

# Government Budgeting

(Continued from last issue)

S. R. Agrawal

AN international survey of the form of budgets, reveals that not very many nations have yet been able to adopt a form which is fully scientific and yet gives a clear and complete picture of the policy of the government contained in the budget. The US budget, for example, which is also swelling year by year (the volume for the year 1950 contained 1429 pages excluding the President's budget message which usually runs to about 60 to 75 pages) does not strictly satisfy all the requirements. In the thirties, the US budget underwent some changes, but no substantial reform could be carried out. As late as 1941, Alvin H. Hansen complained that the American budget documents were

"extremely difficult to use for anyone, not familiar with their organisation. There, are discrepancies between the reports, and even within the same report when similar material is covered by different departments. The items one seeks are sometimes found under the most unpromising headings... The form of classification is often different in each report for the same year. In short, it takes far more time and patience to discover what really is going on than the general reader can be expected to devote to the matter. Standardization, systematization and simplification are necessary to make these documents useful to the lay man... these documents in their present form cannot be regarded as a medium for informing the electorate of the government's finance"

Since then some changes have been made in the system of accounting but the fiscal document still remains a defective one. The one defect which has been widely criticised is that relating to the presentation of expenditure. Though shown by functions in the 'budget resume' in the beginning, the subsequent parts do not afford an exact picture of the total expenditure to be incurred on a particular head in the details. It was calculated, for example, by the Commission on the Organisation of the Executive Branch of the Government (the Hoover Commission) that the National Naval Medical Centre at Bethesda receives allotment from twelve different titles and them is

not one single title in the present budget where the total cost of operating a Navy Hospital is shown. In the same way the Bureau of Ships is financed from no less than 27 appropriations. Inclusion of capital outlay in the revenue budget is a defect found in the US budget also. This state of affairs, recommended the Commission, requires immediate correction through the adoption of "performance budgeting".

The Australian budget on the other hand is a better presentation of the financial policy than the USA budget. The whole budget, is divided into five well-defined parts. The first consists of "Departments and Services other than Business Undertakings and Territories of the Commonwealth". In it on the expenditure side are included Defence Services, War and Reparation Services, special appropriations like interest, sinking funds etc.. Departmental cost including Parliament, Prime Minister's Department and other Departments, Miscellaneous services, Capital works and services and a total of this whole. In part I, on the revenue side are shown under this head, all taxes and revenues including surplus balances of Trust Accounts, Coinage, Defence, Civil Aviation, Attorney-General's receipts, Health, Commerce and Agriculture, Labour and National Service, Profits of Australian note-issue and Miscellaneous. Part II consists of Commonwealth Business Undertakings including Railways, Post-Master General's Department, Broadcasting Services, etc. Its expenditure side is made up of the expenses on all Railways, each branch separately. Miscellaneous expenditure, Capital works and services. In all business undertakings these things are shown. Receipts disclose the gross earnings of these departments. Part III is devoted exclusively to the accounts of the "Territories of the Commonwealth" corresponding to Part C States we have in India, -the centrally administered areas. Receipt side shows in it the revenue, and expenditure side the expenditure of these areas. Part IV has only an expenditure side and not a revenue side because it consists wholly of the "Payments to or for the States" made under different articles of the Constitutions; the occasional Acts and the grants

as recommended by the Commonwealth Grants Commission. The last Part is "Primary Production...-Self-Balancing factors". In it each item is self-balancing, the income and outgo on both the receipt side and the expenditure side being always equal. On the revenue side it consists of (1) Flour Tax, (2) Wool Contributory Charge and Wool Committee operations surplus, (3) Wheat Export Charge and (4) Eggs—War-time control Surplus funds. The corresponding items on the disbursement side are '1) Wheat Industry Assistance, (2) Wool Use Promotion and Disposals Plan, Wool Reserve- Prices Fund, Wool industry assistance. (3) Wheat Industry Stabilisation and (4) Eggs—War-time Control Distribution of Surplus.. "Capital Works and Services" item appears under all the first three parts. This budget is the ordinary budget. The other parts, e.g. the budgets of Loan Funds and Trust Accounts etc. are separate from it though included in the same volume. This is comparatively a more accurate representation of the policy contained in the budget.

Compared with the above, the Indian budget is a poor document and an ill-designed one. Even leaving comparisons aside, the Indian budget in its present form does not satisfy the requirements of an adequate, budget, and needs an over-all reform. The first and the biggest step in this direction would be the adoption of a functional budget, a budget in which expenditure is arranged function-wise. It will have the advantage of putting the whole tiling in a proper perspective. Attention can then be drawn more easily to the main purposes or activities of the government and the amount of effort which it has been putting forth for the achievement of these purposes can be seen more, clearly. The significant aspect of budgeting is the work or service to be accomplished and not the personnel working for it. In a functional budget, the cost of the work or service, the amount of attention paid to and the action taken on as well as the scope and magnitude of the task are all brought into clear relief. What are the requirements of our economy at a particular time, what is the magnitude of a government project in relation to the magnitude of the task to be accomplished, its comparative importance, to other programmes and the proportion of total expenditure which the government in a particular year proposes to devote to it

—these are some of the relevant questions of policy which the people must ask of a government and which it is the duty of a government to answer. The budget must fulfil this need.

Broadly speaking, the whole amount of public expenditure must be classified according to the accepted canons of public finance. It is desirable to arrange the whole expenditure according to functions and relate it to the particular unit of organisation at the same time. And for each department or unit, again, the sub-heads of appropriation have, to be standardized in a scientific manner. This is a substantial reform and would need a complete overhauling of the whole structure of appropriation as well as the transference of items from one head to another. A complete and detailed survey of the appropriation structure will have to be undertaken for this purpose.

On the revenue side also, a classification on the accrual basis is necessary. It means that different receipts should be grouped according to their nature and each group should be homogeneous. Taxes should be shown on a net basis, the direct taxes and indirect taxes being shown separately, and non-tax receipts and miscellaneous receipts should also be grouped separately. Departments which are run on a commercial basis may be grouped separately. Their detailed budget as in the case of Railways and Post and Telegraph Departments will be separate and their net results may be shown in the general budget. Irrigation is a special case. Its accounting at present is very defective. This department along with Forests and other State Trading activities may be treated as general business undertakings, and should be given the same importance assigned to other commercial departments. The inclusion of state trading activities under the head "Extraordinary" in the State budgets, as at present, is very inappropriate. Special receipts such as the Coal Mines Labour Welfare Cess and Coal Mines Safety Stowing Cess, and special duty on import of petrol for Central Road Funds etc, are items which are earmarked for particular purposes. They may be deducted from the general receipts under which they accrue and may be shown separately under a different group, being more or less self-balancing items.

Then, more information than is provided at present in the Explanatory

Memorandum on the Budget regarding the objects on which capital expenditure is being incurred is necessary. The Memorandum for 1951-52 gives for the first time some account of the major government undertakings but it is quite insufficient. Besides the total expenditure needed for a particular project, the budget must also show the amount previously spent, the amount allotted for the coming year and the provision which will have to be made in the subsequent years.

Public debt may be classified according to the nature of capital expenditure to which it has been devoted, that is, the amount spent on reproductive purposes, on partially reproductive purposes or on purposes whose results are uncertain (this may be determined from the percentage of profits on a particular project or from fluctuating returns) and on objects which are definitely non-productive. Such a classification is urgently necessary for providing fuller knowledge of the nature of public debt to the Government, the parliament and the public.

These are some of the improvements, necessary to put the budget on a scientific basis. Most of the defects in Indian budgeting arise from historical reasons and may easily be cured now. It will be necessary for the purpose to appoint a Committee on Budgeting which will undertake a detailed examination of the existing form of budget and make recommendations for reforming it on the lines indicated above. The Australian

model, a reference to which has already been made, deserves a careful study in this respect, with a view to its adoption in the Indian system after necessary modifications to suit our local conditions.

### Trades Certification Board

The Government of India have appointed Shri M. Ananthasayanam Ayyangar, M.P., as Chairman of the Committee set up to prepare a scheme for the establishment of an All-India Trades Certification Board to conduct examinations and award certificates of proficiency to craftsmen in various engineering and building trades on a national basis.

The following will be other members of the Committee: Shri C.R.B. Menon, Shri L. S. Chandrakant and Shri S. N. Roy (representing the Ministries of Commerce and Industry, Education and Labour), Shri J. A. Taraporewalla, Shri K. S. Roy-Chowdhury, Shri P. Govinda Menon and Dr R. R. Dhingra (nominees of the Government of Bombay, West Bengal, Madras and U.P.), Shri Noor Mohammed Sheikh (Indian National Trade Union Congress), Shri V. B. Karnik (Hind Ma/door Sabha), Lala Hansraj Swamp (All-India Organisation of Industrial Employers), Shri C. V. D. Moorthy (Institution of Engineers, India) and a nominee of the Mysore Government.

### 1950 ALWAYS IN THE FOREFRONT

In the forward march of Life Insurance in India, the HINDUSTHAN is, as it has always been in the forefront. The 44th Annual Report for 1950 once again reflects the soundness, integrity and strength which always have been so characteristic of the Society.

ASSURANCE IN FORCE	...	...	Rs. 73,16,60,597
TOTAL ASSETS	...	...	.. 17,70,70,624
LIFE FUND	...	...	.. 15,97,47,548
PREMIUM INCOME	...	...	.. 3,40,47,338
CLAIMS PAID (1950)	...	...	.. 72,92,850
NEW BUSINESS	...	Rs. 13,75,39,851	

But the best of all assets which the HINDUSTHAN is really proud of is the continued Public confidence which has always attended its career.



**HINDUSTHAN CO-OPERATIVE  
INSURANCE SOCIETY, LTD.**  
HINDUSTHAN BUILDINGS, CALCUTTA 13.

Bombay Branch: Commissariat Bldg., Hornby Road, Fort.

Branch Manager: Mr. S. C. SIRKER.