FINANCIAL MANAGEMENT AND LIFE SUPPORT PROGRAMS

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Contents

Summary

There has been a steady growth in life support programs organized by governments. The financial management systems governing these programs remain traditional in most countries and have not proven adequate in addressing the requirements of macroeconomic stability, or in the pursuit of economy, efficiency, and effectiveness. Policy management tends to be adhoc, and the financial management systems do not permit the revelation of full financial implications. Demand driven outlays on life support programs often contribute to a budgetary outcome different from the intent, and to higher deficits. Transparency and accountability continue to be weak. The immediate task is to redesign the system of financial management with an explicit consideration of the problems discussed here.

1. Introduction

Protection of the financially challenged classes of the community has always been, in differing degrees, a matter of concern for public policy. The need for such protection received formal support and recognition with the introduction of New Deal policies that specified the four freedoms—from fear, want, belief and expression. In the decades that followed the New Deal, there has been extensive legislation aimed at providing a vast range of benefits, funded by government budgets to protect the vulnerable sections of the community. The legislation enacted by several industrial countries created a category of entitlements that conferred legal rights on eligible citizens, to claim benefits regardless of the financial condition of the government, or the availability of funds at its disposal. The legislation and the associated claims for benefits have contributed to the growth of benefit-providing organizations, both in the governmental and non-governmental sectors, and to growing public expenditures. In several industrial countries, the share of expenditures devoted to the provision of welfare benefits ranges from 40% to 60%. The strategies for the provision of benefits are multiple; the organizations engaged in the provision of these benefits are large and several, and the range of benefits is substantial.In the earlier periods that witnessed an eagerness to expand the benefits, there was relatively little recognition of the impact of these strategies on the overall financial condition of governments, and on their ability to pursue appropriate policies aimed at securing macro-economic stability. Experience during the last three decades of fiscal turbulence has shown that the enormous range of benefits conferred by legislation has crippled the government's ability to pursue stability, as they contributed to higher budget deficits. In turn, this ushered in an era that focused on the macroeconomic impact of the benefits and the need for changes in eligibility, in the range of benefits, and in the forms of financing the benefits.

There was also a perception that many of the programs were not effective in curbing the growth of poverty, that programs were too diffuse and costly relative to the benefits, and that the bureaucracies tended to be more concerned with internal administrative processes than with the clientele groups or with the delivery of services. There was also the view, undoubtedly based on the experience of a few countries, that in the context of fiscal turbulence, government actions tended to be unpredictable, adversely affecting the delivery of the services. In addition, there was the view that fiscal turbulence has contributed to a growing concentration of power in governments, while organization experts felt that many governments were poorly organized to provide the benefits, and that there was a fundamental mismatch between what was sought to be done and the organizational ability of governments to deliver them. Meanwhile, as governments in the industrial world were grappling with the major issue of reconciling the range of benefits with the needs of macroeconomic stability, there is a growing demand for the provision of government-organized social safety nets in developing countries, on the lines of the experience of industrial countries. This apparent paradox of conferring more tasks on the governments which are already perceived to be organizationally weak, can be ascribed to the growth of democratic governments, on the one hand, and to the government organizations, on the other. The need, it is argued, is not to do away with government organizations, but to make them more effective and responsive, in the wider context of enhanced transparency and accountability. It is in the above context that government financial management needs to be evaluated. To what extent has it been helpful in the pursuit of macroeconomic stability, while ensuring an economical provision of services? It is recognized that when life support programs, including those of an entitlement nature, are open-ended and have to be provided regardless of resource availability, expenditures grow at a faster pace than revenues, contributing in turn to a widening fiscal gap. The gap, when financed through public borrowing or through inflationary means, tends to have an adverse impact on the economy and ushers in destabilizing forces into the economy. In the final analysis, the good that is sought to be done may be offset by the adverse impact on the economy. This aspect of financial management is, therefore, of crucial importance. What are the problems experienced in this regard? Are there major differences in this respect between industrial and developing countries? What are the ways in which it can be strengthened? Answers to these and related questions require a more detailed probe into the nature of life support programs and their linkages with financial management.

2. Scope of Life Support Programs

As a part of the efforts aimed at providing freedom from want, governments are now engaged in providing a vast range of services to the community. In analyzing the range of services, it is appropriate to make a distinction between a broader and narrower interpretation. The former includes protection of life from external aggression, and providing an atmosphere of domestic peace in which the community can perform its ordinary tasks and engage in productive activities. These aim at securing freedom from fear, and providing a civil identity to the members of the community. This identity, which has a good deal of emotional and sentimental sub-texts that are generally considered as a part of nationalism, provides a distinctive label that separates one community from another. The benefits of these programs accrue to the whole community and, as such, are indivisible and non-exclusive. For this reason, outlays on these activities are considered as those incurred on the provision of pure public goods.

A narrower, more conventional approach, however, excludes these broader categories and is restricted to those activities undertaken by governments aimed at providing income support, employment support, social service support, production support, consumption support and infrastructure support. The general range of programs covered under these support programs is illustrated in Table 1. The income support activities are, for the most part, covered in many industrial countries through a variety of social security programs. A precise definition of a social security system is generally difficult in view of the range of activities covered under it. Two considerations have been proposed for the determination of a social security system: (a) the objective of the system must be to grant medical care, to maintain income in the event of loss of income; and (b) the system must have been set up by legislation attributing the power of administration to a public body. Following these criteria, the system is considered to consist of compulsory social insurance, certain voluntary social insurance schemes, family allowance schemes, special schemes for public employees, public health services, and public assistance. Within this sphere, three major approaches are identified: social insurance, public service and social assistance. The most common form of social security is the social insurance program, which is funded by contributions from employers and employees, is operated as a separate authority, and the benefits of which are linked to contributions of coverage of the fund. More often than not, deficits in the fund, i.e. the gap between contributions and benefits, are financed by transfers from the government budget. Public service primarily consists of the direct provision of a service, or a cash payment from the government budget, to specified categories of the community. The third approach of social assistance consists of payments that are also made from the budget, to recipients whose financial status is subject to investigation, in order to determine the need and the amount of assistance they receive.

Area	Instruments	Remarks
Civil Identity Support	Outlays on defense and maintenance of law and order	Benefits from these outlays aim at maintaining the civil identity of the members of the community. Basic security is available to all and as such, the benefits are indivisible.
Income Support	Automatic stabilizers in the form of temporary unemployment support, pensions for the elderly and other low income groups; child support; national calamity relief and related programs; relief to compensate for buyout programs introduced as a part of public sector reorganization plans.	Several countries have legislation governing the provision of these benefits. In some cases, automatic stabilizers may be funded by insurance programs.
Employment Support	Public works programs during periods of economic downturn; promotion of self-employed schemes; provision of training to people on income support programs so that they may gain income generating employment; provision of training to public sector employees to secure other employment after retirement from government.	Outlays from government may be direct and unconditional. In some cases, they may take the form of soft loans that may be provided from government budget or may be provided by the financial institutions at the behest of governments with subsidies from the national budget.
Social Service Support	Provision of preventive and curative public health services; provision of educational services from primary to university levels.	Benefits in these areas may be provided directly by government maintained organizations or may be funded by governments when provided by others. Here again, benefits may be provided by direct outlays or through loans; In addition, extensive tax incentives may be provided to non-governmental organizations working in these areas. Benefits may be general (e.g. Free education to all at the primary level) or targeted to specific income groups who may be given vouchers to claim benefits.

Area	Instruments	Remarks
Production Support	Subsidies for subsistence sectors (e.g. fertilizer supply to farmers); provision of cheap energy to small-scale and cottage industry sectors; provision of tax incentives for export promotion in some sectors;	Governments may spend directly or may seek to achieve the objectives through the provision of loans at subsidized rates or may provide guarantees to those who have difficulty in getting credit from financial institutions. Some governments have set up quasi financial institutions to promote production activities in the small scale sectors.
Consumption Support	Provision of essential commodities with dual pricing; provision of food stamps.	In many countries, governments engage in the provision of basic commodities such as rice, wheat, kerosene, oil (cooking and heating) sugar etc. In some, lower income groups are provided with vouchers or stamps to enable them to purchase essential commodities.
Infrastructure Support	Provision of subsidized water, electricity, and urban transport.	Programs in this regard may be targeted to specific income groups or age groups such as school children and the elderly, or those who are handicapped. Here again, services may be provided directly by governments or by others with funding from government budgets.

(**Note**: Social service support, and other forms of support shown in the table, should be deemed as illustrative and not exhaustive; nor should they be deemed to be applicable to all countries; rather they show the broad range of activities undertaken by governments.)

Table 1: Life Support Programs and Fiscal Instruments

In addition, there are quasi-social security measures, such as provident funds for government employees, and public provident funds for self-employed professionals. These funds comprise contributions by employers and employees that are paid with interest in the event of a contingency such as old age, invalidity or death.

Governments also provide employment support to sections of the community. It is generally contended that governments in less developed countries become both employers of the first and last resorts in the absence of social security programs. In some countries, graduates of universities are entitled to employment in governments, and the burgeoning growth of government employees is ascribed in part to this approach. During more recent years, governments which are engaged in the restructuring of public sector and social security systems have been providing, as a part of this activity, training in marketable skills.

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Biographical Sketch

Premchand, worked with Government of India (1957-1970) and International Monetary Fund (1970-98). After retirement from the IMF in 1998, he has been working as an independent financial consultant. Author/ editor of a dozen books, 30 book chapters and 70 papers. Many of his books have been translated into Arabic, Chinese, Russian and Spanish.