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PUBLIC FINANCE PROCEDURES

by

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The painful measures needed to restore order in the public finances are causing more and more people to regret that the Exchequer was ever allowed to get into such imbalance. Hopefully, this will convince them of the need to establish procedures which will help to ensure that the public finances do not so readily drift into disorder again.

The proposals contained in the recent Government White Paper, *A Better Way to Plan the Nation's Finances*, represent a significant attempt to achieve just this. In my view, the general intent of these proposals deserves to be welcomed, not only by those concerned about sound finance but by all, whether from the right or the left, who value the preservation of democracy. To justify this view I propose, before critically examining the details of the proposals, to explain the far-reaching implications of the problem to which the proposals are addressed.

## I. THE DILEMMA FOR DEMOCRACY

Every society has wants and needs far exceeding the resources available to meet them. There is nothing new about this: it is simply the perennial economic problem of scarcity. But though the problem is economic in origin, the way in which society comes to grips with it has implications extending far beyond purely economic considerations.

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### *Command Economy*

The essence of any solution is in devising some orderly framework to ration the limited resources among the virtual infinity of demands. This can be achieved by a command economy, where the State itself tries to make all or most allocative decisions. The maintenance of such a system involves a considerable curtailment of democratic freedoms, and must ultimately be backed by a strong measure of overt or covert force. Even though many of the semblances of democracy may be retained, such systems tend to be essentially totalitarian. The experience of these economies suggests that, not only are serious limitations placed on the most fundamental of all democratic freedoms - the ability of the citizens to peacefully change the government through the ballot box - but also on more elementary freedoms in speech, travel and association. Even then, it generally proves impossible for the State to confront all allocative decisions explicitly, so that in most command economies there is extensive resort to implicit and arbitrary devices, such as queuing, to discourage demands and ration scarce resources.

### *Market System*

In the western economies in the nineteenth century, the rationing of resources was achieved through the largely untrammelled operation of the market price mechanism. Prices provided signals to producers of goods and services as to what consumers were prepared to pay, and adjusted in such a way as to balance supply and demand. If a supplier could not deliver at the market price, he went out of business; while if a consumer could not buy at that price, he had to go without. A consumer might still have unlimited demands, but unless he was able and willing to pay for a good, his demand was ineffective. Myriads of independent decisions were thus coordinated in a relatively smooth and efficient way. In the rather idealised conditions in which market prices have been analysed by economists, the system is one of very great beauty. Because

of this, and the fact that it thrived on maximum individual freedom of choice, the system has exerted an almost mystical sway on the minds of many economists - so much so that some of them would see the solution to the world's present economic difficulties in the restoration of the largely unfettered operation of that system.

#### *State Intervention*

But it is not possible to turn the clock back in that way. The free operation of the market system has become limited by many developments. Powerful monopoly producers have emerged, on a national and international scale. Freedom of association has led to the development of strong interest groups among workers and, in some cases, among consumers. Such developments, together with the increasing complexity of modern society, have given a powerful impetus to the expansion in government services - even in those countries with a strong *laissez faire* ethic.

In addition, there were two major defects in the market price system which would make its untrammelled operation socially unacceptable. First, it did not provide an acceptable distribution of income - a problem that has been tackled mainly by the major programmes of public expenditure on health, education, housing and income maintenance that have developed in all western countries throughout this century, but especially since that Second World War. Second, the system was prone to severe, and apparently worsening, cycles of involuntary unemployment due to a deficiency of effective demand. Again the government was looked to as the agency with the capacity and responsibility to make good such a deficiency - another factor that has provided a powerful impetus to increasing the scale of state intervention.

The situation now is that, in most western countries, the government is involved in allocating or reallocating resources amounting to upwards of half the total Gross National Product - such expenditure being financed in the main by taxation and public sector borrowing. The Irish figure is not untypical: total public sector expenditure and transfers, current and capital, amount to about two-thirds of GNP. Little of this is subject to a market test so that the former rationing framework is no longer operative in this context. In what way does this affect the demand for and supply of public services and benefits in a democracy? This is a very large question and I will here only touch on some of the key ways in which it differs from the market system.

#### *Demand*

In relation to public services, the voter now replaces the consumer as the ultimate arbiter of demand. Though voters in the aggregate know that these public expenditures must eventually be financed by themselves, nevertheless for the individual voter there are two cardinal differences from the market system: (a) the receipt of public benefits is largely divorced from its payment, and (b) some voters receive benefits for which they do not have to pay. To make his demands effective, therefore, the individual voter is now no longer constrained by his income: what he needs is political clout. As an isolated voter, he is virtually powerless, but by binding together with others having a common interest he can translate his demands into a powerful pressure. Nor is it irrational, though it is often unrealistic, for such groups to press simultaneously for an increase in *their* benefits and a reduction in *their* taxes.

These pressures are likely to be greater the more visible are the benefits and taxes, and the more specific they are to a particular group of voters. Since in general public expenditure tends to be more visible and specific than taxation, the pressures for increased expenditure are likely to be more forceful than demands for reduced taxation. That being so, even those voters who would benefit in reduced taxes by successfully opposing expenditures specific to another group, may in fact find it easier to try to maximise their net benefits, not by opposing the expenditures, but by demanding that they be extended to everyone. All of this is reinforced by the fact that the existence of a benefit for a particular group creates its own lobby which resists any attempt at retrenchment with particular ferocity.

Finally the time horizon of voters is generally considered to be short, and their information about who pays for what in the public domain is far from perfect. Thus they can often be mistaken in the pursuit of their own self-interest in pressing for some measures, or failing to oppose others, which with further information they would know to be costly to themselves.

It would be absurd, however, to imagine that these are the only forces influencing voters in the demand for public services. Voters are motivated by many other factors apart from the maximisation of their own short-term self-interest. But the forces mentioned are sufficiently powerful to create a strong pressure for public expenditure to rise, and to rise faster than taxation.

*Supply*

The ultimate arbiter of the supply of public goods and services is the government. If government had the will and the power to enforce its decisions benevolently in what it conceived to be the interest of the whole society, then it would become largely a technical matter - albeit an extremely complex one - to determine the appropriate level of public expenditure and the means of financing it. But this model scarcely mirrors the reality in any democratic country, and there has been increasing attention among economists to developing more relevant economic models of government.

Essentially the prime objective of major political parties is seen as trying to win office and retain it. In other words, they are trying to maximise votes subject to certain constraints. This gives rise to competition among parties in policies with popular appeal, and a tendency to accommodate the demands of the electorate rather than moderate them. In evaluating proposals, considerations of equity and efficiency are tempered in varying degree by the criterion of electoral appeal. In particular, those not represented by interest groups with a strong influence on electoral outcome may be given scant consideration - a factor creating a bias against providing for the next generation. This is reinforced by the fact that, with challenges to office looming at least every four years or so, the time perspective of politicians may be unduly short. These factors create a great temptation to resort to borrowing as a means of financing benefits, so as to transfer the cost to a later time.

In courting public opinion, political parties not surprisingly try to put the best possible complexion on their proposals - with a tendency to exaggerate the benefits and hide the costs. Inflation has greatly abetted this tendency to concealment. Inflation automatically increases the proportion of real income accruing to the government without any explicit announcement of a rise in taxes. Indeed governments can announce that they are giving tax concessions when in fact the real burden of taxation is rising. Thus, for example, in many budget statements the Minister for Finance announces that his measures are removing large numbers from any liability to income tax - the aggregate number involved in Ireland in the last 10 years amounts to 300,000! But, of course, with inflation they are quickly back into the tax net again. Another example is the treatment of those who in the past, with the unanimous encouragement of all political parties, invested in Government loans. To take a specific case, a person who in 1962 invested £99 in the 5 $\frac{3}{4}$ % National Loan 1982/87 issued in that year, would find that the market value of that investment is now only about £64. The latter figure is of course valued in the much depreciated currency of 1981, and if we convert it to 1962 values, it amounts to only £9.77!

The supply of public services also creates its own bureaucracy with a strong vested interest in maintaining and expanding its own programme. This tendency is not of course confined to those in the public sector. What is different is that the disciplines which limit such tendencies in the market system are often absent in the public sector.

Again, it would be a travesty to regard the foregoing as a complete model of the supply of public services. Politicians can and do exert leadership, and they are also concerned with their place in history. But again, however, based on the actions of all

political parties in the 1970s, the forces mentioned above seem to exert a powerful influence on the management of the public finances.

### *Structural Bias*

The interaction of these forces relating to the demand for, and supply of, public services creates structural biases towards

- (a) rapid growth of public expenditure;
- (b) a tendency to postpone or conceal the full costs of financing it; and
- (c) decisions on public expenditure and taxation formulated as much or more on the basis of electoral appeal as on broad national considerations of equity and efficiency.

It is not surprising that these structural biases manifested themselves most clearly in the 1970s, as individuals and groups throughout society intensified their efforts to maintain their position in the face of soaring energy prices and two major world recessions. Rather than pursuing a search for scapegoats, therefore, the more constructive approach is to try to find ways of countering the structural biases.

The Government's White Paper is an attempt to moderate to some degree these structural biases by attempting to establish a framework that will make costs and benefits more explicit, and will provide some checks to short-term pressures. As such, it is designed to strengthen the operation of democracy - both by making it function more effectively and by affording greater protection to minority interests, or interests not directly represented electorally (such as the next generation). These objectives should command the support of all concerned with the preservation of the democratic system. This holds for those who might disagree that government expenditure is too high: even those who might support a still higher level of public expenditure, would still surely wish to provide a framework to secure that each proposal would be adequately vetted and appropriately financed.

Pessimists about the democratic system may hold that there is little value in such a framework, since in the absence of *will* on the part of governments, it would be all too easy to breach or circumvent any such framework. That may be so, but at least the framework can help to strengthen the will of government, and we must not allow the best to become the enemy of the good. More extreme pessimists may hold that the basic problem arises, not merely from a lack of *will* on the part of governments, but from a lack of *power* to enforce its decisions. Faced, for instance, with a strike threat from a key group of public sector employees, the argument is that it is not within the power of a modern democratic government to resist, given the dislocation to the rest of the economy. This seems an unduly pessimistic view, however, of the future of democracy. It must indeed be recognised that governments have lost out from time to time in battles with powerful pressure groups, and that if this became widespread the end result would be anarchy. But it is not necessary to the functioning of democracy that the government have the power to win *every* such battle. Indeed were it to have such power, the situation would more nearly resemble dictatorship. Moreover some battles were lost precisely because government failed to rally the support of other interests by providing the kind of information and debate envisaged in the Government's White Paper.

### *Conclusion*

In this part, I have tried to show why I believe that there should be a broad consensus in favour of the basic intent of the recent Government White Paper. Support for the intent, of course, does not necessarily imply support for the details of the proposals. The following part considers how appropriate and effective are these detailed proposals.

## II. PROPOSALS FOR REFORM

The Government White Paper aims to establish procedures relating to the public finances to provide better information, more effective evaluation and debate, and tighter control mechanisms. Without writing at inordinate length, it is not possible to examine all of the detailed steps contemplated. Instead I shall discuss some of the key steps and, in the course of doing so, add some suggestions of my own.

### CONTROL MECHANISMS

While the provision of better information, evaluation and debate is always desirable, the reality is that these can be very costly in terms of time and resources, and so may not come about to the desired extent unless there are adequate control mechanisms to force them to attention. Probably the most important control mechanism contemplated in the White Paper is the establishment of a rule that the current budget be balanced.

#### *Current Budget Balance*

What is so wrong with a current budget deficit? Faced with the large deficits of recent years and the high overall level of public sector borrowing, I believe that some commentators have laid undue stress on impending financial collapse, and not nearly enough on the damaging effect here and now. More than any other factor perhaps, resort to current budget deficits has tended to underpin unrealistic expectations in such matters as public sector pay, and has facilitated all kinds of expenditures and tax reliefs that might be resisted if their full cost implications were clear to the electorate. As a result the competitive position of the economy is weakened and the search for efficiency and effectiveness in the public finances is blunted. It seems to me that these

considerations alone justify the elimination of the current budget deficit apart altogether from the Armageddon of national insolvency, which could be postponed for a long time.

In economic terms, of course, it would be justifiable to smooth economic cycles by budgeting for a deficit in bad times and for a surplus in good times. But in political terms, there is a sharp asymmetry between the alternative courses of action: experience shows that it is easy for a government to run up a deficit but extraordinarily difficult to do the reverse. That being so, there is a strong case for establishing a rule that current revenue should always be at least as great as current expenditure. Indeed, there is a good case on other grounds, which will not be pursued here, for having a structural surplus on the current budget - in which case cyclical variations would still be compatible with maintaining the minimum objective of balance. Alternatively, the stabilisation of demand can be pursued in other ways, such as by changes in the composition of expenditures, or by having in reserve a pool of once-off capital projects to stabilise the building industry. Hence there are no compelling economic grounds against proscribing current budget deficits, while there is a compelling political case for so doing. In particular, it would provide government with an excuse for resisting pressures, which, however unjustified, a government at present feels unable to resist. It would also force the legislature and the general public to think much more of the opportunity cost of expenditure proposals and tax concessions in terms of the alternatives that would have to be foregone.

Though the Government proposals toy with the idea of a constitutional amendment, they do not go quite as far as this, and envisage instead methods to provide that "deficit budgeting should be the exception rather the rule and must be explicitly and rigorously justified". I would prefer to see the Government go the full distance in convincing the electorate to

adopt a constitutional amendment to rule out current budget deficits with effect from 1986, by which date they promise to have corrected the present imbalance. In my view, there is no strong economic case against that course of action, and the adoption of such a provision would have a most salutary effect on the manifestos or charters that would be put before the people by the political parties at the next election. It is true that for most of the life-time of this State up to the early seventies, we got by quite satisfactorily without any such constitutional safeguard. But that was because the convention of balanced budget was widely accepted as binding in practice. This convention, however, has been breached so seriously in the seventies, and with such bad consequences, that something more than good intentions is needed to re-establish control.

If a constitutional amendment is not feasible, however, it would still be possible for the Government to include such a provision as part of a general law giving legislative status to a set of financial procedures. Granted, such legislation could be amended again by government, but the need to justify such an amendment to the Oireachtas would nevertheless provide a useful safeguard. It is also true, of course, that any such provision, whether constitutional or legislative, can be circumvented to some degree without any formal amendment - by such devices as transferring expenditure items from current to capital account; or by transferring some activities to a new semi-state body and guaranteeing its bank overdraft. This simply renders the control less effective - it does not mean that it would have no effect at all. Nor are such loopholes entirely undesirable; they enable the general principle to be upheld while providing a measure of operational flexibility.

A more serious problem is that a Minister for Finance, in announcing his budget, can pretend to balance it by inflating the estimates of taxation and deflating the expenditures - a practice that is not entirely unknown. Indeed even a well-designed budget plan can

go awry during the course of the year due to recession, when the "automatic" expenditures, like unemployment benefit, will rise, while tax revenue falls short of that estimated. One way of meeting this would be to provide that all supplementary estimates would have to be taxed for. Such a general rule, however, would be unduly restrictive in some circumstances (e.g. where total revenue was running ahead of total expenditure), while in other circumstances it would not in any event secure a balanced current budget (e.g. where the revenue estimates had been substantially overstated). The more reasonable course would be to provide that where the actual outturn for the year showed a deficit, provision would have to be made in the following year's budget to close the deficit in full. This of course could conflict with the needs of counter-cyclical policy, but as already mentioned such needs can be partly met by operating on the capital budget. Moreover, such a rule might make it more attractive to governments to operate with a margin to spare on the current account i.e. to move to a position of having a structural surplus on current account.

#### *Indexation of Taxes?*

Another potential control mechanism, not mentioned in the White Paper, would be to provide that income tax bands and allowances should be automatically indexed. This would have the effect of ensuring that if the government wished to increase the share of income taken in taxation, it could not do so by stealth as a result of inflation but would have to announce explicit increases. Given the present state of the public finances and the need to raise more revenue to balance the current budget, one can understand the reluctance of any government to introduce such a provision. Moreover, indexation of tax bands and allowances could bring pressure for the wider use of indexation generally in the economy, which would be likely to push up the rate of inflation even more.

A less extreme and highly desirable alternative would be to prescribe that the Minister for Finance in introducing his budget would be required to present a statement to the Dail showing (a) in respect of the previous year's budget, what changes in income tax allowances and bands would have been required to compensate for the actual rate of inflation, and (b) the same information for the coming year based on the estimated rate of inflation. This would make explicit the degree to which the tax share was increasing without any explicit change in tax rates, and would prevent governments from falsely claiming they were reducing income tax when in fact they were increasing it in a concealed fashion. A similar statement should, of course, be required also in the case of indirect taxes, where at present the reverse holds true, i.e. the government is blamed for increasing the fixed value duties, when in fact it is doing no more than maintaining their real value. It would be desirable also to require similar statements, in the case of government loans, showing the degree to which lenders have gained or lost due to inflation.

#### *Public Sector Pay*

I have said earlier that, as a general rule, it would be unduly restrictive to require a government to raise taxes for all supplementary estimates. In the case of public sector pay, however, I believe that there is a strong case for doing so in view of the difficulties experienced in recent years in controlling this major item of government expenditure. By relating the tax impost as speedily and as explicitly as possible to such pay awards, public support could be developed for resistance to any unreasonable claims. The mechanism might work as follows. No provision should be made in the annual budget for special increases - to do so is to accept their inevitability even before they arise - but it should be made clear that the Minister will

come to the Dail to raise extra taxes before any such special pay increases are conceded. Government sanction for any pending awards could be held up until the end of each quarter, when full details of all intended awards that arise in that quarter would be put before the Dail together with the necessary tax measures to finance them. This procedure would establish a clear link in the public mind between awards and the tax impost, so that those who do not object to the awards can no longer credibly object to the corresponding tax increases.

Since the extra revenue is required to meet incomes increases, the most appropriate basis would be to call on income recipients to meet the charge through income tax. The White Paper states, however, that "because of the difficulties in altering income tax and social insurance contribution provisions within the tax year, tax changes on foot of supplementary estimates would tend to rely on indirect taxation". This would be undesirable in that it would directly raise prices, put part of the burden on the poor, and quickly lead to demands for compensation in pay and social welfare. The administrative difficulties referred to should not therefore be taken as a binding constraint, and the administration should be asked to devise means by which income tax could be varied.

#### *Cash Limits*

More rigid adherence to cash limits on subsidies or grants-in-aid provided to semi-state bodies (like CIE) and other public bodies (like the universities) might also be explored as a control mechanism. At present the government is put in the impossible position that it is asked to give these bodies autonomy, and yet to pick up the bill for the consequences of this autonomy. The cash limits are often breached because of special pay claims. Should the Government automatically underwrite

such awards, or should it not place on management and unions in these bodies more of the responsibility for choosing between higher incomes and employment? The fixing of rigid cash limits is not an easy task, however, since it is not always easy to determine in advance what the appropriate limit should be.

### *Charges for Services*

In an attempt to close the current budget deficit, the Government is understandably exploring ways of raising revenue by imposing user charges for various public services. I would suggest that this approach should also be explored further as a longer-term control mechanism. The fact that so many public services are now provided free of charge to the user is often difficult to justify on equity grounds, and gives rise to unlimited demands for the extension of such services. The imposition of some user charge, even if it did not cover the full economic cost, would help to ration scarce resources more effectively. Such charges can moreover be devised in such a way as to take reasonable account of equity considerations. Many public services do not lend themselves to this approach, but that is no argument for not applying it where feasible. In fact, in the case of some of the more costly services, such as health and education, there are various ways in which user charges could be implemented. Moreover, some non-commercial semi-state bodies could profitably sell services to outside bodies.

### *Finance Control*

Although the collective responsibility of Ministers is established as a major principle of government in this country, this should not obscure the fact that there will always be a greater or lesser degree of competition among Ministers to enhance their personal reputation. Only one Minister, the Minister for Finance, is directly responsible for providing the

revenue to finance public expenditure, so that his reputation is the major direct beneficiary of tax reductions, and the main target of attack in the case of tax increases. Other Ministers, therefore, can build their personal reputation more effectively by expanding the range and quality of their services rather than by securing economies. This can create another structural bias towards excessive spending, unless the Minister for Finance, and his Department, exercises a pivotal control over all public expenditure.

Such a status has in fact traditionally been assigned to Finance. It would seem, however, that a number of events over the past two decades may have conspired to weaken this control. There has been a great deal of delegation of authority to other Departments to spend, within certain limits, on approved programmes. While delegation can encourage responsibility and efficiency, perhaps the time has come to examine whether it might not have gone so far as to unduly weaken control. The splitting of the Department into two Departments, Finance and Public Services, and the temporary establishment of a Department of Economic Planning and Development, may also have blunted the cutting edge of Finance control. The strengthening of the Taoiseach's Department, and its greater involvement in recent years in financial matters, may also have diluted Finance authority. The much greater speed with which decisions have to be taken now contrasts with the more leisurely and detailed appraisal possible at an earlier time. The vast growth in the scale of government operations makes it harder to enforce standard procedures throughout.

If in fact the central place of Finance in the control of public expenditure has been unduly weakened - and it is difficult for an outsider to be sure of this - then measures should be taken to restore adequate power and authority to that

Department in exercising its pivotal role. This is not a call for a return to a negative approach to public spending: since the late-fifties, the Department of Finance has not only been positive to economic and social development, but has been an initiator of that process. Rather it is a call to ensure that all expenditures are adequately controlled and evaluated by the Minister and the Department with direct responsibility for financing them.

There are in fact a number of proposals in the White Paper which will help to give the Department of Finance more effective control on expenditure. In particular a determined attempt is to be made to link medium-term planning of the public sector with short-run implementation. The new procedures envisage that the Government's Economic and Social Plan will be published each year in mid-summer, and will contain multi-annual projections of revenue, expenditure and borrowing. This will help to establish the context in which the Estimates and the Budget for the following year will be determined. In turn, the Plan in the following year will be revised in the light of actual and prospective changes, and will be rolled forward for one additional year.

The suggestion in the White Paper of establishing a Public Expenditure Commissioner, however, would only serve to dilute further the overall responsibility of the Department of Finance in regard to the evaluation and control of public expenditure. It is true that the Commissioner would not be concerned with examining expenditures on a calendar year basis but would carry out *ex post* analyses of the effectiveness of programmes. This, however, is a responsibility that rests in the first instance on the spending department itself, and overall responsibility for ensuring that the department does so rests firmly on the Department of Finance. In addition, the Department of Finance has a responsibility to independently review

such programmes, and must have the necessary resources to do so. It is not clear why a further agency should be established, especially since this agency, unlike Finance, would not have a central function in regard to the assessment of means of financing expenditure through taxation and borrowing. Perhaps there may be a feeling that Finance, as itself an arm of government, might not possess the same independence as a Public Expenditure Commissioner. But this point is surely met by another proposal in the White Paper to establish a new Committee of the Dail, called the Public Expenditure Committee, which would be the overall watch-dog in regard to the effectiveness of public expenditure programmes. Such a Committee, like the Joint Oireachtas Committee on State-Sponsored Bodies, could function effectively with a small secretariat and, if need be, hire consultants on a once-off basis - without the need to establish the wholly new office of Commissioner.

#### INFORMATION, EVALUATION AND DEBATE

Much of the White Paper is concerned with new procedures to provide better and more timely information, more in-depth evaluation, and more effective debate in the Dail. For these purposes, the timing of the various steps in the presentation of financial proposals is to be brought forward, the format of presentation is to be improved, and more time and greater flexibility is to be accorded to Dail deputies in debating new proposals and reviewing existing programmes.

It is difficult to quarrel with the proposals in this regard. The only caveat one might enter is that the White Paper does not adequately stress the demands on the time of administrators and legislators involved in the full range of proposals. For example, while it would be very desirable that the Government Estimates should try to show the outputs expected from

each expenditure programme, this is not at all easy to do conceptually and would require considerable resources in some cases. It is for that reason that I have earlier laid such stress on control mechanisms which would tend to provide in themselves an automatic brake on less effective programmes.

Nevertheless the White Paper recognises that it will be necessary to proceed gradually on a phased basis. The objective should therefore be to introduce first those additional forms of information and evaluation that can be done most simply and at least cost. The following would merit particular consideration in that regard.

#### *New Programmes*

All new programmes should, as the White Paper envisages, be accompanied by an estimate of the cost of the proposals, not only in the current year, but in the years ahead. All too often new services are approved with little difficulty because they start small, but once begun they grow inexorably. It might be thought that this requirement was already a standard procedure, but I once heard a Minister on radio announcing an extensive new programme, who when asked the cost replied "I only completed these proposals yesterday - you surely do not expect me to have worked out their cost yet"!

New proposals should contain as explicit a statement as possible of the objectives of the programme. They should discuss the alternative ways that have been considered of meeting these objectives. They should also justify why priority is being accorded to these objectives as compared with other objectives within the same broad area of expenditure. The Minister responsible should also produce a statement setting out which of the existing programmes within that expenditure area have

lowest priority and might, therefore, in principle be dropped or curtailed in order to make way for the new programme. This is not to suggest that new programmes can only be introduced if they replace existing programmes, but rather to put the Dail in a position of evaluating the alternative ways of financing new programmes in terms of expenditure reductions versus tax increases.

There should also be some attempt, even in qualitative terms, to identify the income distributional effects of new public services, which are often considerable. In particular, the classes of persons likely to benefit should be identified. For example, a new legal aid scheme will benefit not only the clients but also the legal personnel who deliver the service.

#### *Public Sector Employment and Pay*

Despite the fact that a great deal of detailed information is published on the establishment numbers and salary rates of departmental civil servants, it remains difficult to get a consistent series on employment and earnings of those in the wider public sector. Nor is it easy to determine in the case of increases in the public sector pay bill how much is due to current pay increases as distinct from back-money, overtime, incremental scales, or changes in the total number and composition of employees. Thus arguments can persist about whether or not pay increases are larger in the public sector than elsewhere - arguments that should be settled by the routine provision of the necessary information.

Because of the vast scale of public sector employment and pay, I would suggest that a special statistical publication be devoted to the subject annually, published about the same time as the Mid-Year Plan Review, and giving data for the preceding and earlier years. In addition to showing the aggregate levels and

trends mentioned above on a consistent basis, this publication would also classify the employment and earnings data in various ways: by grade, by department, by function etc. The trends might be compared with those in other sectors of the economy. Such a document would provide an important basis for determining employment and pay policy for the public sector in the following year.

#### *Management Accounting and Information*

The foregoing proposal should be seen as no more than a first step on the road to an integrated system of management accounting and information for the entire public sector. No reference, for example, is made in the White Paper to local authorities, about whose accounts it is impossible at present to get any systematic information on a current basis. With computerisation, it would be feasible to design a system that would make such information currently available on whatever classificatory basis was needed. For example, for general economic management, it is often more useful to study data on a national accounts basis and classified by function rather than by institution. At present, it is only years later that such data become available.

#### *Information in the Estimates Volume*

At present the information in the Estimates volume does not always show the full opportunity cost of the services provided. Thus, for example, many Departments occupy prime centre city offices, which would command high rents if leased to other activities, but this cost is not shown where the offices are publicly owned. These omissions not only involve an understatement of overall opportunity costs, but also introduce incomparabilities among different services: one service has to pay a market rent for its buildings which is shown, whereas another does not.

A similar point arises in regard to superannuation. The State does not fund its superannuation scheme, so that what is shown in the public accounts is only the current cost of superannuation of the existing retired public servants. If the scheme were funded, account would have to be taken of such factors as the vast growth in the number of active public servants relative to the numbers retired, the increasing tendency to retire before 65, the increase in expectation of life, the rising proportion of female employees with a much longer expectation of life, and the major change introduced in the early 1970s whereby those leaving the public sector with 5 or more years' service can claim a (reduced) pension at age 60. In addition, a funded scheme would also have to make provision for the estimated cost of index-linking the pensions after retirement, which would be considerable. The situation now is that we have no information about,

let alone provision for, liabilities that are certain to increase substantially in future years. The absence of funding results in the real cost of employing workers in the public sector being substantially understated, and in a sense implies that the current budget deficit is also significantly understated. Whatever the merits and demerits of the State actually funding its own superannuation, there is every reason why the information should be presented each year on what the true costs would be if the scheme were fully funded. This information might alternatively be provided in the annual publication proposed above relating to public sector employment and pay, and the total cost might be disaggregated in similar ways - by department, function etc.

The propensity to judge the performance of Ministers by how much they have raised expenditure under their control might be moderated by including in the Estimates volume a table showing, for each Department, concrete examples of the equivalent tax reductions that could have been achieved with that increase in expenditure. Thus, the general public would be better able to assess whether the rise in expenditure achieved by a particular Minister was worth the equivalent of, say, 5 pence in the pint of beer, or 7 pence on the gallon of petrol, or whatever.

#### *Debate*

The enthusiasm of deputies in general for devoting the amount of time and effort to the enhanced debating opportunities may be overestimated in the White Paper. Even if this surmise is correct, however, it is not a serious objection. What matters is that there are at least *some* deputies interested in applying themselves to each of the particular issues; it is

not necessary to a full airing of the different viewpoints that *all* deputies be interested in *every* issue. To facilitate the most in-depth probing by those deputies with a particular interest in, and aptitude for, each area, more use might be made of special committees. As mentioned, the White Paper proposes a Committee on Public Expenditure for the *ex post* evaluation of public expenditure. Consideration might be given to a similar Taxation Committee, which would carry out *ex post* reviews of such matters as the structure of taxation, its equity effects etc. Moreover, since both of these Committees would not be dealing with the current annual measures, there might not be any constitutional barrier to including members of Seanad Eireann on these committees - as in the case of the Joint Oireachtas Committee on State-Sponsored Bodies. If feasible, this would have the great merit of tapping the very considerable expertise in financial matters possessed by some members of the Seanad. It is most important that the reports of any such Committees be debated in the Dail itself.

Since it is envisaged that the Public Expenditure Committee would not deal with the current Estimates, it is surprising that the idea of an Estimates Committee of the Dail is not considered in the White Paper. There would seem to be a good case for such a committee also.

It is often stated that ordinary deputies are not given adequate scope to exercise their talents in relation to national, as distinct from constituency, affairs. Service on the Committees mentioned above could considerably enhance the impact of individual deputies on national issues.

#### *Independent Evaluation of Government Budget Estimates*

The White Paper mentions that doubts have been expressed in recent years about the accuracy of the budgeted estimates of

receipts and expenditure, and states that "the practicability of having an independent evaluation as to whether the initial figures are realistic in the light of stated policy and likely inflation trends will be examined." I would have grave doubts about the merits of such a procedure. Like all other future estimates, the public finance figures contain a substantial element of judgement. A government may make bad judgements, or even illicit judgements, but it is responsible for this in the first instance to the Dail and ultimately to the electorate. It is the task of the Opposition to be vigilant in such matters, to debate them in the Dail, and to communicate them to the public. They will be aided in this process by the analyses of the financial journalists and economic commentators. While it is obviously feasible to have an independent public authority, like the Comptroller and Auditor-General, to verify the accounts of expenditure actually incurred, it would be quite a different matter to have a similar overseer vetting the accuracy of future estimates that inevitably contain many elements of uncertainty. Such an exercise by an independent official body could become a source of great friction without achieving much in the way of control.

### *Conclusion*

The proposals in the White Paper, and the additional suggestions offered here, are based on the belief that conflict about the allocation and financing of public goods and services can be more constructively resolved by establishing certain orderly procedures. These procedures would seek to do so by providing more information, evaluation and debate, and by democratically instituting a minimum of control mechanisms, which would impose some form of brake on any headlong rush into disorder. To the extent that they succeeded in this aim, the procedures would help to free more resources for developing the economic potential, to secure greater efficiency in public

services, and to draw attention to the distributional consequences of public expenditure and taxation.

Of course no procedures, compatible with democracy, can prevent the emergence and re-emergence of serious disorders in the public finances. That depends on much deeper forces such as the willingness and ability of individuals, interest groups and politicians to put national above sectional interest. The proposals considered here do not, therefore, provide a complete answer to the dilemma discussed in Part I. They do, however, represent a step in the right direction.