PUBLIC FINANCE: EXPENDITURE ALLOCATING, RESOURCES RAISING

Reginald Herbold Green*

'Economics is about the getting and spending of money.' R. J. Green
'Getting and spending we lay waste our powers.' W. Wordsworth

1 BUDGETING AS MACRO-MANAGEMENT

The National Budget, whether one wants it to be or not, is an important part of macroeconomic management. It includes the largest single chunk of consumer expenditure as well as the largest single chunk of fixed capital formation. No other single decision taker spends as much on consumption, even though *en bloc* private consumption usually exceeds public by at least 5 to 1. Only in a very unbalanced economy dominated by one enterprise would another decision taker spend as much on capital formation as Government and even then hardly consistently year after year. Indeed, if transport/infrastructure, telecommunications and power are public sector, the budgetary plus linked enterprises will usually account for over 50 per cent of gross fixed capital formation in an SSA economy.

Second, the Government is the only, or at least the basic, supplier of health, education and water services to middle and low income households. That reality is particularly relevant to Africa. To imagine a private medical system covering rural low income people providing anything like an acceptable level of primary health services is a day dream (or nightmare).[1] Upper income groups can usually find a market solution for any procuring service, but that is not the nature of the problem as seen by an accountable government nor by politicians subject to re-election (or defeat).

Third, the Government is the basic supplier of certain types of infrastructure, crowding in investment if you like because without it enterprise costs will be high and investment low. Roads, railways, harbours, airports, post and telecommunications and – usually – electricity are examples. In both theory and practice some of these might be supplied by private and mixed enterprises. The likelihood under African conditions of a significant amount being provided by purely private enterprises is low, partly because, with high inflation and devaluation risks combined with regulation of monopoly prices, the risk to investors is very high indeed.

Fourth, the Government, whether it likes it or not, collects revenues from quite specific sources, households, income groups, enterprises, geographic areas and spends it on quite specific uses which are to the benefit of specific areas, enterprises and households. It would be quite amazing if this did not have a redistributive effect – whether intended or not. Therefore it is highly desirable to take a hard look at what the geographic or income redistributive effects are. If undesired, the answer is how to alter expenditure distribution or revenue sources.

In the absence of massive consumption transfers, which are not financable in any African country, it is impracticable to make expenditure progressive in the sense of spending more per low income household than per average household. It can be made progressive in two quite different senses: for the percentage of Government services used as a share of services plus household direct income to be higher for low income than for other households; and (though this is almost trivial) for the value of Government services used by poor households to be higher than the taxes they pay. The Government that does not meet the second test is not simply not particularly progressive; it must be going out of its way to run a regressive expenditure policy. There are such cases – e.g. the agricultural sector and probably total government spending of Malawi in the 1970s – but they are rather hard to achieve.

* Seminar Co-Director

[1] The World Bank would not disagree. Nothing in its recent health studies conflicts with the assertion that virtually all SSA countries should provide more preventative and primary curative services to more people. Its guidelines for state provided/financed services on the whole also suggest a need for absolutely more (even if as a smaller proportion of a larger total) tertiary hospital care and implicitly admit that the role of private for profit health services in low income countries is limited and broad use of non-profit social sector providers (e.g. the Christian Medical Services of Ghana, Namibia, Tanzania) requires a combination of state with user and operator resource provision.

Within expenditure the primary level of a service tends to be more progressive than the secondary level and the secondary than the tertiary. This is true whether talking about water, health care, education or roads. For example, the dirt track with a bridge or box on which a lorry can get over a river or creek nine months out of the year is largely beneficial to poor people plus local merchants who are necessary for the poor people to have access to markets. All weather engineered gravel highways from district to provincial towns are useful to primary road users but even more so to large farmers (farming enterprises), wholesalers, long distance transporters. A six lane highway from the airport to the centre of a capital city is primarily beneficial to people who have medium to high incomes.

Fifth, Governments usually operate a package of fiscal monetary and related policies announced at the time of the Budget and considered as part of a single annual economic project programmed around the Budget. These affect enterprises and households. For example, whether the Central Bank is operating credit ceilings by market policy, by moral suasion, or by direct allocation, the domestic borrowing requirement from the banking system in the Budget very much effects enterprises. Similarly if a government creates 58 new varieties of licences (one more than Heinz 57 varieties of soup!) on the misbegotten theory that the more different taxes, the more money collected, then quite apart from the license cost impact on the enterprise sector, the bloody nuisance created by the multiple procedural steeplechase will affect them. Equally, although to quantify it is hard, the general tone of the budget speech – which usually includes an economic survey – as well as the credibility of its analysis does effect the 'animal spirits'[2] of enterprise decision takers. For example on reading the 1992-93 Tanzania budget speech some readers wanted to run for cover, because the speech's author was looking at a quite different country than they saw. In the event the revenue and growth outturns suggest the speech's author was not looking at the actual Tanzania. It is not simply whether the speech is optimistic or not, but whether what it says carries conviction. Obviously if the speech says that the economy is going to collapse and keeps repeating this for three hours, the economy is highly likely to collapse because that funereal tolling by a Minister for Finance may well carry conviction. However asserting that the economy is on the road to self-sustaining forward movement when there is no evidence to support it may, in terms of the reaction of enterprise decision takers, have the same impact as saying the economy is going to collapse because enterprise decision takers (and probably voters) have no faith in policies advanced in the context of a dream world.

2 EXPENDITURE MACRO TO EXPENDITURE SECTORAL

A useful start is seeing how what draft sector allocations can add up. The total is macro, the components sectoral. Simply to use the figure in the World Bank's Long Term Perspective Study (LTPS), from the requirement side, the total including capital budget can optimally reach 35-40 per cent of GDP, one half to health education and water which are largely recurrent, although water has a higher capital component; one quarter to economic services and infrastructure with the latter largely capital but on economic services largely on agriculture which should be largely recurrent; and one quarter to general administration, security and debt service. The snag in the way the Bank estimates is that the figures relate to a median sub-Saharan country with $400 per capita income leading to expenditure of $140-160 per capita.[3] If a country has $200 per capita income, true of quite a number, a problem arises. The assumption that the same physical quantity of services per capita of the same quality is possible for $70-80, because the lower GDP per capita the lower the real wage rate is not credible for that wide a disparity. The more national income is below $400 per capita the higher – sadly – LTPS's targets would be in terms of percentage of GDP. They are likely, therefore, to be

[2] The term is John Maynard Keynes' and underlines the important point that, whatever short run outturns and projection model forecasts, the general levels of optimism and of sense of security of enterprises (including in SSA family farming enterprises as a key sub-group) - or their reverse - has a substantial impact on whether they do or do not invest. The limited recovery of private enterprise investment in most SAP using economies suggest animal spirits as of the early 1990s remain low. Because trade and price liberalization cut two ways for enterprises, adoption of a SAP including rapid trade liberalization aspects (or even rapid devaluation ones if enterprises doubt they can pass on cost increases) can have a very negative effect on already timorous private sector animal spirits – e.g. Zimbabwe 1991.

[3] If a high proportion of GDP represents rents on non-renewable asset exports paid directly to the state (e.g. Botswana, Nigeria) the ceiling percentage may well be higher as is true in the opposite case in which external grants and soft loans dominate revenue, e.g. Mozambique.

impossible for many countries as 1994-2004 targets. These countries will need to consider what lower interim targets, rate of growth of GDP and marginal tax takes from it (very important in seeking to sustain both growth and crowding in spending) and phased movement trajectory to the $140-160 level could be managed over what time period.

Macroeconomic goals ought to provide broad guidelines for division of expenditure by sector. In the end allocation shares turn on judgement. It is possible to set up all mathematical models but their results depend heavily on the assumptions fed in. At the end of the day it may make more sense to pose the final trade off as 'do we need 500 more constables more than we need 500 more teachers, or do we need 1,000 wells more than either. These are three items that have about equal cost. All are desirable but only one can be financed.' The answer would depend on the situation. In a country with cities totalling three million in which, excluding traffic escort and ceremonial police, there are a total of about 500 policemen, it may well be that the next economic priority ought to be 500 constables. The fact that law, order and security are not everything is by no means inconsistent with this comment. If there is no law, order or security it is very unlikely much else can be achieved. Similarly, if in a district women walk eight hours a day to collect water, then it is highly likely that, even given the need to expand education and especially the education of girls, the first priority could be getting 1,000 wells drilled or dug to have a district impact on: 1) women's workload; and 2) their ability to produce crops and, therefore, on household nutrition and cash income; with the result, 3) of enabling girls to use ex-water carrying time and their mothers' higher cash incomes to attend school.

Within sub-sectors, there is a division between spending on recurrent items and fixed assets. To call the latter development is silly. To say that a police post is development and a technical training programme is not is simply wrong. To say that both of them **might** be development is true. If the second one cost $200,000 per student, $195,000 per student of which went to a foreign contractor for programmes and instructors, it might well be that it wasn't development or at least was neither cost efficient nor national capacity enhancing. One can rationally identify something as a fixed asset used over several years. Even a census is a fixed asset in that sense. Other types of spending are recurrent expenditures which, by and large, take place every year. That is a workable distinction for budgetary and financial purposes and, indeed, for financing purposes as well. The argument over whether a particular expenditure contributes to development or not is an unsatisfactory one. Even if one had a precise dividing line it wouldn't be fixed assets versus recurrent spending. There can usefully be a fixed assets budget separate from the operating (recurrent) budget.

Within the operating budget are wage and salary related costs, what can be called mobility – vehicles or bicycles plus their maintenance and petrol. Another operating item is maintenance of fixed assets (at least one hopes it is!) and another what could be called working capital or complementary resources, e.g. a medical service needs food, drugs, beds and bedding and a rural water maintenance department needs tools and parts.

Clearly one bit of efficiency is to be sure that there is a sane balance. The optimal number of water technicians to be effective require an optimal number of tools and parts and a proper budget item for maintenance. But if the budget process has forgotten to provide for vehicles or alternative transport, even though it provided for fuel, or if it has provided for vehicles but no fuel, then it is busily throwing money down the nearest dry well. Plenty of budgets in African countries make no sense when checked for balance. It is exceedingly easy when forced to cut the budget to cut maintenance first. The next thing cut is usually complementary goods and then mobility, after which real wages and salaries are allowed to erode from inflation. Presently all of the officers, qualified or not, are sitting in their offices twiddling their thumbs, unable to do anything and paid so poorly as to have limited motivation to try.

A second point, intra-sectoral coherence is that when building/buying fixed assets this year, it is important to be sure that the rolling forward budget has included their maintenance, personnel cost, working capital, etc. in subsequent year's recurrent budgets. Otherwise one will do what only too many African countries have 'achieved' at least to a significant (significantly negative) degree – a brand-new fixed asset is finished, there is a grand opening and the next day it closes because there is no space in the recurrent budget to operate it. Or alternatively one large new hospital by opening reduces the total number of hospital beds in the capital city, every

other hospital is closed to pay for its operations: e.g. the Duke of Harar Hospital in Addis Ababa in the 1950s. That is a point for balance and also for three year rolling budgets to take into account the future costs of present fixed capital expenditures.

It is also important to look at balance among the tertiary, the secondary and the primary levels of each activity. There are good reasons why for growth and for capacity building, some tertiary and secondary are needed. To say: 'Oh well our education system will stop with primary education', would mean each senior officer was an expatriate because it is impracticable to run Government entirely with primary school graduates. On the other hand, in focusing on improving the livelihoods and overall current and future welfare of the majority of the population, one is largely interested in primary education and interested in tertiary only as it provides a supporting climate for – e.g. – research and extension. In some cases one may also be very interested in technical education, e.g. of extension and maintenance personnel. Inherent technical reasons within a sub-sector also dictate some mix. By and large to run a health sector, that does not have at least one consultancy, research and training hospital is exceedingly difficult. To have the rest of the system operating competently is a valid reason for seeking aid and consultants in the training hospital, but not for allowing tertiary health care to dominate over primary.

3 EFFICIENCY

Efficiency means many things. Efficiency is an adjective. Efficiency is in respect of something. People who say efficiency either means profitability or cutting costs are stating their own goals not what efficiency itself is. Efficiency in reducing expenditure may well be important, but as a means not as an end. The greatest efficiency for reducing expenditure would be to fire the entire Government service, in which case there couldn't be any other Government expenditure (or revenue) either. But if a Government has served and needs to serve some purpose, then a complete shutdown is somewhat inefficient.

Budgetary efficiency from the cost point of view relates to providing more or better quality outputs per unit of input cost. This may mean improving the balance by sector, e.g. in a water sector budget which has everything except gasoline for vehicles, providing gasoline (mobility) will increase efficiency dramatically. That increases efficiency but doesn't reduce expenditure. Rather it provides a functioning water sector raising output from near zero to a substantial amount by increasing expenditure by – perhaps – 5 per cent. In the case cited, that may be possible by reallocation from other heads. Usually it is much easier to regain efficiency balance, either in the relationship of expenditure heads (product inputs) case or in primary, secondary, tertiary rebalancing operation within the context of at least a modest increase in real resources. In each year the new resources go toward balancing. In Ghana for example it is one thing to say that 75 per cent of additional health sector resources should go to primary level rural health but quite a different one to seek to cut the expenditure on the main Accra hospital by 50 per cent to achieve more rural health funding as was once advocated. A perfectly good case could be made out that the hospital was under-financed to the point of inefficiency, even though rural primary health services were more under-financed. The latter case is, both in technical efficiency and in normative terms, very persuasive in respect of additional resources. It is not very persuasive in taking 50 per cent of the present money. That would have caused collapse (possibly literally as well as in service provision). The worst context in which to have to improve efficiency and to reduce imbalance is one of shrinking total real resources. Ghana's rebalancing in fact began when sustainable increases in total real spending replaced overall cuts as the goal in 1985.

Second, to get a huge increase in efficiency, other than by balancing, usually entails the need to re-organize the way programmes are carried out in a structural sense. For example, if the standard way of providing rural water is by boreholes and the water department has not been absurd in the way it sited, drilled and maintained, then it may be possible to get the cost of a bore hole down 10 per cent in real terms, but not much more. To get a 50 per cent reduction in cost per person served requires shifting to using spring protection and shallow wells wherever possible. That may get the cost per person served down 50 per cent, but is a very different thing from trying to reduce cost within the existing system. Such a structural shift in 'how things are done' takes longer and is riskier. That implies structural change should not be entered into lightly, without careful preplanning of **how** (related both to the reasons for the change

and to the end product being produced) nor should it be attempted on an overnight (or open-ended no terminal date) rather than a phased, multi year basis.

4 REVENUE – THE MEANS TO EXPENDITURE ... PLUS

Revenue and resources on the macro level include taxation and analogous sources, grants, domestic and foreign (treating what might loosely be called community participation in financing services as a domestic grant) and also domestic bank and other loans and foreign loans of divers kinds. A macro consideration is holding the total – or at least the domestic resource financed total to some range of percentages of GDP within which macro results are likely to to be better than at higher or lower ratios. Too low a share denies needed services – not least to household and enterprise sectors; too high squeezes personal consumption, non-state investment and incentives to produce. What such a band is varies with the level of GDP per capita and the initial distribution of income. If some range of taxes and related charges is posited beyond which taking away more and more money is likely to be counter-productive, by and large this may be 25-35 per cent.[4] But the band also depends on what services are being provided. If no public health and education services exist, then the tax rate beyond which exactions will be counter productive, is lower than if primary and secondary health and education are available at quite low cost in the public sector. The economic point is that if people are to buy private health and education, there is less to pay for everything else including taxes. The political point is that if the payoff from paying taxes is clear then the willingness to pay is (not surprisingly) enhanced.

There is as frequently announced a crowding out effect. This applies to taxation, to domestic grants and to domestic borrowing. The one which is also usually grossly inflationary is domestic borrowing from the banking system.[5] However, beyond some point all taxation or all revenue collection tends to be mildly inflationary. If that level is 25-35 per cent of GDP, then it is well above most SSA countries' level now and it depends on the use of the money, whether increases are efficient as to growth or social goals and also whether they are or are not inflationary and external balance threatening. If a state can get what it views as the basic expenditure requirements done for less no case exists for pushing to 25 per cent plus taxation to GDP exists.

The old rule of thumb that taxation plus domestic grants should be equal to or greater than recurrent expenditure is still desirable but at least half SSA countries cannot now meet it. Their interim rule has to be taxation plus grants, domestic or foreign, equal to or greater than recurrent spending. Most countries with a push can do that, unless they have very imprudent budgets or totally debilitated tax collection. The point of the rule of thumb is to be borrowing only for multi year assets that can be depreciated over the life of a loan. Though technically not very sophisticated, this is a rule of thumb that can be understood by everybody, whereas a sophisticated set of guidelines cannot be understood. A Treasury is much better off with an approximately correct rule of thumb people (including political decision takers) can understand than with a complex formula they cannot. Equally, however, to take a rule of thumb that cannot possibly be achieved is counterproductive because once it is evident it cannot be achieved there is no fall back position and the flood gates of expenditure are wide open.

There is no theoretical reason for a Government, any more than for an enterprise, not to borrow for expenditure which yields its results over several years. Equally no more than for an enterprise is there any theoretical reason why the Government should ever pay off its whole borrowing. A successful, expanding enterprise rarely retires its whole borrowings; usually quite the reverse. What the Government should be asking is what is the cost of postponing or abandoning an expenditure versus the additional cost of borrowing money to finance it now.

[4] Very high marginal rates on income or profits other than windfall gains do have negative effects. The meaningful question for policy purposes is - in any specific context - what level of marginal rates is the 'threshold', stepping over which leads to significant negative incentive impact.

[5] High government borrowing may not be inflationary if a non-inflationary credit ceiling is set and enforced (whether by credit allocation or by sky high real interest rates on government paper, though these themselves may prove highly inflationary). Nor will it be inflationary if in fact the enterprise sector's animal spirits are low and it prefers holding government paper to investing. In the latter case - but not the former - no true crowding out exists either - e.g. Zimbabwe 1985-90 - but in both cases production capacity growth will be crippled.Very few economic analysts believe mild progressivity reduces incentives to produce/earn significantly.

5 TAX CRITERIA

For taxes there are four basic criteria. First adequacy. If the total package of taxes does not yield an amount which together with available domestic and foreign grants and plausible domestic and foreign borrowing will meet the basic expenditure requirement then taxation is not adequate.

Second, low collection cost and high collection efficiency, e.g. a tax or fee of 10 US cents recorded at the point of collection and worked through an accounting system to the centre, is unlikely to have collection costs significantly less than 10 cents. This is a very inefficient kind of tax, unless maximizing expenditure on treasury administration is seen as a high priority goal. But in addition to low collection cost it is crucial to have a high collection percentage. Tanzania once had an annual radio licence paid to the Post Office. The tax had a zero collection cost because there were no inspectors, all that happened was that some people – amazingly – took their 10 shilling notes to the Post Office every year and the Post Office remitted to the Treasury. The snag with the tax was not collection cost, but rather that the approximate number of radio sets was 2,500,000 and the number of licenses 250,000. Trying to run an annual sweep of radios to collect the 10 shillings (10 shillings was in those days a dollar and a half), would have been far too costly. The low collection cost was for a voluntary tax with a low collection percentage; not a particularly fair or buoyant source of revenue.

A third consideration is feasibility. Any fiscal expert can devise taxes that serve all sorts of purposes in addition to revenue collection and which are very sophisticated in their supposed incentive impacts. Often it is equally true that no revenue administrator can devise plausible (or even any) ways to collect them. Tanzania once had a very 'perfect' vehicle registration tax designed to encourage people to keep the cars on the road a long time, to encourage cars with low fuel use per mile, etc. etc. The 'only' trouble was that it required two shelves of books and about three hours for the insurance company to collect (along with compulsory third party cover) for any particular car in any particular year. The result was that the cover notes for third party insurance went from two weeks to six months delivery time and the insurance company declined to turn tax over to the Government because it said that it had spent that amount collecting it. An extreme example of non-feasibility perhaps but lesser ones abound.

The fourth taxation consideration is equity. This is basically a normative question. Most persons think that the tax system should be mildly progressive.[6] The key word is system. A three or four rate sales tax, or even a single rate VAT plus half a dozen excise taxes and (which is prudent for administrative reasons) no tax on unprocessed food will be progressive up to at least three or four times the minimum wage. At the lowest income levels most spending is on unprocessed food (or total income and consumption include a high proportion of untaxed own production). As incomes rise this proportion declines while spending on tobacco and alcohol rise, at least for a substantial range of incomes. An income tax covering people with incomes more than four or five times the minimum wage is collectable. Therefore the system can be made progressive using indirect taxes, excluding basic food stuffs from them, and having four or five different tax categories, plus special rates for alcohol and tobacco.[7]

6 TAX TAXONOMY

Taxes are categorizable by source. The first are normally described as **consumption** taxes, although if uniform and including items used in investment strictly speaking **use** taxes. Import duties and domestic trade taxes are consumption taxes, whereas export taxes are in fact income taxes because they reduce producer net incomes rather than raising what the purchaser pays.

Income taxes, include personal income tax and company tax. In SSA the name of the game is 'keep it simple or it cannot be administered'. This implies a tax with a limited number of bands rising rates up to whatever is believed to be a prudent maximum at the top (say 40 or 50 per cent) with no allowances for anything, because it otherwise becomes unadministerable. Tax credits for a limited number of dependents are practicable.

---

[6] This is not an ideological issue in the normal sense. Milton Friedman's negative income tax proposals are progressive.

[7] The basic point of these (high) rates is to keep revenue up and to introduce progressivity by levying on widely consumed amenity goods with low price elasticities. As it happens there are social (e.g. health) and political (relatively popular taxes) gains, but revenue plus equity form the bottom line.

Income tax on companies – or company tax – is normally levied on calculated or estimated profits at rates between 30 per cent and 60 per cent. Again simplicity and avoiding too many special deductions – which usually suck out revenue rather faster than they suck in investment – are desirable. If companies in certain sectors have very variable and unpredictable – but sometimes very high – profits, an **additional profits tax** on profits above a level which provides an average (from founding or over the past ten years) real return of – say – 25 per cent either on capital employed or on equity may be appropriate. APTs are by their nature complex to design and operate so usually make sense only if a large mining (including hydrocarbon) or finance sector dominated by a few large firms exists.

Alternatively some countries have a profits tax on all business incomes. Having a profits tax rather than an income tax applying to companies creates problems, because it means that a small businessman – or woman – either pays profits tax at – say – 50 per cent and is over taxed compared with a salary earner at the same income level or companies are undertaxed. The common case – e.g. Mozambique – is the first. Small business persons go to considerable effort and cost, whether in terms of time or bribery or both, to avoid paying the 50 per cent tax because they cannot afford to. Probably collections would be higher were profits of individuals taxed in the same way as other income. Furthermore, enterprises would not be driven underground, disabling data collection needed to understand the economy as well as effectively denying small businesses access to licenses, bank credit and enabling programmes.

Trade taxes on exports are in fact income taxes because incidence falls on the producer selling at a global price *de facto* set by oligopsony buyers. By and large royalties, usually also on exported products, are also income taxes.

While not truly a different kind of tax in economic logic, in economic logic, **road use** taxes are large enough to be treated as a special sub-category. Again the principle of simplicity applies. A fuel tax plus special licences for heavy vehicles – because of the disproportionate damage they do to roads and maintenance costs they require – and consumption tax on saloon cars and direct substitutes treated as basically amenity consumption items would appear optimum. In this case an overall goal of revenues minus the saloon car consumption tax roughly equal to cash flow[8] expenditure on roads and related infrastructure may be a good starting point. It is clearly easier to operate than a more complex package, let alone a toll system. In practice it subsidizes low traffic rural road users at the expense of urban street users – usually a result consistent with distributional equity and enhancing rural development incentives.

Fourth are **rents** and **rates**, a very under used source in Africa. In many countries the nominal title to land lies in the Government but only in cities is land rent common while the collection of improvement (buildings) rates in cities and towns is trivial in most African countries. If it is desired to build up local government, then the failure to use rents and rates, which – unlike many other taxes – are most efficiently collected at local level, is disastrous. Most large and some medium sized African cities could finance a significant proportion of the cost of providing basic urban services if they had reasonable site rents and improvement rates.[9] The argument that people won't pay seems to relate to the context in which the municipality doesn't provide any services. It is not at all clear that people would not pay rates and rents if the municipality collected garbage, repaired sewers, filled in pot holes. If a municipality is to be to a substantial extent self-financing, rents and rates visibly used to provide urban services are the most hopeful road. Income or multiple sales taxes are not very efficient either in collection, in the economic implications when level one changes autonomously of others or in the reallocating (relocating or hiding) impact on production, residence and sales.

Finally, there are **fees**, **service charges**, **stamp duties**, **licences**, etc. Many of these are a tax administrator's nightmare because to collect an infinite number of tiny transactions inflates the collection cost ratio. If somebody else does the collection for the state it lowers collection cost so far as the Treasury

[8] If other items have genuine non-revenue purposes (e.g. drivers licenses, vehicle inspection certificates), cost related fees may be justified but with no pretence to be serious as a net revenue source and a hard prior look at the supposed non-revenue justification, e.g. bicycle licenses unless deeply cut into the frame are not likely to reduce bicycle theft or to assist recovery significantly.

[9] An improvement rate is some percentage of the value of what is built on the land, while land rent is for the use of the land.

is concerned. However, it is then important to consider what cost may be imposed on others. A stamp duty on cheques is fairly harmless if what is required is for banks to keep count of how many cheques they issue and accept and pay a fixed fee quarterly based on the number of cheques. That is a very simple, perhaps somewhat simple minded, tax on bank transactions, but there is no serious problem with such a tax unless it is so high as to deter use of cheques. A literal stamp on each cheque is a very different (and less desirable) matter. Similarly, in trying to get communities to participate in financing services what a sensible Treasury truly wants are domestic grants. A user committee, whether this is a village council or a specific group, could negotiate a domestic grant (or expenditure off-set) of a fixed sum with the service provider. Ideally it is up to the group to decide how it collects the resources. It will probably think it should (or can only) charge the poorest households less than the richest and it is much easier for a water user committee on the ground in a village, than the Water Ministry or Commission in the capital to work out how to deal with charge setting and collection. The negotiation needs to be at a low (small unit) level, because in some cases the community may choose – e.g. – 1) to do maintenance work; and 2) to provide part of the staff salaries in the form of food. There is no reason why not if it costs them less than money and does lower the cash required from the budget. But the only way to negotiate on that basis is between the actual service providing unit and the representatives of actual users. Then the service unit can inform the Ministry that it has achieved 20 per cent cost recovery and only 80 per cent of the total nominal budget need be paid to it. Such arrangements are likely to be better received both by users and by supplying units than fixed fees collected at point of use, remitted to the centre and not – or not self evidently – having a direct impact on services supplied.

It may be useful to deal briefly with **negative taxes**. The most obvious form of negative tax is a subsidy. It appears as an expenditure item and is (or ought to be) subject to the same criteria as any other expenditure item. If there is an important particular macro or microeconomic goal which is most efficiently furthered by a particular subsidy then it may be an efficient expenditure (which probably is not the case for most subsidies). However, there are other forms of tax subsidy – waivers and partial waivers. A basic objection to a negative tax in the form of a tax waiver is that it is not transparent. A subsidy at least appears in the budget on the expenditure side. A tax that is waived does not, as it should, appear as a double entry – as a tax in the revenue column and as a tax waiver in the expenditure column. That would be perfectly legitimate accounting with the advantage of transparency. There may be some cases for such action, probably far less often than is supposed. One kind[10] which might be useful relates to stripping indirect taxes off exports, albeit collecting the taxes, computing standard formulas for embodied tax and paying refunds on export is likely to be less leaky than initial bonding or waiver procedures.

7 SOPHISTICATED ANALYSIS – SIMPLE PROCEDURES

The dichotomy between sophistication and simplicity in public finance is partly valid but partly misleading. Historically many African Treasuries have – especially on the revenue side – not been very analytically inclined with resultant costs, to efficient revenue raising as well as through unintended side effects. More recently the balance has sometimes swung the other way. Intellectually sophisticated approaches have been married to complex models, which are intolerent of bad data and require elaborate tax specification and collection procedures.

The sophisticated analytical approach has much to be said for it. A Treasury unaware of the massive impact of the Budget on macro and sectoral economic variables is a dangerous Treasury. But common sense requires seeking speedy, approximate quantitative techniques relatively tolerant of weak and/or partial data. To be approximately correct in time to decide is better than to be precisely correct six months after the decision had to be made, still more so than being precisely wrong.

Tax laws, resultant rates/computations and collection procedures should be simple. That cuts against both mindless multiplication of numbers of taxes, fees, etc. and proliferation of different rates for unclearly differentiated categories of goods

[10] Depreciation at rates related to actual useful life of capital goods is not a negative tax. It constitutes a real cost of doing business and is as proper a pre-profits tax deduction as wages or raw materials. Special 'fast track' and initial (or over 100 per cent) allowance rates do constitute negative taxes which may or may not be efficient incentives to investment.

or incomes as well as highly complex, data and personnel intensive approaches like multi factor vehicle licenses and – especially – standard European model VAT systems. It does not mean simple minded – a single point sales tax collected on import or manufacture is workable, cheap to collect, relatively enforceable/collectable and – with four or five rates – consistent with a progressive tax system and is, in fact, a simplified variant of a multi rate VAT system. A vehicle license system for heavy vehicles with charges rising in proportion to weight cubed (but set out as tax rates for half a dozen weight bands) is a simple way of charging such vehicles for the extra wear and tear they inflict on (use they make of) roads. The concept in each case is arguably sophisticated. It is its legal embodiment and assessment/collection system which need to be simple to be efficient in raising revenue and in having positive (or avoiding negative) non-tax macro, sectoral or microeconomic effects.