



**WORKSHOP ON
BUDGETARY CLASSIFICATION
AND MANAGEMENT
IN SOUTH AMERICA**

SANTIAGO, CHILE

27 May to 5 June 1959

ORGANIZED BY THE BUREAU OF TECHNICAL ASSIST-
ANCE OPERATIONS, THE ECONOMIC COMMISSION FOR
LATIN AMERICA, THE BUREAU OF ECONOMIC AFFAIRS
AND THE OFFICE FOR PUBLIC ADMINISTRATION OF
THE UNITED NATIONS

UNITED NATIONS

NEW YORK, 1959

ST/TAO/SER.C/39
E/CN.12/538

TABLE OF CONTENTS

	PAGE
I. INTRODUCTION	1
II. SUMMARY OF THE DEBATES	3
1. THE ROLE OF GOVERNMENT AND THE FUNCTION OF THE PUBLIC SECTOR ACCOUNTS	3
2. ECONOMIC CLASSIFICATION OF GOVERNMENT TRANSACTIONS	5
3. FUNCTIONAL CLASSIFICATION OF GOVERNMENT TRANSACTIONS	7
4. PROGRAMME AND PERFORMANCE BUDGETING	9
5. METHODS FOR THE RECLASSIFICATION OF BUDGET DATA ACCORDING TO ECONOMIC AND FUNCTIONAL CATEGORIES	12
6. CURRENT DEVELOPMENTS IN NATIONAL ECONOMIC ACCOUNTING AND THEIR RELATION TO THE PUBLIC SECTOR ACCOUNTS.	14
III. CONCLUSIONS AND RECOMMENDATIONS	18
ANNEXES	
I. LIST OF PARTICIPANTS	20
II. NOTES BY THE SECRETARIAT ON THE MAIN ITEMS OF THE AGENDA	23
III. LIST OF DOCUMENTS	28
IV. ADDRESS BY HIS EXCELLENCY MR. EDUARDO FIGUEROA, ACTING MINISTER OF FINANCE OF CHILE	30
V. STATEMENT BY MR. RAUL PREBISCH, EXECUTIVE SECRETARY OF THE ECONOMIC COMMISSION FOR LATIN AMERICA	35

I. INTRODUCTION

1. A Workshop on Budgetary Classification and Management was held at the headquarters of the Economic Commission for Latin America (ECLA), at Santiago, Chile, from 27 May to 5 June 1959, under the auspices of the Bureau of Technical Assistance Operations (BTAO), the Economic Commission for Latin America, the Bureau of Economic Affairs and the Office for Public Administration of the United Nations. It was the fourth Workshop of this kind organized by the United Nations Headquarters in co-operation with the secretariats of regional commissions. One of the earlier Workshops was held at Mexico City, in September 1953, with the participation of the Governments of Central America, the Antilles, Mexico and the United States of America; two others were held at Bangkok, in September 1955 and 1957, for the countries within the field of activity of the Economic Commission for Asia and the Far East.

2. Twenty experts nominated by the Governments of ten member States of the Economic Commission for Latin America and one United Nations Member State 1/ attended the meeting. They served in their individual capacities and the opinions which they expressed did not necessarily represent the views of their Governments.

3. One of the Workshop's principal aims was to study ways of improving fiscal programming for economic development. For this purpose, the discussion centred mainly on the function of the public sector accounts, the economic and functional reclassification of estimated and actual government transactions, and problems relating to the presentation of programme and performance budgets. The financial interrelationship between the principal components of the public sector, and between this sector and the private sector, was also considered.

4. For the proper focussing and guidance of its discussions, the Workshop approved the following agenda: 2/

1. Opening address
2. Adoption of the agenda
3. The role of government and the function of the public sector accounts
4. Economic classification of government transactions
5. Functional classification of government transactions
6. Programme and performance budgeting
7. Methods of reclassifying budget data
8. Current developments in national economic accounting and their relation to the public sector accounts
9. Adoption of the report.

1/ See the list of participants in annex I.

2/ Some notes on the principal agenda items may be found in annex II.

5. Among the documents considered at the Workshop were a Manual for Economic and Functional Classification of Government Transactions (hereafter called the Manual), prepared by the Fiscal and Financial Branch, and The Budget as an Instrument for Programming Economic Development, prepared by ECLA. Annex III contains a complete list of the working papers prepared by the United Nations and of the studies submitted by the participants.

6. The meeting opened under the chairmanship of Mr. Jorge Ahumada, Chief of ECLA's Economic development Division. The opening address was delivered by His Excellency Mr. Eduardo Figueroa, Acting Minister of Finance of Chile, who welcomed the participants and communicated to them a message from His Excellency the President of the Republic. 3/ Mr. Raúl Prebisch, Executive Secretary of ECLA, then made a statement. 4/

7. The meeting appointed a drafting committee to prepare the final report, composed of experts from Argentina, Colombia, Chile, Ecuador, Uruguay and Venezuela. Mr. Javier Réziges Díaz (Argentina) was appointed Rapporteur.

8. At the final meeting held on 5 June 1959, the present report was adopted, and the United Nations Bureau of Technical Assistance Operations, Bureau of Economic Affairs and Office for Public Administration, as well as the ECLA Secretariat, were thanked for their contribution to the success of the Workshop and the good organization and execution of the work. Mr. Luis Alberto de la Torre (Ecuador), Mr. Joaquín Collada Andreu (Spain), Mr. Edison Gnazzo (Uruguay), Mr. Braulio Jatar Dotti (Venezuela) and Mr. Javier Réziges Díaz (Argentina) spoke to that effect. Mr. Jorge Ahumada, Chief of ECLA's Economic Development Division and Director of the Workshop, thanked the experts for their collaboration and declared the Workshop closed.

3/ The full text of his speech will be found in annex IV.

4/ The text of his statement will be found in annex V.

II. SUMMARY OF THE DEBATES

1. THE ROLE OF GOVERNMENT AND THE FUNCTION OF THE PUBLIC SECTOR ACCOUNTS

9. It was pointed out in a previous statement that, for reasons widely known, the public sector of the South American countries had absorbed a considerable proportion of the national productive resources, in certain cases to the extent of over one fifth of the gross domestic product.

10. The increase in the activities of the public sector has been matched by their greater complexity, and these factors have resulted in a need to reconstruct administrative machinery and procedures. As often happens in cases of this kind, modern man has been slow to recognize the need for such readaptation. Despite the fact that the nature and extent of public activities began to change at about the beginning of the present century, there has been no substantial change in many of the techniques used in the public sector - particularly those which, like budgetary techniques, are designed to ensure the efficiency of the public sector as an instrument for the preparation of economic and social policy.

11. It was also pointed out that the budgetary methods generally used in South American countries suffered from serious defects. There are very few persons who clearly understand the real significance for these countries' progress, of failure to correct those defects. It therefore seemed advisable to recall, as an example, that although public investment accounted for over 40 per cent of many South American republics' total annual investment, very few of those republics possessed any machinery enabling them to decide objectively how those resources should be distributed in such a way as to ensure that they made a maximum contribution to the growth of the national product - a fact appearing paradoxical in countries where the need for development is so great and investment resources so small.

12. The participants in the Workshop were agreed in recognizing that, in the South American countries, nearly all the governments had considerably expanded their field of action, taking an active share in the process of economic development and in the prime responsibility for maintaining the stability of the currency. Nevertheless, the machinery for the preparation of economic and social policy, and especially of the budget, had not changed fast enough to meet the new needs in full.

13. It was indicated that, in the preparation of budgets, most of the countries laid stress almost exclusively on the accounts-control side, without paying any increased attention to the best allocation of public funds, or to the efficiency with which the government's work was carried out. But the economic and functional classifications and the preparation of public investment programmes which were becoming current practice in certain countries in the region constituted an encouraging advance.

14. The Workshop thought that the problem of allocating public resources called for the finding of yardsticks for priorities in those cases where a choice had

to be made between competing activities, and for machinery to ensure that there was complementation, wherever necessary.

15. It was thought that the compatibility and mutually complementary nature of activities, whether public or private, could be ensured if the budget of the public sector was prepared within the framework of a medium-term national economic development programme, incorporating the programme of activities in the public sector for the same term - function by function - and providing a basis for economic and social policy decisions which affected the conduct of the private sector. Within the public sector itself, resources could be assigned more effectively through the application of priority yardsticks which would make it possible to construct a regular budgetary pyramid, beginning with a selection of activities to constitute a sub-function, and proceeding to a selection of sub-functions to constitute the functions.

16. The participants recognized that a process of budgetary preparation, on pyramid lines, ascending from the project to the function, would materially help to ensure due co-ordination between the programmes of action, of the State's various executive bodies, which were mutually complementary - e.g., agricultural development programmes and transport programmes. Nevertheless, they considered it advisable to have inter-Ministerial committees which would facilitate the exchange of information throughout the process of preparing the budget.

17. The many difficulties involved in modifying budgetary procedures in the sense thought desirable were examined. Such difficulties included those of a political nature, which came out clearly when the budget estimates were debated in parliament. It was admitted that they could be removed to some extent by securing more permanent contact between members of parliamentary budget and finance committees, on the one hand, and the officials responsible for preparing the budget, on the other; by arranging that, for the purpose of the budget vote, the parliaments should take into account the programmes to be developed; by presenting each programme to parliament with a detailed justification; and by making the parliament's technical advisory service independent of the Executive.

18. Among other substantial difficulties, attention was drawn to the lack of flexibility in the use of public funds arising from allocations of funds under special legislation for purposes which could not be changed; the proliferation of autonomous bodies, and the lack of co-ordination between the central and local or municipal governments; the lack of statistical information, and the shortage of specialized personnel.

19. Changes in budget preparation procedures with a view to the budget better serving its purpose as an originator of development programmes and a stabilizer of economic activity might create administrative difficulties if an attempt were made to introduce the new practices without due caution. The Workshop considered that the use of more efficient practices in budget preparation might start with activities such as capital investment. It might be possible thereby to reconcile the caution required with the urgent need to improve the procedures of the public sector. Moreover, it was conceded that improved methods of budget presentation, specifying clearly the objectives and forms of the action proposed, and containing justification for both with an analysis of the results expected, would facilitate the task of reforming the preparation procedures by helping to focus the attention of parliament, the public and government officials on the substantive aspects of State policy.

2. ECONOMIC CLASSIFICATION OF GOVERNMENT TRANSACTIONS

20. On the basis of conclusions reached by previous meetings regarding fiscal and budgetary policy, the Workshop considered the economic classification of government transactions, ^{5/} taking into account the type of information needed to estimate the effect of such transactions on the stability of the economy as a whole and the contribution of the public sector to the economic development of the country.

21. In connexion with these purposes of economic classification, the general consensus of opinion was that the traditional systems of public accounting were defective as to both scope and method of presentation. With regard to the short-term analysis of government expenditure and receipts, that defect was clearly revealed by an examination of the various concepts of budget deficits, generally considered as signs of inflationary pressures originating in the public sector. From examples furnished by different countries in South America, it was found that the budget deficit only partly reflected the results of the central government's activities, in so far as the budget did not cover certain important bodies like public industrial or trading enterprises and social security agencies, which, in the interests of administrative flexibility, were not subject to strict fiscal control. It was also suggested that the deficit or surplus resulting from budget accounts was based mainly on practical considerations related to financial administration. Thus, for instance, the deficit was in some cases defined as the difference between government receipts and expenditure, long-term credit operations being included under those heads; in others, long-term loans, and debt amortization, were not included in revenue and expenditure, but the surplus for previous years was regarded as an item of revenue. While it was admitted that those definitions might be adequate from the standpoint of financial administration, it was also observed that they were of little value as a means of economic analysis.

22. On the basis of the foregoing, the participants in the Workshop agreed that one of the chief problems arising in the application of economic classification was the clear definition of the public sector and the identification, within that sector, of the various types of official agencies, i.e. government bodies and administrative organizations included in the budget, autonomous social institutions such as, for instance, social security funds, and government trading and financial enterprises. In the course of the debate it was admitted that, apart from trading or production activities, identification of the various government bodies presented no very difficult problem; and that in that sense the definitions in the Manual already mentioned were a useful guide for the classifier.

23. With regard to trading and production enterprises, specific cases were quoted where the boundary lines between the private and public sectors could not be rigidly drawn for purposes of classification. Nevertheless, it was pointed out that those cases had been covered in the Manual, and that the criteria suggested in that document, based on the degree of political control,

^{5/} The basis for the discussion was the plan presented in the Manual for the Economic and Functional Classification of Government Transactions (United Nations publication, Sales No. 58.XVI.2).

would make it possible to draw a suitable distinction between enterprises subject to the detailed financial control of a political body (government enterprises) and independent public undertakings. Such bodies could be distinguished from the private sector by the fact that, under the laws establishing them, they would be subject to some general form of control by a Ministry or government Department. The accounts of independent public undertakings, like those of other public bodies not, however, subject to direct budgetary control, would remain outside the system of accounts of the government sector properly so called.

24. The Workshop welcomed the general character of the economic classification system in the Manual, which made it applicable to all official bodies, including trading and financial enterprises. It was thus possible to consolidate all government transactions and so measure, for instance, the contribution of the public sector to capital formation in the national economy, together with the total of loans granted to (or received from) the private sector, the net disposable income of the government sector, etc.

25. A careful examination of the basic concepts of economic classification showed that the purpose of such classification lay primarily in distinguishing between expenditure in goods and services for capital formation, and current expenditures on "consumption", which, added together, provided an estimate of the direct absorption of real resources by the government; the payments (social benefits and interest on the public debt, for instance) and the revenue, e.g. taxes, whereby the income from the other sectors of the economy was redistributed; the loans and credits for financing capital formation in the other sectors of the economy, and the income derived from State loans whereby a part of the savings of the domestic and foreign private sector was transferred to the government.

26. From the angle of using economic classification for short-term analysis, attention was drawn to certain methods of measuring the deficit of the central government, which might be regarded as indicators of inflationary pressures. Among them was mentioned the difference between total expenditure on goods and services and the net disposable income of the government, i.e. the revenue from taxes and other current income less payments in the form of transfers to the private sector. Indirectly, and by applying this same economic classification, an index of inflationary pressure originating in the public sector could be obtained, this index being represented by the sum of the decrease in the cash balance and the net amount of the loans granted by the banking system to the government.

27. The participants in the Workshop showed interest in the drawing, in economic classification, of a distinction between domestic and foreign transactions. That distinction would make it possible to analyse the direct effects of government activities on the balance of payments. But the Workshop recognized the practical difficulties involved in applying that system of classification and recommended that, as a first stage, the distinction should be drawn with respect to current transfers and transfers of capital, and international credit transactions. With regard to expenditures on goods and services, the great value of determining direct expenditure in foreign currency as required by a government investment programme was also stressed.

28. The Workshop finally considered the classification of receipts, paying special attention to taxes, which generally represented between 80 and 90 per cent of the government's ordinary revenue. There was a general consensus of opinion

among participants that the scheme suggested in the Manual was useful in that it would make it possible for the base of each tax - income, capital, production, etc. - to be clearly identified, and would at the same time provide a complete picture of government taxation, including non-explicit taxes such as revenue accruing from the operation of multiple exchange rate schemes, fiscal monopolies, etc. Nevertheless, the information derived from this classification scheme would constitute no more than a point of departure for the analysis of the economic effects of taxation. This type of analysis, as was made clear by the discussion of specific cases in certain South American countries, would call for extensive statistical research in order to identify those sectors of the economy affected by the various types of tax (for instance, business corporation, the agricultural sector, the exporting sector, etc.). In addition, for the analysis of the redistribution of income it would be necessary to determine the incidence of the tax system by levels of income. Finally, it was pointed out that for purposes of tax administration it would be extremely useful to possess statistics of the yield from taxes, classified by regions or provinces.

3. FUNCTIONAL CLASSIFICATION OF GOVERNMENT TRANSACTIONS

29. When the debate on this item opened, participants in the Workshop pointed out that functional classification was not a new form of budget presentation, the budget being traditionally divided into sections devoted to different Ministries or administrative Departments and so reflecting, to a certain extent, the purposes of public expenditure. But there was general agreement that classification by administrative units, while indispensable for accountability purposes, was not enough to ensure effective use of the government's financial resources. That was because, as a consequence of the change in nature and increase in scope of government activities during the last few decades, each Ministry now discharged more than one function. Moreover, in almost all countries - particularly those of South America - many activities, both in the economic and in the social field, were entrusted to autonomous or semi-autonomous bodies. Hence the need for a more thorough analysis of public expenditures on the basis of a functional criterion, with the purpose of preparing and co-ordinating economic and social development programmes requiring the participation of various official and autonomous bodies.

30. The object of this type of classification is fundamentally to group under one functional heading or category all expenditures destined for the same purpose - for instance, all expenditures relating to the provision of the same public service. Therefore, the principal functional categories would be services such as health, education, defence, transport, etc. The advantages of a standard classification are obvious when it comes to grouping expenditures made, for the same purpose, by bodies included in the budget of the central government, by autonomous institutions and by provincial or local governments. Only in that way is it possible to present a complete picture of the total structure of public expenditure.

31. The Workshop agreed that, on a more general plane, only a small number of very broad categories should appear in the scheme, which would be a useful means of informing the public about the principal activities of the State. None the less it was emphasized that, for the purpose of preparing programmes, assigning priorities or supervising the efficiency of the administrative services, a more

detailed analysis was needed, presenting information on the relative costs of the various activities connected with any given function. For instance, in the process of preparing a programme, it would be a case not only of allocating more funds to education and less to defence, but also of allocating more or less funds to primary, secondary or university education or to the different branches of defence.

32. The participants in the Workshop considered that the detailed functional classification proposed in the Manual was, broadly speaking, very satisfactory for the purposes mentioned. But some of them expressed doubts as to the value of establishing a separate group for "community services", which might well be included, according to their purpose, under "general services" or "economic services". In any case, it was unanimously suggested that the item "roads and waterways" should be transferred to "economic services". While it was true that this function was not usually in the hands of public enterprise, that was not sufficient reason for classifying it separately from the other forms of transport and communication.

33. Some participants showed an interest in the application of functional and economic classification with a view to determining government expenditures for economic development. In this connexion it was suggested that with regard to capital formation - an item presupposing a flow of goods and services in the future - all capital expenditures should be regarded as "expenditures for development". But it was arguable that certain capital expenditures - e.g. for the construction of public administrative buildings, monuments, etc. - represented no important contribution to economic development and should be excluded from any precise definition of development costs. On the other hand, certain current expenditures, like those for agricultural extension services, technical education, scientific research etc., directly contributed to an increase in economic productivity and should therefore be considered as "expenditures for development". The same reasoning could be applied to other current expenditures, on health services, education and any other item which might increase productivity of labour. Clearly, in that case, the practical value of a special definition of expenditures for development would be lost. Nevertheless, it was concluded that the heading "expenditures for development" was useful when applied to specific programmes of regional development or of a group of integrated industries.

34. The Workshop recognized that functional classification was primarily classification of expenditures. It was however agreed that, when their amounts justified it, certain items of revenue, like charges for and sales of certain services, could usefully be classified by function and deducted from the cost of the function concerned. In that way the gross and net expenditures on functions such as education, health, etc. could be ascertained.

35. The rest of the debate bore on practical rather than theoretical difficulties - in connexion with the classification of certain expenditures - arising from the nature of the basic information available. That was the case with the expenditures of government agencies responsible for common services, such as government printing presses, and for the allocation and maintenance of offices for the government's administrative services. In principle, expenditures on common services should be classified under the Department benefiting from them. The Manual contained some practical formulae for such classification. It was,

nevertheless, recognized that in some cases the basic information was so inadequate as to prevent that from being done, that such expenditures should therefore be classified under the head of "general administration".

4. PROGRAMME AND PERFORMANCE BUDGETING

36. The overriding effect of governmental action on economic development makes it desirable that, in budget systems, more advanced techniques should gradually be adopted, leading to more rational decisions. In this connexion, it was unanimously felt that a major problem to be solved was lack of method in the selection of the best investments for public funds. Hence the great importance of introducing, in the South American countries, the technique of planning and completing programme budgets.

37. An initial exchange of views among the participants indicated that most of the South American countries possessed little experience in this field. It was clear that the technique in question differed substantially from the systems traditionally in use, and that its adoption would consequently involve a major effort of adaptation in the administrative structure and procedures of the countries concerned.

38. Programme budgeting is a system ensuring greater accuracy in the performance of the functions which, in one way or another, every budget must fulfil by reason of its very existence. These functions include the selection of activities, the co-ordination of supplementary programmes, and efficiency tests.

39. In view of the foregoing it was felt that, as a first step towards the application of this technique, it was of prime importance to define an adequate institutional structure for effective programming on the part of the State.

40. Consideration of the problem of selecting and co-ordinating objectives and activities showed the desirability of clearly defining both the procedure for such selection and co-ordination and the responsibility falling, in that connexion, upon the Budget Office.

41. In the first place, programming for economic development clearly involves the establishment of medium- and long-term objectives for the various functions performed by the State. Moreover, a certain proportion of each medium- and long-term objective should be achieved in the course of each financial year. For example, one objective in the field of education might be an increase in the average period of the population's school attendance from 1.5 to 3 years within a period of ten years, or a reduction by a given percentage, within the same period, of the illiteracy rate. Completion of such a programme would require, within that time, the construction and equipping of a specific number of schools, the training of a given number of teachers, etc. A long-term objective of this kind cannot be achieved unless funds are set aside in each annual budget for the purposes mentioned.

42. It was made clear in the debate that the Budget Office should be entrusted with the preparation of short-term programmes and that it must therefore extend its field of activity so as to add this function to its normal duties connected with the accounts and finances of the budgetary cycle.

43. Owing to the lack of experience in programming, special attention should be paid to the question whether short-term and long-term programming should be entrusted to a single body or whether, on the contrary, a Planning Office should be set up to deal with medium- and long-term programming, alongside the Budget Office which would be responsible for the preparation of one-year programmes.

44. In South America, only a few countries have planning offices, most of which are of recent establishment. As a rule, budget offices are responsible for the planning and implementation of the annual budget.

45. While no general rules can be laid down in the matter, it was felt, during the debate, that medium- and long-term planning had certain characteristic features which distinguished it to some degree, as to the problems involved, from short-term planning.

46. The establishment of programming bodies, such as have already been set up in Colombia, Ecuador and Venezuela, is therefore justified. However, it would be quite possible, as an alternative, to create an adequately organized Budget Office responsible for both functions.

47. It was felt important to stress that the activities of future planning bodies must, by a careful co-ordination of functions and attributes, be closely related to those of the corresponding budget offices. The participation of the Budget Office in the planning of medium- and long-term programmes was considered advisable.

48. It was also generally felt that the Budget Office could perform a useful function in processing applications for funds, submitted by government Departments, on the basis of the activities to be undertaken and the results to be achieved. One effective method here might be the drafting of suitable forms which government Departments would complete in support of their applications, in accordance with detailed instructions issued by the Budget Office.

49. During the discussion, particular attention was paid to the way in which the two above-mentioned bodies should discharge their planning duties.

50. The functions entrusted to the State are so extensive and varied that any consideration of programmes and projects involves a study of various technical problems - a study which can be carried out only by experts. In these circumstances, the fear was expressed that the Budget or Planning Office, as the case might be, would tend to recruit a vast number of experts on all subjects, in order to be able to take sound decisions when faced with a choice of alternatives; and that this would lead to the creation of a bureaucratic super-organ with little operational flexibility.

51. It was clearly apparent, from the discussion of this particular subject, that the planning of programmes and budgets could not be confined to a small group of civil servants in the Budget Office, but required the participation of the whole administration. Programming must be decentralized, because a group of experts cannot be expected to be familiar with every detail of the various functions performed by the State.

52. It was therefore felt that the technical aspects of programming, and the general task of making a selection between projects, activities and sub-functions of a single function, should be the responsibility of the executive organs. Decisions deriving from the broad functions of the State would be taken by the Budget and Planning Offices.

53. The ideal method, however, would be one whereby specific projects and programmes were selected, at each level, on the advice of experts and in accordance with common standards of economic appraisal. The executive organs would have to justify their proposals by applying those standards, so that projects formulated by different executive organs could be compared in the knowledge that uniform rules were being applied in the taking of the decisions whereby the proposals were put forward. This applies equally to medium-term, long-term and one-year programmes.

54. The standards of economic appraisal should be laid down by the authorities responsible for decisions at the highest level, having jurisdiction over every branch of government activity. Should responsibility for programming be entrusted to the Budget Office, it must formulate, negotiate and ensure the application of those standards. If there is a planning body as well, it should consider the standards to be applied to medium-term programmes, with the Budget Office laying down the rules for the appraisal of one-year programmes. Their work would naturally be co-ordinated, with a view to avoiding discrepancies and differences in standards.

55. The participants recognized that so drastic a change in the administrative machinery would have to be carried out step by step. The system of performance budgeting would involve, among other things, the training of a group of experts in organization and methods. It was felt that in some countries the problem might be tackled initially by beginning with specific Departments or activities whose expenditures were directed towards results which could be evaluated in the form of well-defined end-products or services, as, for example, the number of hospital beds available or the number of miles of road built.

56. Lastly it was felt that, in view of the specialized character of programming techniques and the constant improvement of budget systems and of current methods of economic analysis, experts in this field should be trained, through advanced courses and fellowships. The co-operation of United Nations technical assistance organs was considered important in this connexion. However, it was unanimously agreed that action on a continuing basis, and on a broader scale, should be carried out by universities. It was further deemed advisable that students of economics, public administration and related subjects should be allowed to spend more time on practical work in budget offices, with a view to arousing their interest in this field of professional endeavour. It was felt that it would be useful to have the views of participants in the Workshop on what, in their opinion, would have to be done to achieve this.

57. At the conclusion of the debate, it was agreed that the discussion should be summarized in the form of conclusions covering the major part of the subject-matter. These are set out as follows:

- (a) A budget office cannot confine itself to purely "accounting" activities. It must be responsible for short-term programming, and also for medium- and long-term programming where no specific organ for this latter purpose exists.

(b) The technical aspects of programming should be the responsibility of the executive organs.

(c) The programmes prepared by the executive organs should conform to standards of economic appraisal and preparation laid down by the Central Budget Office, in consultation with the Planning Office.

(d) Programming offices should be responsible for the direction given to medium- and long-term programmes of the public sector, and for reconciliation of the activities of the public and private sectors.

(e) The executive organs should prepare medium-term programmes, in accordance with technical instructions from the programming office in regard to economic appraisal and presentation.

(f) Programming and budget offices should co-ordinate their work. Representatives of the budget office should therefore take part in the planning of medium- and long-term programmes.

(g) Steps should be taken to train experts in budgetary matters, for which purpose the participation of universities and United Nations technical assistance organs would be advisable.

5. METHODS FOR THE RECLASSIFICATION OF BUDGET DATA ACCORDING TO ECONOMIC AND FUNCTIONAL CATEGORIES

58. In examining the question of methods for the reclassification of public sector accounts according to economic and functional categories, the Workshop had before it the document entitled Reclassification of Government Expenditures and Receipts in Selected Countries (ST/ECA/52) and its addendum 1, in which the experience in that field of various countries in South America and elsewhere was described.

59. The discussion centred on two topics: (a) the juncture at which reclassification should take place, and (b) the practical method of accomplishing it. There was agreement that the first topic had a large measure of influence with regard to the selection of the agency which should effect the reclassification and to the formal instrument or document in which it should appear; and that accordingly the problems arising from each of these three topics should be taken into consideration in any attempt to establish the time for reclassification, i.e. to analyse the advantages and disadvantages of ex ante and ex post classifications.

60. Ex ante classification was defined as the classification which appeared at the same time as the basic documents, was annexed to or legally incorporated in them, and was effected by the bodies administratively responsible for the preparation of the basic documents (budgets or closed accounts).

61. The Workshop considered the experience of certain countries which had legally incorporated economic and functional classifications in their budgetary procedure. The consensus of opinion was that the advantage of giving legal status to supplementary classifications would in no case justify the initiation of budgetary reform. Some of the participants thought that, when countries wanted to undertake budgetary reform for other reasons, it might be possible to

use the occasion in order to incorporate, in such reform, the principle of the legality of classifications. The view was also expressed, however, that the immediate introduction of the principle of legality might be inadvisable for countries lacking adequate experience of the practicability of reclassification, and that in such cases a preliminary process of gradual experimentation was needed before a decision was taken in favour of the adoption of legal status.

62. In general, the participants thought that the ex ante preparation of supplementary classifications could be beneficial even if such classifications were not given legal status, provided that they were prepared at the same time and by the same bodies as the basic documents. In that connexion, consideration was given to the situation in countries where supplementary classifications were submitted simply for the information of the Legislature, which had to give legal authorization to a budget presented in accordance with traditional classification rules.

63. With respect to ex post reclassification of budget data, accomplished by the bodies responsible for the preparation of the data or by other government agencies, or even by private research centres, the participants pointed out that the usual delay in the appearance of such a reclassification was a disadvantage when the economic impact of government transactions was felt to be significant in the preparation of medium- and short-term plans. Nevertheless, it was thought that ex post classification could be considered as a preliminary step to ex ante classification, and there was a general desire to speed up the reclassification processes so that they could be accomplished with a minimum of delay.

64. In instances where a quick economic classification was desired and the requisite elements for producing it were not at hand, the Workshop recognized that a detailed classification by object of expenditure might usefully provide a first approximation of aggregates significant for economic analysis, although it considered the greatest disadvantage of such object classification to be the failure to distinguish between current and capital expenditures.

65. As for the method of performing the reclassification work, there was agreement on the desirability of dividing the public sector into basic working sectors, and of applying to each of these sectors the rules that would seem to be most appropriate in view of the degree of administrative decentralization and the form of public activity concerned. With respect to local government sector accounts in unitary States, it seemed advisable to use a questionnaire submitted by the central authority, which might be accompanied by instructions to the local governments to adopt, in the future, a standard system of economic and functional classification to which their accounts could be adapted. The problem would be different in the case of federal governments, where the states or provinces had administrative autonomy preventing the imposition of standard regulations. But the hope was expressed that, even in such instances, the local governments would gradually become convinced of the wisdom of using a standard classification for the whole of the national public sector, because of its technical advantages.

66. For central government accounts, it was thought desirable to establish two or more basic working sectors, one for transactions of agencies included in the budget and one or more for extrabudgetary agencies and funds, through adjustment of the differences in accounting methods (cash or accrual accounting, for example),

when significant. Consideration was also given to the desirability of adopting a code to the traditional classification items, making possible the immediate derivation of an economic and functional reclassification simply by adding up the items related to a code number. It was emphasized that correct application of the code would involve careful and consistent definition of each economic and functional concept; in that connexion the definitions included in the Manual would be very useful. Consideration was likewise given to the need for making certain adjustments in order to estimate the items, required in economic classification, that were not included in the basic documents and consequently would not be reclassified through a code. Estimation of those adjustment items was, however, a problem to be decided in each instance, and in each such case the advisability and possibility of estimating such figures as depreciation of public buildings, interest charged, etc. would have to be considered. The possibility of introducing medium-type, high-speed electronic computers, capable of arranging and reclassifying all accounting items within a short space of time, was regarded as highly important for the application of the code.

67. As for the reclassification of transactions of government enterprises, there was unanimous agreement that commercial accounting methods had to be applied, and the introduction of commercial accounts on a parallel basis was thought to be desirable in those countries where the operations of trading enterprises were included in the budget on an equal footing with those of other administrative Departments and were recorded on a cash basis.

68. The problem of cash and accrual accounting was also considered. Again, on this point, there was unanimous agreement that transactions of trading enterprises had to be recorded on an accrual basis, for two reasons: because accrual accounting was the only method of measuring the real results of the management of the enterprises, and because the greatest discrepancies between cash and accrual accounts were likely to appear in commercial transactions. It was thought, on the other hand, that the distinction might be much less important with respect to general government operations, since discrepancies between the two forms of accounting should not logically be very large, bearing, as they would, for the most part on salaries and other payments which were normally liquidated within the accounting period.

69. The desirability of applying different accounting treatment to expenditures and to receipts was also stressed: while the former should be represented on an accrual basis, there would be less difficulty in permitting receipts to be recorded on a cash basis, since it was assumed that the volume of receipts remained stable enough, year by year, to reduce discrepancies to a minimum.

70. The discussion on this point was confined to economic and functional classifications. However, it was acknowledged that, should the technique of programme and performance budgeting be introduced, the use of the accrual accounting method would be essential.

6. CURRENT DEVELOPMENTS IN NATIONAL ECONOMIC ACCOUNTING AND THEIR RELATION TO THE PUBLIC SECTOR ACCOUNTS

71. The Workshop devoted its last working meeting to hearing a statement by the Secretariat on public sector accounts and their integration within a system of national accounts. 6/

6/ The subject is dealt with at greater length in document E/CN.12/BRW.1/L.6, National Economic Accounts and Public Sector Accounts.

72. It was thought that, while the purpose of an economic classification scheme was to supply the data needed for an examination of the economic effects of government activities, it had to be regarded as part of a broader system for recording the transactions of all sectors of the economy, and not only the transactions of government bodies. This did not imply that the usefulness of such a classification scheme depended on the existence of like statistics for the transactions of other bodies; it only meant that, for the purpose of analysing the effects of government transactions on the rest of the economy, a system in which the recording of government transactions could be considered as part of a planned recording of all economic transactions must, at least from the conceptual standpoint, be kept in mind. That would provide a view of the action of government bodies in relation to the action of other economic bodies and to the functioning of the economy as a whole.

73. Although all the various forms of national economic accounts did exist in certain countries, no country at the present time had a fully integrated set of national economic accounts. However, work was proceeding in some countries on the integration of certain forms of accounts with one another. National income accounts were being integrated with flow of funds data or with input-output tables. An increasing number of countries had integrated balance of payments data with the national income accounts. Although national balance-sheets were still quite rare, they were being developed to some extent in conjunction with flow of funds accounts. Despite those partial integrations, however, no serious attempt had yet been made to set forth a single integrated set of data which would clearly reveal the interrelations among the various classes of account.

74. Many benefits would accrue from integration. Data developed from one form of account could be utilized also for other forms of national economic accounts. A properly set up network of national economic accounts would eliminate the necessity for reconciliation of concepts, and the analyst would have a clearer conception of how the accounts were related to one another, so that it would be possible for him to use them more correctly in relation to each other.

75. The term "integration" was used to mean many different things. For instance, it might be considered that integration had been achieved if it was possible to reconcile two different sets of data with each other. That kind of integration might involve elaborate supplementary reconciliation tables, showing how a concept in one system was related to a similar concept in another system. Such a process of reconciliation was a step forward when carried out in quantitative terms, since it made the differences between the various concepts explicit. At the present time, even that degree of integration did not, generally, exist. In many countries, the different forms of national economic accounts could not be reconciled quantitatively, and in some cases even the qualitative differences between concepts had not been made explicit. But reconciliations, even where they were possible, had obvious drawbacks. They were time-consuming to produce, and difficult to use. Where a large number of reconciliation items were involved, it was impracticable to work with them for successive periods of time. In effect, they served the purpose of showing what the differences among the various forms of national economic accounts were, but they did not provide a technique which enabled the analyst to move easily from one form to another.

III. CONCLUSIONS AND RECOMMENDATIONS

1. The Workshop recommended the gradual introduction of classification according to economic and functional categories because it felt that such classification provided information essential for the formulation of government policies in the economic and social fields. It considered that the Manual compiled by the Fiscal and Financial Branch 8/ contained all the information necessary for the completion of this task, and expressed its appreciation of the work done, in this field, by the United Nations.
2. It also recommended the adoption of the techniques of programme and performance budgeting, as a means of facilitating programming in the public sector and of increasing efficiency in the execution of the relevant tasks. The Workshop recognized that the introduction of these new techniques should begin with such activities as real investment, where the best results could be obtained, and should be extended, in due course, to other sectors. It was considered in general that, in the preparation of the government budget, the public sector should be taken into account as a whole - as in medium-term functional budgets - and incorporated in a national development programme. With regard to investments, stress was laid on the urgent need for budget offices to establish uniform procedures for the preparation and evaluation of the relevant projects.
3. The Workshop considered that the tasks of budgetary reclassification and the adoption of new techniques were a reflection of the new responsibilities falling upon budget offices of modern States in the short-term planning of activities in the public sector, in addition to their traditional functions in the financial and accounting fields.
4. At the same time, the Workshop recognized the importance of creating medium- and long-term planning offices or, failing that, the need to furnish budget offices with the means and information necessary for carrying out this planning. In any event, in those countries where both these types of office existed the offices should co-ordinate their work, for which purpose the Workshop recommended the participation of representatives of the budget office in the preparation of medium- and long-term programmes.
5. With respect to the programming function of budget offices, it was recommended that they should establish uniform procedures for the execution of investment projects. These procedures should be used by the executive organs of governments in the preparation and justification of their programmes.
6. The Workshop considered that, for the purpose of putting into practice the classifications and new budgetary procedures recommended, it was essential to train specialized personnel, to mechanize the work in budget offices, and to improve statistical information systems. In that connexion it expressed its interest in the technical assistance which might be furnished by the United Nations, either in the form of direct advice to governments or through personnel training programmes carried out in co-operation with the universities of the countries concerned, and by means of periodical international meetings of experts on budgetary matters.

8/ See note 5.

7. The Workshop felt it to be very important that budget offices should receive in good time the information provided by the national accounting systems, and expressed its interest in the efforts being made to unify the different systems of national economic accounting; it considered that this process should be encouraged so that uniformity might be achieved within a specified period of time.

Annex I

LIST OF PARTICIPANTS

1. SOUTH AMERICAN COUNTRIES

ARGENTINA

Cayetano Licciardo Accountant-General of the Nation

Javier Rémiges Díaz^{1/} Chief, Budget Department, and
Financial Comptroller,
Ministry of Finance

BOLIVIA

Antenor Santa Cruz Director-General of Budgets,
Ministry of Finance

BRAZIL

Raimundo Geraldo Aguiar Pereira Office of the Accountant-General
of the Republic,
Ministry of Finance

COLOMBIA

Enrique Delvasto^{1/} Expert, Public Investments Section,
Administrative Department for
Planning and Technical Services

CHILE

Sergio Molina Silva^{2/} Director of Budget and Finances,
Ministry of Finance

Edgardo Boeninger Economic Adviser, Bureau of Budget
and Finances,
Ministry of Finance

Javier Vergara W. Legal Adviser, Bureau of Budget
and Finances,
Ministry of Finance

José Daie Director, Bureau of Financial
Studies,
Ministry of Finance

^{1/} Member of the Drafting Committee.

^{2/} Deputy Director of the Workshop and Chairman of the Drafting Committee.

ECUADOR

Luis Alberto de la Torre^{1/}

Senator of the Congress of Ecuador
and Chairman of the Budget
Committee of Congress

Jaime E. Porrás P.

Director of the Budget, Ministry of
the Treasury

Aníbal Soto Casares

Chief, Fiscal Statistics Section,
Bureau of the Budget

PARAGUAY

Gerardo Pérez

Financial Comptroller, Ministry of
Finance

PERU

Octavio Carranza Cárdenas

Bureau of Economics, Ministry of
Education

URUGUAY

Edison Gnazzo^{1/}

Budget Adviser, Ministry of Finance

VENEZUELA

Braulio Jatar Dotti

Senator, Chairman of the Congress
Committee attached to the
National Budget Council, and
Professor of Government Budgeting
at the Central University

Hely Malaret^{1/}

Director-General of the Budget,
Ministry of Finance

German Moreno

Economist, Ministry of Finance

J.M. Balada

Examinations Section, Office of the
National Comptroller

2. OTHER COUNTRIES

SPAIN

Joaquín Collada Andreu

Chief of the Budget Section,
General Controlling Bureau,
Ministry of Finance

3. SECRETARIAT

Jorge Ahumada, Director

Chief of the Economic Development
Division of ECLA

^{1/} Member of the Drafting Committee.

Alfred Landau, Technical Adviser	Acting Chief, Budgetary Research Section, Fiscal and Financial Branch, Bureau of Economic Affairs, United Nations
Joseph Moscarella, Technical Secretary	Co-ordinator of Studies, ECLA Office, Mexico
Prof. Richard Ruggles, Consultant	Chairman, Department of Economics, University of Yale
Juan Ignacio Jiménez	Economist, Budgetary Research Section, Fiscal and Financial Branch, Bureau of Economic Affairs, United Nations
Carmen Flores	Economist, International Tax Section, Fiscal and Financial Branch, Bureau of Economic Affairs, United Nations
Monica Barnett, Administrative Secretary	Staff member in the Office of the Executive Secretary, ECLA

Annex II

NOTES BY THE SECRETARIAT ON THE MAIN ITEMS OF THE AGENDA

Item 3: The role of government and the function of the public sector accounts

The Governments of the more advanced countries played a relatively minor role in national economic life during the early stages of its development. The range of government activities was fairly limited, and the effect of governmental decisions upon the rest of the economy was not very great. In those circumstances the main function of public sector accounts was to register transactions so as to establish whether funds were being invested in accordance with existing legislation.

Today, Governments are required to accomplish a task of growing importance in the key areas of economic life in almost every country. In the ECLA region, Governments are making special efforts to foster the economic and social development of their countries. In consequence, the traditional types of public accounts have ceased to be adequate for the purposes of the accounting necessary for much more complicated operations. In addition, the more extensive government activities become, the more important it is that they should be carried out with the maximum of efficiency. Traditional types of accounts are not well suited to this purpose, as they usually lay more emphasis on what the Government buys than on what the Government does. The increasing participation of Governments in production and trading activities calls for accounting methods designed to serve the special needs of public enterprises.

Moreover, modern doctrine recognizes the great influence of monetary and fiscal policies in economic development and currency stability. In this connexion, it is necessary carefully to determine what resources the public sector may devote to capital formation, and also the exact composition of this kind of expenditure. Likewise, the need to verify the Government's cash position is no longer a mere question of financial management, but may be of crucial importance for the entire problem of currency stability. Furthermore, governmental decisions in the matter of taxation and public expenditures affect the distribution of income, either intentionally or as the inevitable result of the pursuit of other objectives. The redistribution of income, in turn, influences economic development and stability. Finally, advances in social science enable us to understand, much better today than before, the interdependence of the various economic and social activities. Once this is admitted, it would seem essential to construct governmental policy in such a way that the great danger of inconsistencies or incompatibilities is removed or at any rate reduced to a minimum. Accordingly, measures should be taken to facilitate the integration of information concerning the public sector with that concerning other sectors of the economy.

The new responsibilities assumed by Governments require, not merely new types of public accounts, but also a new and thorough study of the procedures at present employed in arriving at decisions. For example, the Governments in the region are

responsible for approximately 40 per cent of total national investment. There is, however, in many cases still no system for assessing the value of different investment possibilities and establishing an order of priority.

Thus, in the examination of the procedures employed in reaching policy decisions and in determining the functions of the public sector accounts, various questions have to be considered. What are the main economic functions of the Governments of the different countries, and what demands does their fulfilment make on budgetary procedures? What are the main purposes to which public sector accounts are put, and what are the various conditions which these accounts should meet for each purpose? To what extent are there important divergencies, in the various countries, between the budgetary process which is most appropriate and that which is in fact employed? What are the most noticeable deficiencies in the public sector accounts of the different countries, and how important are they from the standpoint of government policy? In the establishment of a budgetary procedure and of an accounting system for the public sector, what are the measures to which the different countries would assign the highest priority for immediate execution? How far can these measures be carried out with the procedures and accounts at present in use, and to what extent do they necessitate a radical budgetary reform?

Item 4: Economic classification of government transactions

In order to reach policy decisions, it is essential to possess information on the extent and range of government activities. Such information allows the policy-making government Departments to form a clearer picture of the immediate and secondary effects, on the rest of the economy, of government activities in the form of spending, taxing, and debt contraction or repayment. It is therefore necessary to divide government transactions according to their varying economic importance. For example, information concerning taxes, transfers and subsidies would indicate the function of the Government as a redistributor of income. Information concerning expenditure would indicate to what extent the Government is absorbing the goods and services produced by the country's economy. Government purchases of goods and services would in turn have to be subdivided so as to show whether they are in respect of current consumption or of capital formation. Information concerning the Government's borrowing and lending activities would correspond to a third category of transaction.

With respect to the economic classification of government transactions, the following questions may be asked: Is there general agreement on the need for the economic classifications described above as an essential part of the government accounting system? Should government transactions classified according to economic category be reported on a "cash" or on an "accrual" basis? What is the value of the distinction between current and capital transactions? Is a detailed classification of taxes necessary for purposes of budgetary and fiscal planning? For purposes of management and cost accounting, charges may be recorded under the heads of depreciation and imputed interest on capital owned; but are these categories relevant to economic analysis?

Item 5: Functional classification of government transactions

The classification of government expenditures according to functional categories has important features in common with the systems of classification used in the preparation of "budgets-in-brief" or other similar popular versions of the budget. It might be of some interest to indicate the objectives of government expenditures. Classifications according to government bodies, or even according to specific programmes approved by the legislative organs, are not adequate for these purposes since they depend to a large extent on the particular form taken by the governmental organization. For example, it is possible that a training programme may be carried out in part by a body concerned with agriculture and/or by a body responsible for industrial and commercial matters. Functional classification is designed to combine, under a single head, all the expenditures made for the same purpose by the different governmental bodies. In order to determine defence expenditures, for example, it is necessary in many countries to undertake a careful examination of the accounts of different governmental bodies, adding together the parts of each account which fall into this general category.

Functional classifications pose many difficult problems: Should they be applied solely to general government agencies or should they be extended also to State enterprises? Should administrative expenditures be included in each specific function and sub-function? How is it possible to indicate, in a functional classification, expenditures on activities where there is more than one object - as, for instance, hydraulic power schemes, community development programmes and so on? To what extent can the different types of receipts be classified by functional categories? What has been the experience of different countries in the preparation of functional classification projects, and how far can these classifications be made internationally comparable?

Item 6: Programme and performance budgeting

Programme budgeting may be broadly defined as the budgetary technique which serves to emphasize what the government does rather than what it buys. Consequently, in programme and performance budgets, by contrast with the traditional budget, the emphasis is shifted from the means of accomplishment (personal services, materials, travel costs, etc.) to the accomplishment itself. The things accomplished by a government vary greatly in nature and significance. This technique should therefore be applied in a flexible manner, to suit the particular characteristics of the different types of end-products obtained from the various programmes. Unlike the functional classification budget, programme and performance budgets concentrate on specific programmes which may be carried out in their entirety by a specific administrative organization. In more recent times the performance budget has also received special attention in so far as some countries have found it necessary to frame their development plans in a manner acceptable to those supplying capital, technical assistance or direct aid. In order to gauge whether a development project is satisfactory, it is necessary to be able to isolate it from other related activities and to observe it in relation to the rest of the economy, so that the value of the project in its entirety may be assessed with the passage of time.

With regard to programme budgets, it would be useful to weigh the experience gained by different countries. How far would it be possible to introduce programme budgets within the present framework of public sector accounts? To what extent is this budgetary method already being applied? Have development

projects been submitted along performance budgeting lines, and have the projects undertaken been thus evaluated? What studies have been made in different countries with a view to evaluating government programmes by comparing the expenditures made on them with the material results obtained from them? What importance can be attributed, for the purposes of budgetary technique, to data on the unit cost of end-products - for instance, the cost per mile of road, per acre of land reclaimed, per person inoculated against diseases, etc.?

Item 7: Methods of reclassifying government budget data

To secure data on government transactions classified according to economic and functional categories, two methods may be used. The first consists in the ex post reclassification of government transactions by statisticians on the basis of the information available in the budget documents and in the basic accounts of the government agencies. The second consists in the incorporation of the standard classification by economic and functional categories in the budget documents themselves and in the basic systems of accounts of the government agencies, by means of a coding system. The latter method would have the advantage of permitting quick and easy derivation of the necessary data.

What arguments are there in favour of each of these two methods, and which would appear to be preferable in the various countries? Would the reclassification of estimates be more difficult to carry out than the reclassification of transactions actually completed? Would the incorporation, in the budget documents of the different countries, of the additional classifications suggested, by economic and functional categories, be likely to require any changes in the traditional classification systems? If so, what would be the nature of these changes? To what extent would the use of electronic machines alter accounting methods and the general problem of reclassification?

Item 8: Current developments in national economic accounting and their relation to the public sector accounts

The growing importance of the functions of the government in the national economy has had a profound effect both on economic analysis and on the structure of the statistical data concerning the economy; vice versa, the development of national accounting is having a considerable influence on the procedures being followed to measure the extent of government activity. The development has been such that today the government is regarded as a sector of the economy, interdependent with the private sectors of production and consumption, the basis of its accounting being the budget data provided by the receipts and expenditures of the various government bodies and by the figures for sales and costs of the different public enterprises. There are at present five fairly well-defined categories of data in relation to the different aspects of the nation's economic activity. They are as follows:

- (i) national income and product accounts,
- (ii) input-output tables,
- (iii) flow-of-funds statements,

(iv) balance of payments accounts, and

(v) national accounts balances.

In most of the countries using them these accounts are kept separate, despite their interdependence.

Annex III

LIST OF DOCUMENTS

A. Working papers

- Provisional agenda E/CN.12/BRW.1/L.1
- Annotated agenda E/CN.12/BRW.1/L.1/Add.1
- A manual for economic and functional classification of government transactions, prepared by the Fiscal and Financial Branch of the United Nations Bureau of Economic Affairs
(United Nations publication, sales number: 58.XVI.2 ST/TAA/M.12
ST/ECA/49)
- The budget as an instrument for programming economic development, prepared by the Economic Development Division, ECLA E/CN.12/BRW.1/L.3
- Reclassification of government expenditures and receipts in selected countries, prepared by the Fiscal and Financial Branch of the United Nations Bureau of Economic Affairs E/CN.12/BRW.1/L.4 and
ST/ECA/52/Add.1
- Programme and performance budgeting, prepared by the Fiscal and Financial Branch of the United Nations Bureau of Economic Affairs E/CN.12/BRW.1/L.5
- National economic accounts and public sector accounts, prepared by the Fiscal and Financial Branch of the United Nations Bureau of Economic Affairs E/CN.12/BRW.1/L.6
- El sistema presupuestario de Chile
(The budget system of Chile), prepared by ECLA E/CN.12/BRW.1/L.7
- El presupuesto en el Uruguay
(The budget in Uruguay), prepared by Mr. Edison Gnazzo E/CN.12/BRW.1/1
- Problemas en la aplicación de un presupuesto por programas
(Problems involved in the application of programme budgeting), prepared by the Chilean participants E/CN.12/BRW.1/2

La reforma presupuestaria chilena
(The budget reform in Chile),
prepared by the Chilean participants

E/CN.12/BRW.1/3

B. Information papers

Budgetary structure and classification of government accounts, New York, 1957 (ST/ECA/8), prepared by the Fiscal and Financial Branch.

Government accounting and budget execution, New York, 1952 (ST/ECA/16), prepared by the Fiscal and Financial Branch.

Report of the workshop on problems of budgetary classification and management, Mexico City, 1953 (ST/TAA/Ser.C/14).

Report of the workshop on problems of budget reclassification in the ECAFE region, Bangkok, 1955 (ST/TAA/Ser.C/25).

Report of the second workshop on problems of budget reclassification and management, Bangkok, 1957 (E/CN.11/L.51).

Annex IV

ADDRESS BY HIS EXCELLENCY MR. EDUARDO FIGUEROA, ACTING MINISTER OF FINANCE OF CHILE, AT THE OPENING MEETING, 27 MAY 1959

It gives me special pleasure to welcome you to our country and to convey to you the warm greetings of His Excellency the President of the Republic. I am certain that the studies and conclusions which emerge from this challenging series of meetings will make a valuable contribution to improvements in public finance in our continent.

The discussions of this workshop will be of special interest to us Chileans, inasmuch as we are in process of carrying out important reforms in our budgetary legislation, which has remained to all intents and purposes unchanged for thirty years.

On the basis of our experience I should like to give some indication of the most important changes which in our view, are needed in the traditional budget in order to bring it into line with the characteristics of the modern State.

There has been an obvious extension of the State's functions, not only in the classical directions of education, public works, the protection of citizens and the administration of justice, but especially in fields like social security and the development of the economy, within the framework of stability in the currency's purchasing power.

The traditional administrative and the way in which it operates are not designed for efficient discharge of the new functions. The result has been the creation of administrative organs with differing legal characteristics, separate from the central administration and with a degree of autonomy varying according to the functions entrusted to each institution or agency.

In accordance with this institutional development the State conducts its affairs at three administrative levels: the Central Government, comprising the Ministries and the bodies directly subordinate to them; the decentralized institutions having specific functions - such as public works and other development corporations, the social security agencies, public lending institutions, etc.; and lastly the lowest level, corresponding to the local governments, which in Chile are represented by the municipalities.

The decentralized institutions frequently administer a considerable part of the resources assigned to the public sector, and often these are handled with such a degree of independence that they escape budgetary programming. This is the first change that I want to identify. The Central Government's budget does not show all that is being done in the public sector. Obviously the procedure of the central government cannot be applied to the decentralized institutions, given the need to avoid that loss of operational flexibility which would render the institutions less efficient. However, as it is essential to have a complete budgetary picture of public activity, standard rules must be worked out to replace

the existing rules, so that a public sector budget can be prepared covering all the administrative organs through which the political authorities exercise their functions.

A budget prepared on these lines will make it possible both for Executive and for Legislature to know what resources the Government actually has at its disposal, and to reach a co-ordinated decision as to how they shall be used.

While the preparation of the public sector budget is important, the form in which the income and expenditure accounts are presented in that budget is no less so. Our traditional budgetary classifications have usually placed special emphasis on audit control of the expenditure and of the administrative unit responsible for it. That type of classification proved satisfactory so long as government activities did not play a leading role in economic development. Today the State is the most powerful economic unit, so that variations in public sector demand have a decisive impact on such essential matters as economic development, stability, the balance of payments and income distribution.

The peoples' keen desire to attain higher levels of living has, in our countries, indicated the necessity of increasing capitalization indices. For this purpose active participation by both private enterprise and the Government is required, with these two sectors of the economy duly complementing each other. It is for private enterprise to develop those fields of the economy in which its characteristic initiative, flexibility and vigour are decisive factors, and for the Government to make those investments, for the basic services of the economy's development, which by their nature or amount are beyond the means of private enterprise.

These circumstances accordingly point to the need for assessing government participation in capital formation, and to the importance of directing public investment towards the most essential items. Given the existence of a fixed amount of resources available to the public sector, it is clear that the level of investment will be determined by the amount of current government expenditures. Hence the budget should contain information full enough to allow of adequate comparison between current and capital expenditure programmes. Only thus will the Government be able to formulate an investment policy compatible with the country's economic capacity.

The disorder which inflation produces in all spheres of economic life are well known, and the Government therefore has an important part to play in maintaining economic stability. That is why the greatest caution must be exercised in the handling of budget machinery, which in theory should be a stabilizing factor but has often been so distorted in its effect as to become, itself, an element contributing to inflation. Pressure exerted from various quarters on government expenditure has caused it materially to exceed the actual possibilities of financing it; thus a chronic deficit is set up, leading, in its turn, to inflation.

We are firmly convinced that the budget must, moreover, have the effect of rectifying inflationary pressures which are generated in other sectors of the economy.

It has already been pointed out that action has an important effect on the distribution of national income. Indeed the government's decision in matters of taxation on the one hand, and the volume and purpose of transfer payments on the other, constitute elements producing significant changes in revenue composition.

There is no doubt that the State's role in modern society as an income-redistributing agent is a concept now widely developed and accepted, so that it only remains to stress its importance. Through the budget, the government gives effect to its policy in that respect, since the budget records on the one hand, the quota which the citizens of different income levels contribute towards financing the government's expenditure and, on the other, the proportions in which the benefits of public activity are distributed.

Obviously, if the outstanding features of a modern State are determined by its action in the aforementioned sectors and branches, its budget should be so presented as to make it possible clearly to analyse the effects produced by government action on different economic indicators.

To do this effectively, we need a system of budgetary classification especially directed to that end. The old type of classification was based on considerations of accountability of expenditures and was therefore reduced to a list of receipts and expenditures, entirely lacking in economic significance. Such a system of presentation should be replaced by one making a full economic analysis of government action possible.

Naturally the data supplied by the budget must be supplemented by references to general tendencies observed in the private economic sector. Only with all this information at its disposal will the government be in a position to formulate a policy which is a co-ordinated expression of the needs imposed by the economy from a national standpoint. To that end it will be particularly important that the budgetary classification should permit the public sector to be incorporated into the wider framework of national accounting.

I should like to take this opportunity of referring to other aspects of the question which I regard as of paramount importance. Mention has hitherto been made of the impact of government action on economic processes. Equally important, however, is the full discharge, by the government, of all its various functions.

By means of the budget, the government obtains an over-all view of those functions, and simultaneously an idea of their relative importance. Any political decision designed to strengthen the development of certain specific functions must be based on the information supplied by the budgetary system.

The presentation of most budgets in the past has been based on directives, with regard to government finances, which stressed the need for reducing government expenditure to a minimum and acquiring the maximum degree of legal control over such expenditures. This concept finds expression in the elaboration of estimates which consist of mere lists of assets, either in the form of goods purchased or wages paid, and thus the budget indicates the amount that is going to be spent but gives no idea of the benefits to be derived from those resources.

In short, it is not possible to gather, from reading the budget, what each public service intends to do with the sums allocated to it.

Such a system, which might have seemed acceptable at a time when the State exercised a limited number of functions and its economic impact was very slight, cannot be accepted in our day and age, when government action has a wide range and is becoming increasingly complex.

That is why, today, a much more comprehensive presentation of the budget is needed, in which the concrete objectives aimed at, through the action of each public service, are fully set forth.

Naturally, the achievement of each objective means the utilization of a definite quota of funds within a certain period. The budget therefore should not confine itself to stating the aims to be achieved, but should also indicate - what is often more important - the means to be adopted. This is particularly the case in a country like ours, where the limited resources available to it and the urgency of meeting its needs demand the maximum yield for each amount invested.

In other words, the budgetary system should be perfected by the incorporation in it of machinery for ensuring the effectiveness of State activity. Critical evaluation and comparison of the data obtained from the various public services will make it possible to identify the least efficient sectors of public administration. It will then be possible to take prompt action to rectify such weaknesses by applying rationalization techniques to the procedures and methods of government activity.

Finally, I should like to indicate the importance of that co-ordination which a well-constructed budgetary instrument must achieve. Public functions are discharged through the institutions which together constitute the public administration; these have in most cases developed, not in accordance with any over-all planning, but through an aggregation of bodies created to meet the new or changing needs typical of a modern society.

The dynamic growth of this system has given rise to a form of administrative organization whose structure is often out of keeping with the functions that the State is called upon to discharge. Hence the frequent rivalry between bodies which, though their functions are similar, are subordinate to different authorities in the hierarchy, thus impeding efficiency or better administrative co-ordination.

It will thus be seen that the central budgetary organ is particularly well placed for studying procedure likely to bring the functions falling to the government, and the institutions actually responsible for the discharge of those functions, into more harmonious relationship.

These few reflections do not claim to cover all the items on the agenda of this Workshop, but are simply an indication of our concern and interest in these matters. Our views relating to specific items on which the present budgetary policy of Chile has a bearing are contained, for the most part, in a working paper submitted to the Workshop by my country's participants.

It is my pleasant duty, on behalf of the Chilean Government, to offer our warmest congratulations to the Economic Commission for Latin America, the

Bureau of Technical Assistance Operations, the Bureau of Economic Affairs and the Office for Public Administration of the United Nations for having organized a meeting on matters of so great an interest to our countries.

It only remains for me to wish the participants a pleasant stay in Chile, and to express the hope that the results achieved by this Workshop will constitute a new and effective contribution to the improvement of the financial administrative techniques current in the countries of our continent.

Annex V

STATEMENT BY MR. RAUL PREBISCH, EXECUTIVE SECRETARY OF THE
ECONOMIC COMMISSION FOR LATIN AMERICA, AT THE OPENING MEETING,
27 MAY 1959

I must first of all express the great satisfaction of the United Nations at the presence of the Chilean Minister of Finance at this Workshop's inauguration. It is further evidence of the unfailing support given by his Government to the Economic Commission for Latin America since its inception; indeed the Commission, as we all know, owes its existence very largely to a clear-sighted act on the part of Chile. When, some time ago, the Fiscal and Financial Branch and the Bureau of Technical Assistance Operations of the United Nations invited us to participate in this Workshop and take an active share in organizing it, we accepted the invitation, although budgetary questions had never before, in ECLA, been considered in priority. We did so because, in the task of drawing up programmes for the economic development of the Latin American countries, we had arrived at the conclusion that the budget was our most important instrument.

Our concern with the question of programming economic development dates back to the early days of ECLA. It derives not from abstract theories but from an analysis of economic realities in Latin America and the requirements of its economic growth, and above all from a realization of the need to increase the rate of its economic development which, after a brief rise in the days immediately following the war, has again fallen so low that all countries are clearly concerned with the problem of how to increase it to a level compatible with the social objectives of development.

We have regarded the task of programming as an essential measure of order and foresight in the economic development of Latin American countries, as an activity designed to make the most of the scanty resources available for investment and to prevent their being wrongly used; as an attempt to channel them in such a way that the national economy derives the greatest benefit from them and that Latin America is spared the structural imbalances which have so often appeared in countries' internal development as well as in their international relations and accounts. Through development programmes it is endeavoured to provide clear objectives not only for the usual basic investments of the State but also for private enterprise, together with the necessary incentives for the achievement of objectives clearly set forth in a programme.

The task of programming demands a technique of analysis and projections which ECLA is endeavouring to evolve. It has already sketched out its main features, and realizes the need for its continual improvement in the light of experience. This technique, progressively applied to the analysis of the economy and development problems of various countries, we have been able to improve by introducing into it, as we did in the course of our most recent research, the technique of input-output, which has enabled us to refine our projections and ascertain, with greater precision, the requirements involved by that development. We have taken a special interest in this Workshop because we are persuaded of

the need for incorporating in the budgetary system this technique of analysis and projections of economic development as a basis for programming. As the Minister of Finance has just said, although the problem of fiscal control is of the greatest importance, and much remains to be done in Latin America in that respect, it is not our principal concern at this meeting. I think that from a technical if not a practical standpoint this problem has already been solved, since we know what has to be done. There are tried and tested techniques in existence everywhere for the control of finances, and perhaps what we now need is simply some process of adapting them to the existing administrative procedures. Our problem at present is a different one: how to introduce, into budget analysis, the procedures dictated by the need to act systematically and intelligently in economic affairs, so as to give the Government an instrument of analysis which, today, it largely lacks.

THE ECONOMIC VALUE OF INVESTMENTS

The chief point in a development programme is to know the justification, the economic value, of investments; and for that purpose the Government budget is of prime importance. As we all know, in Latin America about 40 per cent of the total investments of the economy are, as the Minister of Finance has just reminded us, undertaken by the Government. Such investments play a decisive part in the rate of economic growth, and it is therefore comprehensible that an analysis for the purpose of a development programme should pay particular attention to public investment.

Other factors have to be taken into account in a study of the question from this particular angle. What, for instance, is the object of each investment, and what economic or social problem is it intended to solve? What relation does the proposed investment bear to the problem that will have to be solved, in a few years' time, in the dynamic growth of the economy? I am not referring only to tangible investments - for irrigation, roads or waterworks - where the amount and nature of the investment must obviously be related to a specific purpose of the economy; I have in mind also those investments which might be called intangible but which are of fundamental importance in the life of the community. For example, in the case of investments for agricultural research, hitherto so neglected in Latin America, there must be a clear understanding of the principle involved: what are the main problems of agricultural development with which a country must cope if it is to satisfy the needs of the population, of industry and of the export trade? into what channels shall agricultural research be directed, and what total sum must be invested for the solution not only of present but also of future problems? For in any investment for the future rather than for the present, the need for forecasting arises, and obliges the Government to decide what exactly it wishes to achieve and how great an undertaking will be necessary for the purpose. In the case of schools to be built or teachers to be trained, the Government must be clear as to its final goal, the scope of the problem and the methods for its solution. The same will be true of other activities as important as technical education, ranging from higher education to the complete training of the skilled workman. We must know what the country's needs will be within the next five or ten years if the requirements of its economic growth are to be met. I will mention but a few examples.

CRITERIA FOR PRIORITIES

The budget offers many facilities for increasing the yield of such social investments and suiting them to the clear objectives we have mentioned. But more is involved than the study of each investment in itself and the problems it is likely to solve. There is another, equally important aspect - the comparison of one investment with another. The Government has to decide what criteria for priorities have to be applied in the face of all its needs, how the various investments ought to be dovetailed in view of the scarcity of available resources, what technical standards should be adopted in deciding which investment is to be given priority, and how resources will be distributed among different investments. Yet the problem of priorities does not end there. In any sound economic and fiscal policy there must be clear and objective criteria for the establishment of priorities not only as between all the various tangible or intangible investments, but also as between investments and current expenditures of the Government, because often there is a clear conflict between the desire to encourage investment and the desire to satisfy current needs. It is even more necessary, if the current and investment expenditures of the Government are considered together, to relate those expenditures to the investment needs of the economy as a whole. So often has private investment suffered through the appropriation of an excessive proportion of available resources for current public expenditures or for unprofitable public investments! The field of priority-determination is a very wide one, and if the Government is to be given the necessary instruments for forming a clear idea of the matter, it is essential to introduce into our budgetary methods a technique of analysis and projections.

TECHNIQUE IS NOT EVERYTHING

The problem, of course, does not end there; it would be foolish to imagine that, merely with a good technique and a clear picture of objective needs and their order of priority, the Government would be in a position to make rational use of available resources, for the better implementation of its economic and social policy. We should always bear in mind that technique is not everything; political life is characterized by pressures of all kinds, which can often ruin solutions carefully worked out by techniques. We technicians must not forget, however, that mistaken solutions are frequently due, not to influence or pressure, but to the fact that the political leaders making the decisions have often not had in their minds a clear technical solution for a problem.

I have often witnessed, in my own country and on my frequent journeys throughout Latin America, the perplexity of certain Presidents and Ministers of Finance who, although anxious to find a solution clearly based on collective needs, have lacked the necessary information on which to formulate an opinion concerning investment and public expenditure policy. That is where the technician has an important part to play - above all in these times, when in many countries the politicians, especially those of the younger generation, tend to rely upon experts for co-operation and judgement to a degree never previously possible.

Thus the technician, and particularly the budgetary expert, is faced with an enormous responsibility at the present time: he must respond to this desire to draw him in, to work with him, which is noteworthy in Latin America.

The politician bears the fundamental responsibility of making the decision; but the expert has in his hands the formidable instrument of persuasion which, if objectively and impartially employed, whatever our standards of value may be, will never fail to impart more strength to technical advice. What is more, persuasion is not limited to the expert's influence on the politicians who have to solve a problem; it is something to be exerted in connexion with public opinion. The expert has the very important responsibility of translating his thought, which is sometimes complex, into simple terms that can be grasped by public opinion as a whole.

ECONOMIC POLICY LINKED WITH SOCIAL POLICY

In this matter, a vast experiment in democracy is called for in Latin America - technique must be made accessible to the masses. There is no problem bearing on the budget or on economic development - and I say this in the light of my own experience - which cannot be reduced to simple terms comprehensible to the general public. If the expert knows how to state his case with clarity and conviction, he can play a tremendous part in the economic policies of our countries. To do that he must make contact with the masses and indeed with all sectors of opinion, from employers to trade unions, who stand in great need of enlightenment if they are to understand the aims of economic policy indissolubly linked with social policy.

So often, in Latin America, enterprises inspired by the highest political and social considerations have failed for lack of a close association between the end and the means, for lack of an instrument which well-intentioned politicians could use in order to ensure compatibility between certain economic and certain social objectives. That is why we are so interested in this Workshop. I believe that you can all make valuable contributions to this discussion, on the basis of the individual experience of each country; and I think that this interchange of experience - a frank discussion of what each country has done or would like to do, of the obstacles that exist, and so forth - might be very useful. I should like, in conclusion, to wish you all a profitable and fruitful discussion, and to say that you may rely, for all the assistance you may need, on the enthusiastic collaboration of the Secretariat.

