

PUBLIC BUDGET AS AN INSTRUMENT OF STATE INTERVENTION IN THE ECONOMY

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Abstract

The budget has been one of the instruments used by political leaders and the bureaucrats to proffer solutions to the excruciating situation of the less privileged in the society. It is also supposed to be an instrument for planning that can be used to translate presently scarce fiscal and human resources in the public sector into future governmental goals and programmes. Therefore, this paper discusses the concept of public budget, trends in the budgetary process, budget and the economy. The concepts -fiscal and monetary policies are also discussed and compared as instruments of state intervention in the economy.

Introduction

The world of today has become a global village and the nationalistic fever has portended challenges to political leaders for them to manage the ever-decreasing natural resources. Consequently, experiences from the past two or three decades have sensitized policy makers to urgently address the issues of making life more meaningful and worth-while for the citizens. It is also one of the thrusts of decision makers to strive towards an enhanced sustainable development. Sustainable development is development that lasts (World Bank Report, 1972:34). Sustainable development is concerned with the current generations to meet their needs without compromising the ability of future generations to meet their own needs (World Commission on Environment and Development, 1987:12). It is, however, very unfortunate that such objectives which are intended to ameliorate the harsh economic and social realities of the people, continue to remain statements of intentions that are never redeemed.

Long term and medium term government policies, also called plans, are obviously important for overall national economic development, but, no matter how sophisticated and comprehensive these are, they only express intentions. It is only when these intentions are incorporated into the annual budget that they become firm commitments, with funds being allocated to enable their achievement (Rowan, 1952:50). According to Taylor, "a budget is a process by which plans are operationalised - a short-to-medium term plans which are expressed in financial terms (Taylor and Popham, 1989:66). The annual budget is a way by which the legislature can exert control over the activities of the government. But while the operations of the public sector involve money flows of receipts and expenditure, we are reminded that the basic problems are not those of finance, but rather they are problems of resource allocation, full employment, distribution of income and prize level stability and growth (Musgrave, 1969:28). There!""re, in a democratic state, it is the practice that the total government expenditure and appropriations of expenditure for particular purposes have to be approved for each financial year by the legislature (Parliament, Congress, National Assembly, etc.) There is also the possibility of using the budget to regulate the economy, and to control the level of employment or inflation or economic activity in the country. The budget can also be used as an indispensable management aid for directing, coordinating and controlling the activities of public sector organizations. The budget has been one of the instruments used by political leaders and the bureaucrats to proffer solutions to the excruciating situation of the less privileged persons in the society. It is also supposed to be an instrument for planning that can be used to translate presently scarce fiscal • and human resources in the public sector into future governmental goals and programmes. Therefore, this paper attempts to ascertain the degree to which the annual budget in Nigeria has been able to bring about a positive intervention in the Nigerian economy.

The Public Budget

Authors and experts have defined the term budgeting in many different ways. It has different meanings for different persons and for different purposes. However, the general concept is more or less the same. The Budget is a statement of purposes, anticipated revenues, work proposed to be performed and money allocated to achieve work proposed. - The Public Budget is a financial plan, a programme of action, a management planning and control technique, an evaluation technique and a performance improvement tool (Ikelegbe, 1996:164). Budgeting is an effective tool for performance control and evaluation due to fast changing operational and financial environment. It requires the application of up-to-date rational practical technique, as well as the use of simple and methodical approaches to the problem on hand for arriving at a quick solution (Jakhotiya, 1989:1). The importance of Budget to the development of any nation cannot be over emphasized.

It is the main instrument by which the state manages the economy in order to enhance growth and stability. It is a programme of action, which denotes what is to be done or achieved. The Budget also functions as a tool for monitoring, evaluating and reviewing government activities and programmes in relation to past achievements and established standards. The Budget is known to stimulate and direct economic growth and stability through its monetary and fiscal policies. The Budget also, is the main instrument by which Government affects public welfare, through funding of public programmes, services and facilities, which would be more or less available, costly, regulated and/or extensive (Ikelegbe, 1996:164).

Another important aspect of the Budget is its continued relevance to the government as a viable instrument for allocating, distributing and redistributing benefits, burdens and losses among groups, communities, segments of society and socio-economic sectors. These are achieved through the use of taxes, reliefs, tariffs, subsidies and income benefits. The budget is the central expression of how the government's finite resources will be allocated, the terms of the annual "ceasefire", as it were, within the executive branch, between the competing claims of different advocates for more money for defence, agriculture or new welfare programmes (Lydn and Miller, 1970:13).

From the above definitions and functions of Budget, it is clear that Budgeting is a process for systematically relating the expenditure of funds to the accomplishment of planned objectives. Normally, a budget statement is expressed in both the terms - currency and quantity (units). While currency refers to the cost or value, the quantity refers to the activity level or volume of functions. However, certain budgets can be expressed only in currency, as the function cannot be quantified (Jakhotiya, 1989:2).

Trends in the Budgetary Process

Basically there are three main approaches to budgetary process. They are: (1) The Traditional or Incremental Approach. (2) The Zero Base Budgeting (ZBB) (3) The Planning, Programming and Budgeting System (PPBS-).

The Traditional or Incremental Approach

The traditional approach to Budgeting in the public sector has been incremental, a moving forward of last year's budget (Lindblom, 1959:4-7). Last year's + Incremental + other variations revised estimate inflation, (including growth, pay and prices reduction). Dissatisfaction with incrementation-has led to the development of alternative budgetary approaches, although development of alternatives has to be suspected, given their limited application to date. Zero Base Budgeting (ZBB) and Planning, Programming and Budgeting System (PPBS), both of which were first applied in the United States of America in the 1960s (Wiidavsky, 1974:2).

The Zero Base Budgeting (ZBB)

This approach attempts to shift the traditional management of the public sector budget process towards a new mode of thinking and operation. According to Sarvant:

Zero Base Budgeting (ZBB) is a technique which complements and links the existing budgeting and review processes. It identifies alternative and efficient methods of utilizing limited resources in the effective attainment of selected benefits. It is a flexible management approach which provides a creditable rationale for allocating resources by focusing on systematic review and justification of the funding and performance levels of current programmes or activities (Sarvant,

1979:4).

Also, according to the Management Information Report on Zero Base Budgeting in Garland, Texas: ZBB is a management tool, which provides a systematic method for evaluating all operations and programmes current or new, allows for reductions and expansions in a rational manner and allows the real location of resources from low to high priority programmes (Lieninger and Wong, 1976:5).

Planning, Programming and Budgeting System (PPBS)

The adoption of the PPBS has been described by Schick as a revolutionary development in the history of government management (Schick, 1966:243). It is designed to make government and public corporations and activities more effective and more efficient. In operational terms, the PPBS involves: (1) Planning (2) Programming (3) Budgeting (4) Implementation (5) Monitoring (6) Evaluation. The system contains all the important elements of other management tools such as project management, Management By Objective (MBO), Cost Benefits Analysis (CBA), and Sensitivity Test.

Budget and the Economy

Public budgets of both the developed and the developing nations serve as instrument of public policy direction for the Federal, State and local governments. Richard Musgrave, a well-known public finance expert identifies three basic functions of budget policy as follows: (1) The provision of social wants, which requires the government to impose taxes and make expenditures for goods and services, to be supplied free of direct charge to the customer. (2) The application of certain, corrections to the distribution of income as determined in the market requiring the government to add to the income of some transfers while reducing the income of others by taxes, and (3) The use of budget policy for the purposes of economic stabilization, rendering it necessary under some conditions to raise the level of demand by a deficit policy and under others, to curtail demand by a surplus policy (Musgrave, 1959:21).

Reflecting on these three basic functions identified by Musgrave as basic functions of the budget, one is tempted to ask how and with what policy instrument will government adopt to provide for the social needs of its members through taxes. The second question to ask is how would government provide for the adjustments in the distribution of income by adding to the income of some and reducing the income of others through tax transfer mechanism. Thirdly, how would government through the instrument of the budget achieve economic stabilization? Important budgeting instruments like the fiscal and monetary policies are twin policy measures that government normally put in place to make its budget have a desirable direction. What then, are fiscal and monetary policies?

Fiscal Policy

Fiscal policy is the manipulation of government expenditure and taxation in order to influence economic performance. By fiscal policy, we could also refer to government policy concerning the obtaining of revenue for government use mostly through taxation and other means, and deciding on how such revenue is to be used for the purpose of influencing economic activities or achieving certain desirable socio-economic goals (Ola and Offiong, 1999:207).

What is Fiscal Policy meant to Achieve?

Fiscal Policy of any government including that of Nigeria is supposed to achieve the following objectives: (1) Increase employment opportunities or attaining full employment, (2) Price Stability, (3) Equity in Income Distribution, (4) Increase the Rate of Investment in the Economy, (5) Maintenance of Satisfactory or Favourable Balance of payments, (6) Maintenance of Stability in Exchange Rate.

Monetary Policy

Monetary policy refers to the action taken by the Federal government usually through the Apex Bank, the Central Bank, to control the volume, cost and direction of money and credits so as to regulate the functioning of the economy.

Roles of the Monetary Policy in the Economy

Monetary policy, the twin sister of the fiscal policy, is another instrument used in public financial management through the manipulation of money supply in order to influence economic performance. Monetary policy, a major economic stabilization policy has measures designed to regulate and control the volume, cost, availability and direction of money supply and credit in the economy. • Usually, the apex bank, that is, the Central Bank of the country, is empowered to administer the monetary policy in collaboration with the Federal Ministry of Finance.

Instruments of Monetary Policy

Monetary Policy specifically sets out to control the supply of money in the economy through financial instruments such as debts and equities that may be in the form of currency, bank deposits, bonds, loans and other available financial instruments. The Apex Bank globally has several instruments or weapons at its disposal to pursue its goals. These instruments are broadly classified into two as follows: (a) the quantitative instrument, and (b) the qualitative instrument (Horvitz, 1969:295).

(A) The Quantitative Instruments of Monetary Policy include:

(1) Open Market Operations (OMO) (2) The legal reserve or liquidity ratio requirements (3) The

discount or bank rate policy, (4) interest rate, and (5) Exchange Rate

(B) Qualitative Instruments of Monetary Policy

The second group of monetary policy basically adopts two major policy tools viz: (1) Selective Control Tool, and (2) Moral Suasion (Ola and Offiong, 1999:210-215).

Fiscal and Monetary Policies Compared

We have discussed so far the intricacies involved in fiscal and monetary policies and shown the different instruments used in each of these policies. We will attempt here to compare the two policies instruments with a view to weighing which of the policies is more efficacious on the economy. Without further analysis, we have shown that both economic policies serve the following broad objectives of government: (1) Maintenance of relative stability in domestic prices thus preventing inflation. (2) Reduction in unemployment rate and achievement of full employment (minimal unemployment) (3) Attainment of high and sustainable rate of economic growth, and (4) Achieving balance of payment equilibrium.

In a nutshell, both policies are similar and complementary to each other. The issue on both policies has always been whether the fiscal is more potent than the monetary or vice-versa (Ola and Offiong, 1999:215-216).

Recommendations

For public budget to really be an instrument of state intervention in the economy, the following recommendations are proffered:

- (1) There must be transparency; honesty and national interest should be uppermost in the preparation of the budget.
- (2) There must be competent and dedicated experts, who should collect, process, analyze and apply data adequately to the budgetary process.
- (3) Since the legislators have the power of the purse, it should not take advantage of such powers to unduly delay the authorization of the proposed expenditure, and should not extort or ask for percentage kickback from the Chief Executives the way Wagbara led Senate did to the Federal Minister of Education and others in Nigeria.
- (4) There must be an up-to-date knowledge of the progress and weaknesses of implementation process. If up-to-date reports are not available, it becomes difficult to maintain an effective
 - balance in the economy.
- (5) The review and auditing responsibilities emphasized in the constitutions of the land, as well as the civil service reforms of 1988 should be effectively implemented by the Auditor-General of the Federation. He should be non-partisan or impartial in the execution of his duties, no matter who is involved, because, failure to do this will lead to the purpose of his constitutional functions and duties being defeated (Ola& Offiong, 1999:183).

Conclusion

In this paper, attempt has been made in defining the concepts of public budget, trends in the budgetary process, budget and the economy. The concepts of fiscal and monetary policies has also been discussed and compared as instruments of state intervention in the economy. It is expected that a good understanding of the various processes would assist policy makers and administrators in preparing budget for the people, and in fact, a budget that will stimulate growth and stability in the economy and usher in an era of socio-economic prosperity for the society.

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