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Programme budgeting for South African local authorities

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the ecclesia at Athens in the fifth century B.C. and gave their views directly. The history of democratic philosophy since then has been a search for the political system which best reflects the will of the people. For the purpose of the present study democratic forms of government will be assumed, in which individual preference is regarded as important.

In a capitalist democracy, there are two areas of social choice - the open market mechanism in the case of 'economic' decisions and voting in the case of 'political' decisions. In any work on budgeting, the procedure for finding consensus in a decision between expenditure A and expenditure B is clearly significant. Several important works on the theories of social choice have been published in the past thirty years and Arrow has recently distilled the essence of these in a valuable exposition. (1) He states that "The social choice from any given environment is an aggregation of individual preferences". (2)

Social choice revealed both in voting and in the open market are the consensus of the tastes and values of many individuals, and Arrow conducts a theoretical analysis of the procedures for passing from a set of known individual tastes and values to a pattern of social decision-making. He assumes that each individual has a definite ordering of social states in terms of their desirability

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1. Kenneth J. Arrow, Social Choice and Individual Values; See also Richard A. Musgrave, op. cit. p. 116 n.

2. op. cit. p. 103.

to him, a social state being a complete description of the amount of labour to be supplied by each individual, the amount of each productive resource invested in each type of productive activity, and the amounts of various types of collective activity, such as municipal services, diplomacy, and the erection of statues to famous men. (1) These orderings of social states based on individual preferences must be translated into collective choice, and in a set of interesting theorems Arrow seeks patterns of collective rationality.

Musgrave is concerned not with finding a consistent solution to the problem of social choice on the basis of existing data, but with finding a technique by which individuals can be induced to reveal their true preferences. Although individual preferences regarding the satisfaction of social wants exist, people will act strategically and not reveal them, and therefore the correct form of voting procedure must be discovered. Musgrave examines majority rule, plurality rule and other systems to discover the political mechanism which is likely to lead to the most satisfactory form of social choice. (2)

Other economists, in particular Samuelson, hold the view that even if individual preference patterns of social services were known, the satisfaction of social wants is not subject to an optimal solution as is the case with private wants. (3)

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1. ibid. p. 17.

2. Richard A. Musgrave, op. cit. Chapter 6.

3. Paul A. Samuelson, 'The Pure Theory of Public Expenditure', The Review of Economics and Statistics, Vol. XXXVI, 1954, p. 387-9.

Aggregating the preferences of individuals to arrive at acceptable social decisions is a problem of democratic government which has exercised the minds of political philosophers in all ages. Rousseau stated that there is a 'general will' derived from a coalition of all the separate wills. It is a deep underlying community of purpose, distinct from the superficial desires of the individual. (1) Kant stressed the difference between the pragmatic imperative which governs man in his everyday activity, and the moral imperative which is categorical and relates to a higher social purpose. (2) Burke, in his famous description of the duties of a member of parliament, said an elected representative's first duty is to the general will and only after that to his electors. (3)

The problem of finding community consensus in modern states, where populations and legislative assemblies are large, is formidable. Rousseau had a great distrust of all forms of representation which did not reflect the general will; he favoured direct meetings of the people as in the old ecclesia. Plato, on the other hand, believed that justice could not be found in the individual who voted without knowledge. Government should be conducted by a small group of specially educated 'guardians'. (4)

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1. Rousseau, Social Contract, Book 2.
2. Kant, Metaphysics of Morals, Section 2.
3. A.R. Lord, The Principles of Politics, p. 173.
4. Plato, The Republic, The Second Book.

The political aspects of consensus is too wide a subject to be discussed further, yet it has important implications for budgetary decision-making, a sphere where the participants must also be guided by community consensus, and where higher social ends as well as lower material ends merge in expenditure decisions.

5 Theories of Budgeting

Decision-making in the private sector of the economy in the atmosphere of a free market is relatively straightforward. The factors of production move to points where they are most required. The profit motive is paramount, and price is set somewhere near the demand-supply point of equilibrium. There is a distinct quid pro quo relationship - a price is paid, something is received. If a person does not pay the price, he is excluded from use.

In the sphere of government there are several areas in which quid pro quo relationships exist, especially in the field of enterprise departments established for satisfying certain tangible wants e.g. electricity, gas, transport and water. The reasons for public operation instead of private operation are multifarious and cannot be discussed here. In spite of the existence of monopoly conditions in many instances, the principle of excludability applies in general. If a person does not pay the price he can be excluded from use. The same applies to a wide range of non-trading public services where a direct charge for use is made e.g. refuse removal fees, parking charges.

However, many of the public services rendered to satisfy social wants cannot be divided up and sold. Sax

referred to these as 'collective needs proper' and Cassel as 'absolute collective wants'. (1) People who do not pay for the service cannot be excluded from the benefits provided by the service. Lighthouses, police, defence, traffic control, streetlighting fall into this category. Samuelson states that if a good can be subdivided and each part sold with no external effects on others, it is not a candidate for government activity. (2)

All public budgets whether at central, provincial or local level provide for the satisfaction of both kinds of social wants referred to above. For some services there is a direct quid pro quo relationship, but for others there is no such relationship and the cost must be met from general taxation. In many instances the boundary line between these two is blurred. There may be a service, for instance, where a direct charge is made but which is regulatory rather than income-oriented. Greater detail regarding the means of satisfying particular local wants will be furnished in subsequent chapters.

The relationship of the subjective theory of value to social choice has already been discussed. It is an economic theory which has failed to yield an enduring basis for choice among competing expenditures because of the essentially political nature of public decision-making. In spite of the numerous normative studies on public budgeting, on what ought to be rather than what is, the allo-

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1. See page 26, and Gustav Cassel, op. cit. p. 69.

2. Paul A. Samuelson, Economics : An Introductory Analysis, p. 159.

cation of priorities in the real world of public budgeting has proceeded as though no economic theory existed. (1) Burkhead points out that legislators and administrators may continuously be engaged in balancing out satisfactions and dissatisfactions but this has only ex post facto validity. At the time when decision-making is actually in process marginal theory provides no guidelines for allocation. (2) Colm has stated:

> A theory of public finance which attempts to eliminate the specific political factor that distinguishes this field from the private market economy fails to grasp the essentials of the problem. (3)

The above brief account of the forays of political philosophy and economic theory in search of methods of budgetary choice suggests at first sight that little success has been achieved. It is nevertheless a valuable background to the conceptual problems of programme budgeting where there has been a revival in the application of economic analysis to assist decision-makers.

It is possible to accept the notion that the satisfaction of social wants proper is not subject to a solution based on Paretian optimality, and at the same time accept the validity of economic and political theory in many spheres of budget determination. For example, Wicksell's principle of near unanimity for budgetary decisions is regarded by many as too idealistic. Yet

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1. Alan T. Peacock and D.J. Robertson, op. cit. p. VII; Mabel L. Walker, Municipal Expenditures, p. 47; Aaron Wildavsky, The Politics of the Budgetary Process, p. 148.

2. Jesse Burkhead, Government Budgeting, p. 44.

3. Gerhard Colm, Essays in Public Finance and Fiscal Policy, p. 32.

when examined against current budget attitudes it is seen to have practical value because there always exists a fairly high degree of consensus. Strong traditional and historical impacts, psychological preference for the status quo, general agreement on major social objectives tend to foster an atmosphere of near unanimity. Simon states that choice takes place in an environment of 'givens', premises that are accepted as a basis for choice. (1) Similarly, Kant's imperatives could well be manifest in budgetary choices. Administrators have been known to be actuated by two impulses, a [illegible] and moral one when contemplating the higher aims of government, and a pragmatic and individualistic one when viewing lower material benefits. Although economic theory has not provided 'definite rules of thumb for determining the precise scope of Government functions and level of Government expenditures', it does provide numerous guidelines for the budgetary decision-maker. (2)

Consideration will now be given to some of the recent theories of budgetary decision-making. Two distinct schools have emerged during the past two decades. The one, which may be described as the comprehensive school, was the outcome of the proposals for budgetary reform made in the Hoover Report; it has been supported generally by proponents of programme budgeting. (3) The

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1. Herbert A. Simon, Administrative Behaviour, p. 70.

2. Walter W. Heller, 'Economics and the applied Theory of Public Expenditures', in Public Budgeting and Finance, by Robert T. Golembiewski (Editor), p. 170.

3. See page 2.

other, which may be described as the incremental school, has supported a more pragmatic view of budgeting and has tended to reject the comprehensive approach. The distinction between the two approaches is indicated by Lindblom thus: Suppose that an administrator is faced with an important choice between two alternatives. He will adopt one of two attitudes - either he will consider all alternatives and choose that which maximises his values, or he will set a principal objective and disregard all social values which are irrelevant. The first decision-making model is a 'rational-comprehensive' one, and the second is based on 'successive limited comparisons'. (1)

Arthur Smithies provided the foundation of the comprehensive approach in 1955 by stating that expenditures should be considered in the light of objectives they are intended to further, and final expenditure decisions should in general not be made until all claims on the budget can be considered. (2) When W.F. Willoughby commented in 1948 that comprehensiveness was the most important feature of a budget, he was referring to the fact that it was one consolidated document giving an overall view of proposed revenues and expenditures. (3) Writing in 1968, Arthur Smithies saw comprehensiveness more as a combination of finance and policy in place of the previous sepa-

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1. Charles E. Lindblom, 'The Science of Muddling Through', in Public Administration, by Robert T. Golembiewski et al. p. 293.

2. Arthur Smithies, The Budgetary Process in the United States, p. 12.

3. Encyclopaedia of the Social Sciences, Vol. 3. p. 39.

ration, and a study of objectives together with an estimation of costs and an assessment of the willingness and ability of the people to meet the costs. (1) This latter concept has been elaborated by many writers during the past decade. Most of the works contain criticisms of existing and previous systems of budget determination together with proposals for reform, along the lines of programme budgeting. Comprehensiveness in this light will be discussed in subsequent chapters where the problems of implementing programme budgeting systems are covered. It is sufficient to state at this stage that the comprehensive view requires a decision-maker to see the budget document and it components as a whole, and to ensure that he possesses the knowledge necessary for weighing one objective or one expenditure item against another.

The main characteristic of the incremental school has been its opposition to any comprehensive approach to budgeting. Its basic concepts are manifested most clearly in the works of Lindblom and Wildavsky. (2)

They hold the view that the comprehensive method is impossible for use in complex problems and is beyond the intellectual capacities of men, who do not possess enough knowledge of the alternative proposals and are limited to a few choices. As a blue-print a comprehensive model may have value; but it is not workable and budget makers are therefore forced to adopt an incremental approach. An

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1. International Encyclopaedia of the Social Sciences, Vol. 13, pp. 184-6.

2. Charles E. Lindblom, op. cit., also 'Decision-making in Taxation and Expenditures', in Public Finances : Needs, Resources and Utilization U.S.A. pp. 295-329; Aaron Wildavsky, op. cit.

important reason for this is the absence of one clear and correct solution, for example a choice between a public housing project and a new type of traffic control. Furthermore, preferences are not registered by the man-in-the-street on most issues and decisions are taken by a few administrators and legislators. Public decisions are adjustments at the margin and economic theories of maximum social advantage do not help. Ultimately values are determined in terms of particular policies. Even if administrators did possess an agreed set of values, objectives, constraints and rankings, the use of these in actual choice situations would be impossible to formulate. Decision-makers thus focus attention on marginal or incremental values and they do not find a general formulation of objectives helpful. Wildavsky concluded that:

> Budgeting is incremental, not comprehensive. A departmental budget is almost never actively reviewed as a whole every year in the sense of reconsidering the value of all existing programmes as compared with all possible alternatives. (1)

Simon also states that the number of alternatives a decision-maker would have to explore is so great and the information he would need to evaluate them so vast that even an approximation to objective rationality is hard to conceive. (2) Few writers today believe that a decision-maker can begin at zero and study all possible alternatives. Equally, there is a tendency to reject the 'muddling through' attitudes of the incrementalists, who saw only good in the complex politico-budgetary system of the

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1. Aaron Wildavsky, op. cit. p. 15.
2. Herbert A. Simon, op. cit. p. 79.

U.S.A. with its various checks and balances in which most pressure groups received an adequate dividend from an affluent society. Consensus and stability were regarded as more important than laudable objectives and rational choice. The Pareto optimum was what was. Budget reformers today appear to accept a compromise; they accept that much rationality can be brought to the decision-making process by the judicious use of specialists without involvement in the political process. (1) This aspect is dealt with more fully in the final chapter.

A feature of current developments in budgetary theory is the predominance of United States influence. It is wise to make allowances for the special constitutional position of the U.S.A., where a national budget system was introduced as late as 1921. (2) The separation of powers has had an important effect on the budget system and a great deal of the writing on budgetary reform has been aimed at inter-departmental procedures where an urgent need to streamline decision-making at various levels of government existed. In parliamentary systems of government where there is greater central direction through the medium of a cabinet, movements for reform have not been so pressing. (3) The introduction of a system of programme budgeting in the U.S.A. Department of Defence in the nineteen sixties and its spread to other departments

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1. Ira Sharkansky, The Politics of Taxing and Spending, p. 34.

2. See page 20.

3. John F. Due, op. cit. p. 77.

had a dramatic effect on budgetary thinking in various parts of the world. However, this is a subject more fully discussed in Chapter 5.

The implications of comprehensiveness and incrementalism have far-reaching significance for local government, as will be observed in later chapters. However, the problems of choice have been greatly aggravated by the unsatisfactory nature of budget formats. Writers on public finance return to this problem frequently in trying to find an answer to Key's problem. (1) If a decision-maker is expected to exercise choice rationally, he is entitled to demand that choices be placed before him in a comprehensible manner. There has been a noticable failure to do this in public budgeting and this is the subject for the following chapter.

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1. See page 24.

CHAPTER IV : BUDGET CLASSIFICATION

One of the important reasons adduced in support of programme budgeting, as opposed to traditional financial budgeting, is the improvement it brings in the quality of decision-making. Novick states that programme budgeting improves the basis for decision-making by framing problems, organising data and analysing information so as to produce better plans and recommendations. (1) The traditional financial format would be inadequate for fulfilling such aims and would require substantial revision on functional lines. Classification problems then arise. Much of the literature on programme budgeting embraces criticism of traditional budgetary practices and criticism of classification systems without proposing alternative systems.

Expenditure headings in budgets and in final accounts reflect the needs of the community which the government must provide. There have been many changes in expenditure categories and supporting detail in the past few centuries. Any discourse on budgetary classification should begin by accepting the fact that during this long period budgets have been classified on traditional financial rather than programme lines. In spite of the advances made by programme budgeting, financial appropriation structures are still prevalent at all levels of government, with varying emphasis on functional classification.

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1. David Novick, Program Budgeting : Program Analysis and the Federal Budget, p. VII.

1 Brief History of Public Accounts

The origins of accounting go back far in history. The earliest examples of writing discovered in Sumeria, in the fourth millenium B.C., were actually records of temple incomes kept by priests. (1) For many centuries accounting records remained in this form, being little more than simple records of financial transactions.

The emergence of accounting principles came in the fourteenth century in Europe through merchant guilds which were the main regulatory medium for transactions. The system of double-entry was first introduced in the Italian city states at this time, and in 1494 Paciolo published his famous work on double-entry bookkeeping. (2) Accounting systems spread in the fourteenth and fifteenth centuries to other European states. With the rise of nation-states the regulatory functions of the guilds were taken over by Central Governments because the control of industry and commerce was regarded as necessary in the building of powerful and wealthy nations. The need for control over public accounts quickly followed this development, yet it was not until the end of the seventeenth century that an organised form of public accounting emerged. This took place in France under the direction of Jean Baptisté Colbert, well-known statesman and financier. (3) England introduced national

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1. R.H. Parker, 'Three topics in the History of Accounting', The Accountant, 19th February 1966, p. 218.

2. T.H. Husband, 'The History of Double Entry Bookkeeping', The Accountant, July 1958, p. 160.

3. Encyclopaedia of the Social Sciences, Vol. I and II, p. 433.

financial accounts in the eighteenth century and by the middle of the nineteenth century there was strong central control. The Exchequer and Audit Act of 1866 is a landmark in the history of public accountability. The principles enshrined therein have formed the pattern of public financial control in many countries, including South Africa. The U.S.A., however, introduced a centralised accounting system only in the twentieth century, for reasons similar to those given in respect of budgetary evolution. (1)

From the earliest times, public accounts have tended to be narrative in form and comprehensive in content because their primary aim was control. Classification problems were thus confined to the national housekeeping aspects of accounting; little thought was given to the economic significance of budgetary items.

> Social accounting, in the sense of a quantitative description of an economic system in terms of its constituent transactions suitably classified and aggregated, is in practical terms a development of the Second World War and the post-War period. (2)

Standardisation of national accounts among nations has been greatly furthered since 1945 and the United Nations Organisation has contributed to this development. (3) Although developments in this field of macroanalysis are not directly relevant to the present theme, several

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1. See Chapter III, Section 1.

2. Milton Gilbert and Richard Stone, 'Recent Developments in National Income and Social Accounting', Accounting Research, January 1964, p. 1.

3. See United Nations, A Manual for Economic and Functional Classification of Government Transactions, and A Manual for Programme and Performance Budgeting.

important principles thereanent have influenced the form of public accounts. These will now be discussed.

2 Control of Public Expenditure

Throughout the entire history of public finance, control over expenditure has been a dominant factor. The Bible contains a description of the poor system of control in relation to the distribution of corn and wine to the Levites, and how the problem was solved by appointing faithful treasurers. In the second century A.D., Hadrian made money available to build an aqueduct at Troas but the cost amounted to double the original estimate and 'the officers of the revenue began to murmur'. In A.D. 288, an official of the treasury of Diocletian sent a strongly worded circular to the district governors of Middle Egypt condemning the large number of surplus personnel and he used the familiar expression 'wasteful expenditure will be curtailed'. (1) Examples such as these recur frequently in history.

Kings and Emperors were not always discerning in the use of public monies and this led to demands for stricter control over expenditure. The bad record of American cities during the nineteenth century involving widespread graft and corruption accentuated the demand for better control. There was dishonest administration 'such as would not be tolerated in any of the more progressive nations of Europe'. (2)

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1. Book of Nehemiah, Chapter 13; Edward Gibbon, Decline and Fall of the Roman Empire, p. 40; C. Northcote Parkinson, The Law and the Profits, p. 97.

2. Austen F. MacDonald, quoted by Mabel L. Walker, op. cit. p. 16.

This demand for stricter control over government expenditure had a profound effect on classification principles. Accounting systems came to be designed primarily to serve the ends of control. The Haldane Report in 1918 emphasised the need for a strict system of centralised Treasury control over all expenditure. (1) It drew attention to the fact that throughout a long period of years the conviction had grown that it was essential to a sound system of finance that the Minister responsible for raising the revenue should also have a predominant voice in deciding on the amount and character of the expenditure. If he was to be responsible for filling the reservoir and maintaining a certain depth of water in it, he must also be in a position to regulate the outflow. (2)

The centralisation of treasury control led inevitably to a criticism of the principle that policy decisions should be separated from financial decisions. Several writers saw in this separation a major stumbling block in the path to budgetary reform. Smithies, for example, refers to the unfortunate distinction between policy-making and finance in the traditional approach to budgeting, in which policy-makers decide and financial agencies say how much they can afford. (3) He also draws attention to the remarkable feature of budgeting in the nine-

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1. United Kingdom, Report to the Machinery of Government Committee.

2. Ibid. par. 9.

3. International Encyclopaedia of Social Sciences, Vol. 2, pp. 184-5.

teenth century that the revenue and expenditure sides of the budget were considered in isolation. (1) In many of the works on budgeting the dominance of control was emphasised. Elaborate provision was made for accuracy but none for efficiency. (2)

One of the consequences of strong Treasury control was frustration among executive officers. The Haldane Committee had stated that experience had shown on the whole that the interests of the taxpayers could not be left to the spending departments. (3) This gave rise to what was known as dualism in financial administration. Departments were responsible for expenditure, but they had no responsibility with regard to the raising of revenue. At the central government level a solution to the problem was sought in the appointment of accounting officers who were responsible for both finance and policy. The practice in England, whereby the Permanent Secretary is also the Accounting Officer is something which is now regarded as axiomatic. It is the essence of all financial arrangements. Yet it was introduced only forty years ago, and for several years was the subject of a good deal of controversy. The aim is to ensure that responsibility for advising on policy and responsibility for advising on the financial consequences of that policy go hand in hand, and are not divorced. Finance is

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1. Arthur Smithies, op. cit. p. 11.
2. Alan T. Peacock and D.J. Robertson, op. cit.
3. op. cit. par. 12.

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