Control of Public Expenditure

(Contributed)

If economy and avoidance of waste in the expenditure of public revenues is accepted as a desideratum of sound administration, for which the Government is fully responsible to Parliament, it follows that there must be a division of functions between the agency which formulates expenditure proposals and the agency which enforces economy and avoidance of waste. And the latter must necessarily be completely independent of the former.

It will be asking too much of human nature to expect the executive officer who must always be thinking of how to widen the sphere of his functions and activities and how to get as much as possible to do, to put economy first, when that might narrow his sphere of influence or take the polish off his products.

This is the justification for entrusting the work of enforcing economy to an independent agency which normally is the Treasury or the Ministry of Finance in every Government.

The financial business of a State consists in what may broadly be described as getting, keeping and spending money. In this respect, the State is in the same position as an individual except that whereas an individual can get only as much money as he is able to obtain within the moral, social and legal conditions circumscribing him, the State gets or at least ought to get all the money as it needs for specified uses determined beforehand. Before, therefore, the State can justify the getting of money, it must make adequate arrangements to secure that there should be no waste in expenditure.

There have been from times immemorial certain principles accepted generally which should be followed in the spending of funds necessary for the discharge of the functions entrusted to the State. It has been generally agreed that expenditure from public funds should be guided by high standards of financial propriety. Among the principles on which emphasis is generally laid are the following:

(i) Every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public monies as a person of ordinary prudence would exercise in respect of expenditure of his own money.

(ii) The expenditure should not be prima facie more than the occasion demands.

(iii) No authority should exercise its powers of sanctioning expenditure to pass an order which would be directly or indirectly to its own advantage.

(iv) Public monies should not be utilised for the benefit of a particular person or a section of the community unless—

(a) the amount of expenditure involved is insignificant; or

(b) a claim for the amount could be enforced in a court of law;

or

(c) the expenditure is in pursuance of a recognised policy or custom.

Desideratum of Sound Finance

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The Haldane Committee observed in this connection that "the supervision of each item of public expenditure by some authority not directly concerned in the expenditure itself can most naturally and effectively be exercised by the Department which is responsible for raising the revenue required".

Since Parliament consists of lay people and since it has to accord approval to raising funds at some stage, its financial conscience must sit in judgment on experts and that conscience is represented by the Finance Ministry as part of the Government.

Finance Vs Administrative Ministries

In recent days, there has been in our country certain amount of controversy regarding the role of the Finance Ministry vis-a-vis the administrative Ministries. The belief of a section of people seems to be that the assumption by a Finance Ministry or a Finance Department of the functions of ensuring economy doubts the sense of responsibility of the administrative Ministries. Accordingly, it has been suggested that the Finance Ministry should be concerned primarily with certain broad limits of expenditure, but the choice of how to spend that sum within the limits allotted should be of the Ministry, the checks on their expenditure coming from an internal Financial Adviser attached to them and responsible to them.

Theoretically, there can be no objection to every spending authority having as part of its own administrative machinery a qualified financial adviser responsible to none other than the Head of that authority. But this cannot in any way
relieve the Finance Minister of his responsibility for instituting the necessary machinery for exercising such checks and safeguards as well enable him to discharge his functions effectively and efficiently. In giving shape to this machinery, he will no doubt have to take into consideration the financial and budgetary competence developed in the administrative authorities. But it is the essence of all good administration that the Finance Minister must decide his own requirements of financial control himself in the light of all relevant considerations.

"Budgetary Control"

The issue gets somewhat complicated because of the paucity of well qualified personnel trained for financial work. It is impossible to find enough personnel to meet the requirements of financial control and the requirements of internal financial advice in the Ministries at the present time. The result is that financial control is confused with financial advice and it is argued that if a Ministry has an internal financial adviser, external financial control can be relaxed substantially by substituting what is called "budgetary control".

Unfortunately, the system of budgeting in India does not admit of all the necessary financial checks being exercised before every specific amount is included in the budget estimates. Thus, the budget is more of the nature of a forecast of funds. The estimates in respect of a large number of measures included in the budget are not checked in detail before such inclusion, mainly for the reason that time does not permit of this procedure. It would not, therefore, be conducive to economy if every Ministry were given the authority to spend the entire amount budgeted automatically and as a matter of course without an independent scrutiny of the manner in which the funds are proposed to be spent.

The Tax-payer and Spending Departments

The observations made by the Haldane Committee in the UK (in their Report on the Machinery of Government), namely that "on the whole experience seems to show that the interests of the tax-payer cannot be left to the spending departments" is of universal application and certainly so in a country like India where in the first Bush of our newly won freedom, the departmental enthusiast is likely to get out of hand. Even in the UK, where they have tried experiments in the direction of internal financial adviser on the lines of what is popularly known as "domestic treasuries", the system has been criticised strongly.

The present system of financial control can be divided into

(i) Budgetary Control, and
(ii) Detailed Expenditure Control.

The former is intended to secure that the expenditure does not out-run the resources. The latter is intended to see that whatever expenditure is to be incurred is incurred economically and efficiently. Both these checks are necessary. To the extent that financial competence is developed in administrative Ministries and this control can be exercised at the estimates stage, the occasions for post-budget detailed expenditure control should be less frequent. But none of these controls by an independent Treasury at the proper stage can be dispensed with, if economy and avoidance of waste are to be secured. Possibilities of devolution of power are there but basic principles must not be violated if proper control of public expenditure is not to be jeopardised.