. They are monies held to meet future expenditures or are working balances of Commonwealth government organisations engaged in government's commercial activities. "Other" balances in 'private' trust funds are those which record monies held in trust and invested on behalf of other sectors. Whilst the expenditures and revenues of the former help to determine the size of the budget deficit, the transactions of the latter do not affect the size of the deficit, as any increase in liability for monies received is matched by purchases of investments or additions to cash balances. In effect, the net receipts of 'private' trust accounts are recorded ex post in the budget financing section as "other financing transactions", and, other things being equal, reduce the extent to which the deficit must be financed in other ways, and have the same effect on private sector liquidity as non-bank take up of public debt.

An interesting feature of Table C is the distinction that it draws between the overseas deficit and the domestic deficit. This distinction is customarily used in the Australian budget to differentiate between the budget's impact on the balance of payments and the domestic economy, respectively.

As a result of the consolidation of the Consolidated Revenue Fund expenditures and revenues with the transactions of the Loan Fund and Trust Fund, there is not usually a close correspondence between the total budget outlay (the total cash budget), on the one hand, and the estimates of expenditures (charged to the Consolidated Revenue Fund)

submitted to Parliament for its approval through annual or special appropriations (the traditional administrative budget), on the other. However, a separate budget paper usually provides a detailed reconciliation of the Consolidated Revenue Fund expenditures and receipts and total budgetary outlays and receipts.<sup>71</sup>

It is of particular interest to note that the divisions which exist in the government's accounting system is not prominent in the annual budget statement. Neither the annual budget speech nor any of the Statements attached to the budget speech refer explicitly to the three-way division that exists in the Public Account. In fact, as we have seen above, a reconciliation of budget totals with Fund totals is usually relegated to a separate budget paper.

There is further no sign that the government's borrowing policies are influenced by the nature of its expenditures or the need to finance a particular fund in a certain manner. By law the proceeds of all loans raised by the Australian government are credited to the Loan Fund; however, expenditures from the Loan Fund are not confined to any one type. In fact, specific items of expenditure charged to the Consolidated Revenue Fund, such as defence in 1976/77 and 1977/78, are often transferred or reallocated from the Consolidated Revenue Fund to the Loan Fund in order to cover anticipated deficits in the former Fund. Such transfers are authorized by a separate Loan Bill.<sup>72</sup>

5. Commonwealth government authorities outside the budget<sup>73</sup>

In addition to the group of authorities whose transactions are covered by the budget and brought to account in the Consolidated Revenue Fund, the Loan Fund, and the Trust Fund, there are a number of organisations owned or controlled by the Commonwealth government whose transactions do not, for the most part, pass through the Public Accounts. This category include public enterprises such as the Australian Postal Commission, Qantas, etc., some of which would definitely be classified as public corporations in South Africa.

As well as these enterprises, there are other public authorities which record most of their transactions outside the Public Accounts but have only minor independent sources of revenue and are financed almost entirely from funds voted to them each year from the Consolidated Revenue Fund. Appropriations to this last group of authorities are treated as final expenditure in the National Accounts presentation of the budget. Authorities in this category include the Australian Broadcasting Commission, Australian National University, National Capital Development Commission, and the Australian Atomic Energy Commission.

In the budget documents particular emphasis is, of course, placed on the budget sub-sector; however, the Statements attached to the budget speech set out estimates of the main categories of receipts and outlays of the Commonwealth government sector as a whole, over a number of years, including the year ahead.<sup>74</sup> Transactions of the government's financial enterprises - the Reserve Bank and the Commonwealth Bank Corporation - are, however, omitted from this presentation except to the extent that profits are paid to the government or Consolidated Revenue Fund, grants are made to them to finance capital assets. More detailed tables are provided in a separate budget paper.<sup>75</sup>

6. The budget in the national accounts

There is at present no National Accounts budget as such in Australia similar to that in the United States and Canada; however, national accounting conventions and principles are consistently adopted in the Budget Speech and Statements for the definition of budgetary outlays and receipts and these principles and conventions also underlie the budget's functional and economic classification of outlays and receipts.<sup>76</sup> See also Section 8 below.

7. Tax expenditures

A Statement accompanying the Budget Speech currently provides informa-

tion on the major categories of tax expenditures in Australia. However, estimates of revenue foregone because of tax expenditures as yet only cover the four years preceding the budget year.<sup>77</sup>

#### 8. Economic and functional classifications

The Australian budget presents outlays and receipts in both economic and functional categories.

Prior to the year 1973/74 budgetary estimates of expenditures and revenues were also presented in so-called 'conventional' terms. This conventional presentation incorporated a so-called 'conventional' classification of outlays and receipts which was essentially a product of the historical evolution of the Budget Statements from earlier legal appropriation documents and accordingly concentrated on input, organisational and institutional characteristics of receipts and outlays.

The conventional presentation was dropped in the 1973/74 budget.

The 1973/74 budget marked the introduction of a new functional classification of budget outlays and its use as the main framework for the detailed discussion of budget policy proposals. Because this functional classification of budget outlays is based on National Accounting conventions, there is now a consistent conceptual basis underlying both the economic and functional classification of outlays and receipts.<sup>78</sup>

#### 9. Loans and advances

The Commonwealth's net budgetary advances to other sectors of the economy feature prominently in the budget presentation in tables detailing budget outlays by economic type. Total figures are broken down into (1) advances to States, (2) Commonwealth government Authorities, and (3) other sectors.<sup>79</sup> In tables detailing the receipts



and outlays of the Commonwealth government sector as a whole, total outlays are broken down into (a) expenditures, and (b) advances to non-Commonwealth sectors.<sup>80</sup>

10. Presentation of budget financing

Table C illustrates that estimates of financing transactions are not given in the annual presentation. Financing transactions are considered in Statements attached to the budget speech, but only on an ex post basis with respect to the previous year's budget outcome.<sup>81</sup> It is worth noting again that balances in the 'private' trust accounts are treated in the Public Accounts as "other financing transactions" which reduces the extent to which the deficit must be financed in other ways. However, as indicated above, estimates of these trust monies are not provided when the budget is presented.

D. The United Kingdom

1. Planning of Expenditures<sup>82</sup>

A fundamental of budgetting in the United Kingdom is that the procedure for planning public expenditure is to a large extent divorced from the determination of taxation and fiscal policy.

Public expenditure is planned over a medium-term horizon. Central to the procedure is the annual Public Expenditure Survey (PESC), in terms of which expenditures are planned ahead for a three year period, with the plans for the year immediately ahead constituting the only firm decisions.

Ministerially approved plans for future spending are published around the end of the year in a Public Expenditure White Paper covering the next financial year and subsequent years. The White Paper is normally debated in Parliament several months before the budget, which itself is announced around March or April, but its spending plans do not require parliamentary approval.

Next in the budgetary process is the publication of the Budget Estimates; the main instrument of parliamentary control of public spending traditionally being the procedure of approval of the Budget Estimates.

At the moment PESC and the Budget Estimates systems co-exist with Cash Limits (introduced in 1976) which impose ceilings on various blocks of expenditure under the control of individual departments. The cash limits are published but do not require parliamentary approval and a criticism is that Parliament has no say in their determination.

It is worth emphasizing that since the Local Authorities in the United Kingdom have their own sources of income, they are not controlled directly by the central government but through a system of rate support grants. Similarly the expenditures of nationalised industries are

controlled indirectly through the control of Exchequer loans and grants to these organisations.

To sum up, central government spending plans (and therefore implicitly also the spending of the public sector as a whole) are decided some time before the Chancellor of the Exchequer is in possession of the information on which he usually bases his annual tax proposals. By contrast, the level of taxes is dictated for the prospective year by economic forecasts and the government's view of the appropriate pressure of demand in the economy, and given the level of public expenditure for the year already determined by the procedure described above.

## 2. Budget speech

The Chancellor of the Exchequer's annual budget speech in March or April is the cornerstone of the revenue side of the budget. Traditionally the budget speech sets out how the central government intends to raise the revenue to meet its expenditures. To a large extent the budget is therefore a tax budget rather than a tax/expenditure budget; however, the budget speech may also be used to announce some supplementary spending decisions. The speech is published in Hansard.

## 3. Financial Statement and Budget Report

The outlays and revenues of the public sector as a whole are brought together in the annual Financial Statement and Budget Report which accompanies the budget speech. This is usually a 30-40 page document setting out the economic background to the budget, the short-term economic outlook, fiscal tables covering both public sector and central government transactions, and details of proposed tax changes including the latter's revenue effects.<sup>83</sup>

In recent years the focus of attention in the budget has been on the Public Sector Borrowing Requirement, which must be financed by the generation of financial claims against the public sector. However,

the central government's borrowing requirement is invariably the major component of the Public Sector Borrowing Requirement, and it is to this aspect of the budget to which we now turn.

4. The central government

The central government is defined in a wide sense for both national accounting and budgetary purposes. The following are included:<sup>84</sup>

- (1) Government departments whose expenditure is described as expenditure on "Supply services". This includes all bodies, boards, committees and commissions under the control of government departments and whose accounting arrangements are identical with those of the departments (i.e. so that their expenditures are charged to supply votes).
- (2) Bodies not administered as part of the departments but subject nonetheless to varying degrees of ministerial or departmental control. In most cases the bodies in this category draw a substantial part of their income from government grants.
- (3) Extra-budgetary funds and accounts directly administered and controlled by departments and bodies referred to above.

The presentation of the central government's activities in the Financial Statement and Budget Report is comprehensive of all central government transactions; as defined above. This is illustrated in Table D1. The nationalised industries are not included.

5. The Consolidated Fund

Table D1 shows that central government transactions are classified under two headings: the Consolidated Fund and the National Loans Fund. The Consolidated Fund includes all revenues and current and capital expenditure items.

The expenditure column of the Fund is divided into so-called Supply



Table D1.

TABLE 8. SUMMARY OF CENTRAL GOVERNMENT TRANSACTIONS

|  | £ million       |                        |                       |                             |
|--|-----------------|------------------------|-----------------------|-----------------------------|
|  | 1978-79         |                        | 1979-80 Forecast      |                             |
|  | Budget forecast | Outturn <sup>(1)</sup> | Before Budget changes | After Budget changes        |
| <b>CONSOLIDATED FUND</b>                               |                 |                        |                       |                             |
| Revenue (Table 9) ... ..                               | 42,746          | 43,088                 | 52,168                | 51,013                      |
| Expenditure (Table 10) ... ..                          | 51,378          | 51,469                 | 61,096                | 59,371                      |
| Deficit ... ..   | -8,632          | -8,381                 | -8,928                | -8,358                      |
| <b>NATIONAL LOANS FUND</b>                             |                 |                        |                       |                             |
| Consolidated Fund deficit (as above) ... ..            | -8,632          | -8,381                 | -8,928                | -8,358                      |
| Other transactions:                                    |                 |                        |                       |                             |
| Receipts (Table 11) ... ..                             | 6,400           | 6,458                  | 8,150                 | 8,150                       |
| Payments (Table 11) ... ..                             | -7,640          | -6,674                 | -10,413               | -10,119                     |
| Total net borrowing by the National Loans Fund ... ..  | -9,872          | -8,597                 | -11,191               | -10,327                     |
| Other funds and accounts (net) (Table 15) ... ..       | +1,935          | +554                   | +289                  | +763                        |
| <b>CENTRAL GOVERNMENT BORROWING REQUIREMENT</b> ... .. | <b>-7,937</b>   | <b>-8,043</b>          | <b>-10,902</b>        | <b>-9,564<sup>(2)</sup></b> |

<sup>(1)</sup> As a result of Civil Service industrial action, payments and receipts in 1978-79 may each have been reduced by about £150 million, the net effect on the central government borrowing requirement being negligible.

<sup>(2)</sup> This figure does not take account of the proceeds from the sale of assets (see Tables 5 and 6).

Source: Financial Statement and Budget Report 1979-80, HMSO, London, 12 June 1979, p. 19.

Services and Standing Services, with the former having to be approved by parliamentary vote.

In fiscal 1979/80 supply services were directed into 17 functional fields.<sup>85</sup>

Standing services are approved with little debate by the passing of a financial resolution.

#### 6. The National Loans Fund

The National Loans Fund was set up from 1 April 1968 to deal with all transactions relating to the national debt and most transactions connected with central government lending. The Fund was hived off from the Consolidated Fund in 1968 to replace the former practice of dividing Exchequer transactions into "above the line" and "below the line" items which had been in existence since 1875. The new form of the government's accounts was designed to give a clearer exposition of the government's role as a financial intermediary.

The Consolidated Fund surplus or deficit, which is simply the difference between expenditures and revenues, is transferred to the National Loans Fund where it either reduces or increases the extent to which the central government has to borrow.

Payments in the National Loan Fund include (a) interest and management expenses on the national debt, and (b) most lending, mainly to the rest of the public sector, net of repayments. Interest on these loans, together with the profits of the issue department of the Bank of England are treated as receipts in the National Loans Fund. The difference between these receipts and (a) above is provided for from the Consolidated Fund.

The balancing item in the National Loans Fund is the borrowing that is required.

7. The central government borrowing requirement

To calculate the central government borrowing requirement, the other bodies and extra-budgetary funds and accounts not included in the National Loan Fund are taken into consideration. This is illustrated in Table D2 which provides an analysis and reconciliation of the budget by economic category of expenditures and revenues and by fund. All transactions of the central government which are of a purely internal nature are thereby eliminated.

8. National accounting principles

It is worth emphasizing that all tables in the Financial Statement and Budget Report are drawn up on a national accounting basis and that a set of consistent definitions are used throughout the Statement.<sup>86</sup>

9. Tax expenditures

In the United Kingdom the Public Expenditure White Paper of January 1979 incorporated figures for the first time on the whole range of reliefs, allowances and deductions that underlie the United Kingdom's direct tax system.<sup>87</sup>

Table D2.

TABLE 15—continued. CENTRAL GOVERNMENT TRANSACTIONS BY ECONOMIC CATEGORY  
B. Analysis and reconciliation by fund—1979-80 forecast after Budget changes

| Receipts positive/payments negative   | Consolidated Fund           |                        |                               |                       | National Loans Fund    |         | Other central government funds and accounts <sup>(1)</sup> | Total central government |
|---|-----------------------------|------------------------|-------------------------------|-----------------------|------------------------|---------|--|--------------------------|
|   | Taxation and other receipts | Supply services        | Standing services and deficit | Receipts              | Payments               |         |  |                          |
| <b>A. RECEIPTS</b>  |                             |                        |                               |                       |                        |         |  |                          |
| (i) Recurring   |                             |                        |                               |                       |                        |         |  |                          |
| (1) Items entering into public sector receipts (see Table 6)                        |                             |                        |                               |                       |                        |         |  |                          |
| Taxes on income   | 25,033                      | -6                     |                               |                       |                        | 60      | 25,089   |                          |
| National insurance contributions, etc.  | 23,066                      | 840                    |                               |                       |                        | 10,799  | 25,910   |                          |
| Taxes on expenditure  | 1,078                       | -27                    |                               |                       |                        | 2,312   | 2,312  |                          |
| Other current receipts  | 250                         | 97                     |                               | 2                     |                        | 1,053   | 1,402  |                          |
| Taxes on capital and other capital transactions (net)                               | —                           | 79                     |                               | 10,327                |                        | -1,434  | -277   |                          |
| Borrowing requirement (net balance) <sup>(2)</sup>                                  | —                           | —                      |                               | —                     |                        | -763    | 9,564  |                          |
| TOTAL...  | 49,429                      | 983                    |                               | 10,329                |                        | 12,018  | 72,759   |                          |
| (ii) Interest and dividends received from local authorities and public corporations | 72                          |                        |                               | 2,938                 |                        | 333     | 3,343  |                          |
| TOTAL RECEIPTS  | 49,501                      | 983                    |                               | 13,267                |                        | 12,351  | 76,102 <sup>(3)</sup>                                      |                          |
| <b>B. EXPENDITURE</b>   |                             |                        |                               |                       |                        |         |  |                          |
| (i) Items entering into public sector expenditure (see Table 6)                     |                             |                        |                               |                       |                        |         |  |                          |
| Current expenditure on goods and services   | 304                         | -21,988                | -40                           |                       | -25                    | -2,084  | -23,833  |                          |
| Debt interest   | 18                          | -37                    |                               |                       | -6,163                 | -662    | -6,862   |                          |
| Other interest to financial sector  | 353                         | -5,574                 | -1                            |                       |                        | -13,230 | -21,337  |                          |
| Other current expenditure   | 5                           | -1,573                 | -1,920                        |                       |                        | -728    | -5,398   |                          |
| Gross domestic fixed capital formation  | 195                         | -1,428                 | -19                           |                       | 3                      | -92     | -1,359   |                          |
| Other capital expenditure   | 875                         | -36,668                | -1,980                        |                       | -6,185                 | -16,207 | -60,165  |                          |
| TOTAL...  | 9                           | -13,498                |                               |                       | -1,872                 | -576    | -15,937  |                          |
| (ii) Grants and net lending to local authorities and public corporations            | 884                         | -50,166                | -1,980 <sup>(4)</sup>         |                       | -8,057                 | -16,783 | -76,102 <sup>(3)</sup>                                     |                          |
| TOTAL EXPENDITURE   | 893                         | -64,666                | -3,960                        |                       | -14,929                | -17,363 | -83,950  |                          |
| <b>C. TRANSACTIONS WITHIN CENTRAL GOVERNMENT</b>                                    |                             |                        |                               |                       |                        |         |  |                          |
| Grants to National Insurance Fund   |                             | -2,276                 |                               |                       |                        | 2,276   |  |                          |
| Net transfers to National Insurance Fund  |                             | -61                    |                               |                       |                        | 1,674   |  |                          |
| Debt interest (including profits of Issue Department)                               |                             | 5                      | -3,850                        |                       |                        | 595     |  |                          |
| B.B.C. licence revenue  |                             | 383                    |                               |                       |                        | -100    |  |                          |
| Surplus receipts for surrender, etc.  |                             | 233                    |                               |                       |                        | -1,962  |  |                          |
| Deficit on Consolidated Fund  |                             |                        | 8,358 <sup>(5)</sup>          |                       |                        | -113    |  |                          |
| TOTAL INTERNAL TRANSACTIONS   | 628                         | -3,475                 | 3,625                         |                       |                        | 4,432   |  |                          |
| Grand Total (A, B and C)  | 51,013 <sup>(6)</sup>       | -52,658 <sup>(7)</sup> | 1,645                         | 10,119 <sup>(8)</sup> | -10,119 <sup>(8)</sup> |         |  |                          |

(1) Includes National Insurance Fund and the Northern Ireland central government; also includes imputed charge for consumption of non-trading capital and sundry adjustments (timing, prices changes in departmental balances invested in government debt, etc.)  
 (2) The reconciling requirement of the central government comprises the borrowing of the National Loans Fund, less any surplus (or plus any deficit) on the National Insurance Fund and changes in departmental balances invested in government debt, etc.  
 (3) As included within Table 14.  
 (4) As included in Table 9.  
 (5) As included in Table 10.  
 (6) As included in Table 8.  
 (7) As included in Table 11.



PART 4

Conclusions and Recommendations  
to Improve the South African Budget

1. Introduction

This part of the paper draws some comparisons between the South African budget, on the one hand, and the budgets of the United States, the United Kingdom, Canada and Australia, on the other, based on information contained in Parts 2 and 3 and on the author's personal impressions gained during the survey. In the light of these comparisons, a number of recommendations are presented to improve the presentation of the South African budget. However, in a way these reflect more opinion than the result of specific research.

The discussion is arranged under the following headings: format; coverage; classification; and the deficit and its financing.

2. Format

One of the most striking general conclusions emerging from our survey of the American, British, Canadian and Australian budgetary documents, looked at from the perspective of the South African budget, is that a significantly greater amount of information than in South Africa is published in the budget document on the issues raised in the budget. A far greater effort too than in South Africa is made to present the budget as a public relations exercise in an attractive and intelligible format, designed to create greater understanding of budgetary issues and of the manner in which the government discharges its duties.

The various budgets that we have scrutinized were in most cases very extensive and South Africa obviously has a great deal to learn from them. At the same time, it might be unwise to draw too many conclusions from any differences that may be found to exist.

However, there are three specific aspects of the format of the budget in South Africa and the other countries which may be singled out here for purposes of comparison.

A proper budget document

The first point that may be raised is the matter of a proper budget document, and the desirability of introducing something similar in South Africa. It has emerged from our scrutiny of the various budgets that the information contained in the traditional budget speeches is supplemented in each case by a separate (or enlarged) budget document containing a substantial amount of additional information, although the format and context of this latter document varies significantly from country to country.

The United States is undoubtedly at the one end of the spectrum, providing the most detailed information. The President's basic budget document is a very impressive publication comprising many hundreds of pages of data and analyses and incorporating a mass of tables, charts and graphic displays. All in all, the United States budget is a formidable document covering every conceivable aspect of the federal government's budgetary as well as off-budgetary activity.

In the United Kingdom, where the planning of public expenditure is to a large extent divorced from tax and fiscal policies, the document entitled Financial Statement and Budget Report (issued at budget time to complement the traditional budget speech) is by comparison a much more modest publication than the American budget from a purely presentational point of view. Nonetheless, the Financial Statement and Budget Report includes very elaborate fiscal tables and, given the budget's special emphasis on revenues, incorporates details of both tax proposals and the revenue effects of the proposals.

In Canada too, the information contained in the traditional budget speech and in the fiscal tables (usually published together in a separate document entitled Budget Speech) is complemented by detailed supplementary information on the budget proposals.

The Australian budget papers in turn are much more extensive than the Canadian and British papers, but are not as detailed as the American budget. The basic Australian budget document is nonetheless still an impressive publication, comprising the text of the budget speech plus several extremely useful statements dealing with particular aspects of the budget.

The South African budget customarily comprises some six regular documents plus any other supplementary or explanatory memos that the Minister may care to issue. However, the focus of the country's attention is normally on the printed version of the Budget Speech, which is the part of the budget that is the most widely used (outside Parliament at least), because it contains the Budget Speech, summary budget data (the budget arithmetic) and comparative figures of revenue.

In a sense, this meagre publication could be regarded as our main budget document. However, as a proper budget document, it is grossly inadequate because it contains no more than the barest essentials of the government's most important economic plan for the forthcoming year. In particular, the amount of explanatory material contained in it is confined to that which can be accommodated in the budget speech itself; it gives inadequate emphasis to many aspects of the budget that should be highlighted, such as the policy changes proposed in the budget, the composition of government spending and revenues, the historical context of the budget, the implications of current proposals for future budgets, etc.; it contains none of the usual presentational aids to create a better understanding of budgetary issues, such as graphs, charts and diagrams; and a lot of useful information now included in accompanying documents (for example: the economic and functional classification of government spending in the Economic/Statistical Review, and the classification of government spending by department and program in the Expenditure Estimate) is not integrated in the presentation on the basis of consistent definitions, and therefore fails to add significantly to the total fiscal picture projected by the budget.

It is clear that the publication of a more comprehensive budget document in South Africa to supplement the traditional budget speech would

therefore bring with it important advantages. In particular, much more information and detailed analysis than in the present format could be furnished in such a document on a systematic and understandable basis in order to raise the level of understanding at which the budget is discussed.

At the same time, the publication of a proper budget document would give the Finance Minister much more flexibility than at present in the choice and range of topics to be dealt with in the budget speech itself. The latter could perhaps be made shorter, in the interest of greater clarity and impact, and much more of a statement of economic and social policy. Thus it would also be possible to break away from the out-moded traditional accounting framework of the Finance Minister's budget speeches.

#### A primer on budget concepts

The second aspect which may be raised here concerns the need to inform the public on the way to use the budget.

A precondition for an understanding of a budget is a knowledge of the structure of the government's accounts. However, government accounts everywhere, also in South Africa, are notoriously complicated and it is therefore incumbent upon the government itself to provide information on the means to use them.

For this reason, very useful and sometimes detailed descriptions and definitions of the concepts that are used in budgetary documents are published, in one form or another, in the United States, the United Kingdom, Canada and Australia. For example, the United States President's budget incorporates as a regular feature a description of the United States budgetary system, and gives the definitions of concepts used in the budget.

In Canada this information is provided in the Public Accounts (comparable with our own Reports of the Auditor-General), which contains an exposition of the "Scope and Methods of the Public Accounts".



In Australia the main budget document (Budget Speech and Statements) includes an appendix dealing with the "Coverage and classification of information in statements attached to the budget speech". In addition, the annual Financial Statement (the audited government accounts) contain many useful descriptions and explanations of conceptual aspects of the budgetary accounts, and in addition has since the middle 1960's included an appendix entitled: Commonwealth Government Accounting System.

In the United Kingdom, descriptions of the composition of the government and the structure of the government's accounts are provided in a volume entitled National Accounts Statistics, and in occasional companion Handbooks issued with the regularly published statistical series entitled Financial Statistics.

By contrast, very little is presently published by the South African government to guide the reader through the budgetary accounts. Indeed, no information is provided concerning many of the most basic conceptual aspects of the budget, such as the coverage of the budget, the scope of extra-budgetary activity, the budget's accounting basis, the extent of expenditure/revenue netting, the price basis of estimates, the internal sources of loan funds, etc. Consequently, much of this information would remain a closed book to anyone but the most experienced interpreter of the government's accounts, unless extensive enquiries are made.

Since a knowledge of the basic budgetary concepts seems to be essential if budgetary data and the government's accounts are to be used intelligently, the incorporation of a primer on budget concepts and the government's accounts, either in the Report of the Auditor-General or in a separate budget document (see above), would seem to be an essential first step in the development of a more informative and intelligible budget document for South Africa.

#### A budget in brief

A third aspect of budget presentation in some countries (the United

States and Canada) which could also be considered for adoption in South Africa, is the current practice in these countries of publishing a condensation of the budget for the benefit of the layman in the form of a leaflet entitled: Budget in Brief.\* Since a large proportion of our population is relatively unsophisticated the issue of a similar publication in South Africa could create a greater awareness of, and interest in, budgetary issues amongst the population as a whole, especially if it is also issued in some of the black languages and is distributed on a national basis through Post Offices, Banks, etc.

### 3. Coverage

Our survey of budgets has given special emphasis to the matter of budget coverage. It is clear that the coverage of the South African budget, and the comprehensiveness of the picture of the central government's activities that it therefore conveys to Parliament and the public, contrast sharply with the budgets of the other countries. This section deals with two aspects of this problem: extra-budgetary activities and tax expenditures.

#### Extra-budgetary activities

An important fact which is clearly illustrated in this survey is that the phenomenon of so-called off-budgetary, non-budgetary or extra-budgetary activity (carried on through bodies and funds outside the traditional budgetary accounts) is not unique to the South African system. However, unlike the position in South Africa, other governments tend to give extensive coverage in their own presentations to any such transactions which are excluded from the traditional budget format.

For example, in the United States, off-budget federal government activity is discussed relatively extensively in several parts of the budget,

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\* In Canada the Treasury Board also issues a separate document entitled: "How your tax \$ is spent" when the expenditure Estimates are presented to Parliament a few months before budget day.

and all budgetary and off-budgetary transactions are brought together in a table to show their combined effect on the federal deficit and the public debt.

In Canada, the so-called budgetary and non-budgetary transactions of the government are combined in the summary budget presentation to provide the basis for an overall cash requirements analysis. Excluded, however, are most of the Public Corporations.

In Australia, the Public Account comprises the Consolidated Revenue Fund, Loan Fund and the Trust Fund, and all these are brought together in the so-called budgetary sector. Bodies falling outside this comprehensive definition of the budgetary sector are considered in an even more comprehensive national accounts presentation, though in much less detail than the budgetary sector.

In the United Kingdom, too, a comprehensive definition of the central government is employed, comprising the departments, separate bodies and extra-budgetary funds. In the Financial Statement and Budget Report these various parts are brought together in a comprehensive statement showing their combined effect on, first, the Central Government's Borrowing Requirement, and then, the Public Sector Borrowing Requirement.

In contrast, the South African budget and its presentation are structured on the basis of the central State Revenue Fund alone. Consequently, the budget records many internal transactions, and the transactions that the large number of separately organised or extra-budgetary bodies and funds in the central government sector conduct with the other sectors of the economy are not fully exposed to scrutiny; and apart from occasional references in budget speeches to some of these bodies and funds and the activities carried on by them or financed from them, the extra-budgetary sector as a whole is kept well out of the limelight. Although a certain degree of financial unity is achieved in the government's accounts and the budget through a complicated system of internal cash flows and Exchequer borrowing via the Public Debt Commissioners, a major shortcoming of the latter arrangement is that

the government's extra-budgetary transactions are thereby brought to account in the budget in a manner which could seriously distort the overall fiscal picture, obscure fiscal policy changes, and therefore make an intelligent interpretation of the central government's budget an extremely difficult task.

These conclusions emphasize the desirability of including in the present budget format some information on the limitations of the data contained in it. No such information is provided at the moment (see the previous section). A section defining the accounting framework of the budget should therefore be incorporated in the budget document (or in the Report of the Auditor-General) as a short-term measure. This section could, *inter alia*, lay out the composition of the Public and Central Government sectors, indicate the major classes of central government bodies and funds and explain how the latter relate to the budgetary accounts. In the longer-term, the more fundamental problem of the budget's lack of coverage must be tackled and the possibility be investigated of presenting a budget which is based on a more comprehensive concept of the central government than the present one.

#### Tax expenditures

A second facet of budget 'coverage' which is worth mentioning here is the concept of a tax expenditure account. The latter concept has recently gained in prominence in some overseas countries, but has not yet surfaced in South Africa.

In the United States the concept was first introduced in 1969. Since 1974 the publication in the budget of a separate tax expenditure account has been required by law in that country.

In the United Kingdom the Public Expenditure White Paper of January 1979 incorporated figures for the first time on the whole range of reliefs, allowances and deductions that underlie the United Kingdom's direct tax system.

In Canada details of tax expenditures have been available in the budget



papers for some time, but a comprehensive Canadian federal tax expenditure account was introduced for the first time in the budget of December 1979.

In Australia too the main budget document now provides information on some major categories of tax expenditures.

As we have mentioned, nothing resembling a tax expenditure account is currently issued by the South African government. However, if the allocation of government resources is to be determined rationally, the rules of economic efficiency require that all expenditures be brought to account. Further, the redistributive function of the central government's budget is likely to become more, rather than less, significant in the future. The publication of some details of tax expenditures would therefore represent a useful addition to the information now provided in the budget.

#### 4. Classification

An appropriate grouping of budgetary transactions is an important facet of budget design. This survey has found that in the four selected countries, as well as in South Africa, several classifications are usually incorporated in the budget format. However, important differences were found to exist between South Africa and the other countries as regards the manner in which the classifications are presented for the enlightenment of the budget user.

##### Expenditures and revenues

In the United States budget document, outlays are reported by agency and function. In addition, an economic classification is contained in the customary analysis of Federal Transactions in the National Income Accounts (a Special Analysis).

In the United Kingdom, total Supply Services are presented in a number of major functional categories (17 in 1979/80), whilst major

tables present central government transactions by economic type.

In Canada, the economic classification of expenditures and revenues form part of the traditional national income presentation of budgetary data. A new functional presentation is under way.

In Australia, also, budgetary outlays and receipts are presented in both economic and functional categories.

Likewise, the South African budget contains several groupings. Proposed expenditures (excluding the supplementary adjustments which are announced in the budget speech) are classified in three main ways. One classification is by department (vote) and program, but this is given in the Estimate of Expenditure. The Statistical/Economic Review incorporates both an economic and a functional classification of expenditure. On the other side of the South African budget, revenue groupings are provided in accordance with (1) collecting departments; (2) sources of revenue, and (3) broad economic types.

Therefore, broadly the same types of classification of budgetary data are provided in all the budgets that we have looked at.

However, an important distinguishing feature of the presentation of expenditures and revenues abroad is that the groupings of expenditures and revenues are generally integrated in the main, or summary, presentation to a much greater extent than in South Africa, and on the basis of more consistent definitions. In comparison, the several classifications of expenditures and revenues in the South African budget are not integrated in the presentation, but are scattered throughout the various papers making up the budget. In general, the various groupings lack comparability with each other and with the summary data provided in the printed version of the Budget Speech, on account of differences in definitions, coverage, etc.

The development of a more comprehensive budget document for South Africa would make it possible to give these classifications a more prominent place in the presentation. On the other hand, it might

well be that a significant improvement in the present situation as regards consistency of coverage and definitions would probably require a re-consideration of the traditional budgetary style in South Africa (the making of last minute changes to budget proposals) and of the authorities' concern with budget secrecy.

#### Credit transactions

Another aspect of classifications is the division of outlays into loans and other expenditures.

As we have noted, the South African government and its various agencies are a major lender of funds. However, anyone wishing to determine the volume and the destination of the loans that the government proposes to make in the budget year would find it a near impossible task. In addition, it is generally impossible to tell from budgetary data how the government's intermediary function affects the central government's deficit and the borrowing requirement.

In comparison, government lending activities occupy a prominent place in the budgets of the four other countries. In the United Kingdom a separate National Loans Fund was set up alongside the traditional Consolidated Fund in 1968 to deal with all transactions connected with the national debt and most government lending (subsidized loans are still met from the Consolidated Fund). Consequently, it is possible to see at a glance (1) how much, and to whom, the government proposes to lend, and (2) the effect of such loans on the public sector borrowing requirement.

In the United States a separate Loan Account was introduced in fiscal 1969 as a presentational aid. Although the experiment was dropped in 1972, full exposure of federal credit programs has remained a priority of the budget. For example, the latter includes a regular Special Analysis on this subject.

Likewise, the Australian and Canadian budgets give full exposure to government investments, loans and advances which are clearly identi-

fiable in the respective summary presentations or other prominently placed tabulations.

In South Africa, government loans which are provided through the Exchequer are treated as budgetary expenditures, but details of amounts and destinations are buried in the Expenditure Estimates. Loan repayments again are incorporated in budgetary receipts. Some information on proposed loans is given in the economic and functional classifications of expenditures in the Statistical/Economic Review, but the data given there is incomplete and also fails to provide a basis for an analysis of the government's role as a financial intermediary. Further, loans from extra-budgetary funds and bodies are not covered in the traditional budget format.

A more meaningful presentation of the government's lending activities could be achieved if a restructured economic classification of budgetary outlays were to provide a breakdown of the total of loans, advances and investments into: central government authorities, rest of public sector, other domestic, and overseas. Further details giving more specific destinations could be provided in supplementary tables. Outlays should be recorded net of repayments.

In a revised set of budgetary accounts incorporating all central government transactions, internal loan transactions could be eliminated and credit granted to other sectors broken down into: rest of public sector, other domestic, and overseas. This information could be supplemented with further data on credit granted through public corporations.

##### 5. The deficit and its financing

This section first deals with the presentation of the deficit, and then with the presentation of budget financing.

##### The deficit

The form of the South African budget does not provide much scope for

fiscal analysis. The reason for this is that the present budget format only provides the traditional framework within which to consider the approximate economic impact of the budget, in accordance with the formula: Budgetary Expenditures - Revenues = Budgetary Surplus/Deficit (current year estimates are provided for purposes of comparison). However, this form of presentation does not allow for an explicit treatment of automatic versus discretionary policy action or of the appropriateness of the budget's proposals in terms of the goals of the economy. Some possibilities of an analysis on these lines are provided by the current practice of providing revenue estimates on the basis of existing, as well as proposed tax rates, but since this information is not extended to the expenditure side, the budget as a whole cannot be considered in these terms. Further, the South African government has never employed a national income accounts concept of the budget as an additional presentational aid.

As we have mentioned, because of the general paucity of budgetary data on government loans<sup>\*</sup>, it is also not possible in the present format to distinguish between the central government's financial deficit (the deficit before lending) and its total borrowing requirement (the deficit including loan transactions) or to analyse the role of the government's intermediary function in the movements in the latter.

These basic inadequacies of the South African budget are compounded by the lack of comprehensiveness of the budgetary accounts<sup>\*\*</sup>, which could have a significant effect on the budget aggregates including the net deficit (before borrowing) and its financing.

In comparison, comprehensive deficit concepts are employed in the United States, the United Kingdom, Canada and Australia. In addition, national income concepts are widely used as a presentational aid. However, only the United States has so far formally incorporated the full-employment budget concept as a presentational aid, which is supplemented by a so-called current services analysis designed to focus

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\* See the previous section.

\*\*See Section 3 above.



attention on the President's policy initiatives (discretionary actions). As regards further decomposition of the deficit, Australia alone distinguishes between the domestic budget deficit and the overseas budget deficit as a means to focus on the budget's impact on the domestic economy and the balance of payments, respectively. In the United Kingdom again the presentation of the central government's deficit (borrowing requirement) forms part of a more comprehensive presentation of the deficit of the public sector as a whole.

#### Budget financing

Our survey of budgets shows that of the five countries only South Africa furnishes details of the government's proposed borrowing operations. A common feature of budget presentation in the four overseas countries is that a single net figure is given in respect of proposed borrowing from the public. Finance Ministers in these countries are therefore not willing to go further than to give a general statement of financial policy.

In South Africa, however, the Finance Minister usually furnishes a fairly detailed exposition of how the government intends to finance the proposed budget deficit. Because such details are by nature both provisional and incomplete, they could be highly misleading if used as an indicator of the budget's effect on the money and credit markets. In the South African context, budget financing is particularly unpredictable because of the obscure role played by the Public Debt Commissioners. In addition, the publication of details could also have given rise to a tendency locally to regard budget financing as a function of the deficit alone, and to give inadequate recognition to the close connection between budgetary, monetary and exchange rate policies.

As a result, the traditional practice in South Africa of publishing details (however tentative they may be) relating to how the deficit is to be financed, is subject to serious questioning, and the authorities should consider a revised format for the financing section which will exclude such detail.

FOOTNOTES

1. See R.M. Will: The Budget as an Economic Document, Studies of the Royal Commission on Taxation, Number 1, September, 1964, pp. 3-4.
2. R.M. Will: The Budget as an Economic Document, p. 3.
3. See, for example, Dr. G.P.C. de Kock: "The Budget and the South African Economy", The South African Banker, Volume 72, Number 2, May, 1975, p. 130.
4. Refer, for example, to: (1) Report of the President's Commission on Budget Concepts, United States Government Printing Office, Washington, D.C., October, 1967; (2) Government of Canada, Report on the Study of the Accounts of Canada, October, 1975; and (3) House of Commons White Paper: Reforms of the Exchequer Accounts, Cmnd. 2014, May, 1963. See also L.J. Hume: "Reforms in the Budget Documents since 1963", Public Administration (Australia), Volume 25, Number 4, December, 1966.
5. See House of Assembly Debates (Hansard), Fourth Session, Sixth Parliament, Number 10, par. 3458-3512.
6. See Budget Speeches 1980-'81.
7. See Budget Speeches 1980-'81, pp. 19-20.
8. See Budget Speeches 1980-'81, pp. 22-27.
9. See Estimate of the Expenditure to be defrayed from State Revenue Account during the Financial Year ending 31 March 1981, First Print (R.P. 2-1980).
10. See Estimate of the Expenditure to be defrayed from State Revenue Account during the Financial Year ending 31 March 1981, p. ix.
11. See Budget Speeches 1974-'75, p. 8.
12. Estimate of the Expenditure ..... 1981, p. ix.
13. For a description of these terms, see Estimate of the Expenditure ..... 1981, p. ix.
14. For a description of the basis of this economic classification, see Estimate of the Expenditure ..... 1981, pp. xi-xii.
15. See Estimate of Revenue for the Financial Year ending 31 March 1981, Second and Final Print (R.P. 3-1980).
16. See Taxation Proposals (A. 1.'80).

17. See Statistical/Economic Review in connection with The Budget Speech 1980-'81 (W.P. B-'80).
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43. See The Budget of the United States Government, 1979, pp. 243-252.
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56. See Canadian Tax Foundation, The National Finances, 1978/79: Introduction.
57. Department of Finance, Canada, December 11, 1979.
58. See Public Accounts, 1975-76: The Scope and Methods of the Public Accounts, p. 1.3.
59. For a very illuminating review of the various types of crown corporations (showing that some of them (Agency Corporations) are similar to our autonomous bodies inside the central government, whilst the Proprietary Corporations seem to correspond with our usual public corporations), see J.C. Strick: Canadian Public Finance, Holt, Rinehart and Winston of Canada, Montreal, 1973, pp. 49-50.
60. For a discussion of the basis upon which items are classified as budgetary or non-budgetary, see Public Accounts, 1975-76: The Scope and the Methods of the Public Accounts, pp. 1.5-1.6.
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65. See, for example, Supplementary Budget Papers, March 31, 1977, Department of Finance, Canada, pp. 4-5 and other issues.
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67. Treasury Board, July 25, 1980.
68. See Canadian Tax Foundation: "The Federal Government as a Supplier of Capital", The National Finances, 1973-74, pp. 1-7.



69. See Budget Paper No. 1 - Budget Speech 1980-81 and Statements, Australian Government Publishing Service, Canberra, 1980, inside front cover, where all the budget papers are customarily listed.
70. Most information in this section and the next section was obtained from Public Accounts, 1977-78, Section 2 and Appendix D: Commonwealth Government Accounting System.
71. See 1980-81 Budget Papers, No. 4, Estimates of Receipts and Summary of Estimated Expenditure 1980-81.
72. See Budget Speech 1977-78 and Statements, Statement No. 3 - Estimates of Outlays, 1977-78, p. 44.
73. 1972-73 Budget Papers No. 11, Authorities of the Australian Government 1972-73, pp. 4-6.
74. See Budget Speech 1980-81 and Statements, Statement No. 6 - Budget and other Public Sector Transactions since 1970-71, Table 8, p. 301.
75. See 1980-81 Budget Papers No. 10, National Accounting Estimates of Receipts and Outlays of Commonwealth Government Authorities.
76. The national accounting concept was first introduced in the Australian budget in 1963 when the Budget Speech contained a new attachment: "The Budget in National Accounts Form". See L.J. Hume: "Reforms in the Budget Documents since 1963", Public Administration (Australia), Vol. 25, No. 4, December, 1966, pp. 310-311.
77. Budget Speech 1980-81 and Statements, 1980-81 Budget Paper No. 1, Appendix 11 to Statement No. 4, pp. 244-247.
78. See Budget Speech 1977-78 and Statements, Appendix to the Budget Statements - The Functional Classifications of Budget Outlays, p. 177.
79. See Budget Speech 1977-78 and Statements, Statement No. 1 - Summary of the 1977-78 Budget, p. 3; and Statement No. 6 - Budget Transactions since 1967-68, Table 4, p. 172.
80. See Budget Speech 1977-78 and Statements, Statement No. 6 - Budget Transactions since 1967-68, Table No. 7, p. 176.
81. See Budget Speech 1977-78 and Statements, Statement No. 5 - Budget Outcome, 1976-77, pp. 146-149.
82. This section is based on A.R. Prest and N.A. Barr, Public Finance in Theory and Practice, Sixth edition, Weidenfeld and Nicolson, London, 1979, pp. 215-225; and H. Carter and I. Partington, Applied Economics in Banking and Finance, Oxford University Press, 1979, pp. 211-213.
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87. Refer The Government's Expenditure Plans 1979/80 to 1982/83, Cmd 7439, HMSO, London, January 1979, pp. 17-29. See also The Interface of Public Expenditure and Taxation (TM37), Memorandum by the Treasury, Expenditure Committee (general sub-committee - Minutes of Evidence), Session 1977-78, HMSO, London, 1 February 1978, pp. 4-9.

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