

Expenditure Restraint in Government Budgets in Australian Financial Management

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Abstract : Expenditure restraint is one of tools used by government to manage public financial resources. However, there is rationale for the prominence of expenditure restraint in government budgets. This article attempts to explore the prominence of expenditure restraint and how to implement expenditure restraint to improve economic management by focusing on expenditure restraint in the Australian budgetary management imposed in the Fraser government (1975-1983) and in the Hawke Labor government (1983-1991), Australia.

Introduction

Managing public financial resource is so critical to government. This requires high skills of the government to arrange public financial resource. The government should make its revenues and expenditure balance. However, policy priority of the government often makes government expenditure uncontrolled. This causes government budget deficits. To deal with this problem, the government often imposes expenditure restraint.”

This paper argues that the prominence of expenditure restraint which aims to balance government budget would have improved financial management and economic management as well if it is undertaken with reforms to budgetary system and to the public service delivery. This paper is divided into seven sections. The first section

provides an introduction. The second section and the third section present a discussion on budget and public expenditure management. The fourth section discusses on expenditure restraint in Australia. The fifth section and the sixth section discuss on expenditure restraint and financial management and economic management as well. The last section provides a concluding remark.

Budget

Basically, budget is a process of allocating funds which are possessed by government to achieve the government's political goals. Wanna, *et al.* argue that budgetary mechanism can change ideas, initiatives and decisions of governments to be meaningful activities (2000:1). Moreover, Wanna, *et al.* argue that budget encompasses both government's role and responsibilities to the public in

democratic countries; and government's power to allocate resources to people in the state (2000:1). However, government's power to allocate resources is more dominant than government's role and responsibilities to the public in budgetary process because government has authority to decide to allocate the funds based on their priority.

Actually there are two components in government budget. There are revenues including user charges, taxes and other levies; and spending such as purchases, subsidies and transfers and other expenditures (Wanna, *et al.*, 2000:5). Balance of revenues and spending becomes a standard to measure government's ability to manage their finances. Revenues which are more than expenditures indicate that government is successful to manage their finance. Conversely, deficit of government budget in which spending exceeds revenues shows that government's financial management is fail. Therefore, this encourages government to manage properly their finances, especially to manage their public expenditure.

Public expenditure management

Wanna, *et al.* define public expenditure management as an activity to plan,

manage, control and make public financial resources accountable from the entry point which those resources come in to the public domain and go out from the public domain to private domain (2000:9). Indeed, public expenditure management is an activity to manage flow of public financial resources which pass through public domain or government. There are two essential stages of public financial resource flow which goes through public domain. The first stage is inflow of public financial resources to public domain in forms of taxes, levies and user charges. And, the second stage is outflow of public financial resources which are converted to different forms, such as government purchases, subsidies and transfers. Therefore, the forms of public financial resources are modified in public domain where government has authority to decide how to allocate them.

Allocation of public financial resources by government is mainly based on policy priority of government. Davis argues that government is as politicians who strive to promote their preferences to society (1997:89). This would cause government more focuses on completing their policy priority than balancing their budget. Wanna, *et al.* show a high deficits in the

Australian government budget from 1991 to 1996 when the government's expenditure increased while the government's revenue decreased significantly as a consequence of focusing the government's expenditure to areas of need or policy priority (2000:24). Moreover, Wanna, *et al.* argue that the deficits were 'politically driven' rather than caused by budgetary mismanagement (2000:24). However, budget deficit is a consequence of failure of government in the public expenditure management to balance revenue and expenditure.

Expenditure restraint in Australia

Expenditure restraint in the Australian budgetary management was imposed in the Fraser government (1975-1983) and in the Hawke Labor government (1983-1991). The Fraser government reduced expenditure to fight against inflation which occurred at the time (Wanna, *et al.*, 2000:23). Inflation led public expenditure soared and exceeded the existing budget. Both the Fraser government and the Hawke government took the policy to impose restraint while controlling public expenditure to equalize expenditure and

revenue. However, success in controlling expenditure was underpinned by reforms to the budgetary system and in the public service which both governments implemented. Both governments combined expenditure restraint with budgetary reforms. Both governments renewed 'the budgetary processes and an understanding of better management systems' (Wanna, *et al.*, 2000:23). Therefore, expenditure restraint should be followed by budgetary reforms to solve inflation and government budget deficit.

Practice of expenditure restraint in both the Fraser government and the Hawke government has shown 'the rationale for the prominence of tight budget' in the Australian public expenditure management. Expenditure restraint is imposed to balance government budget by reducing public expenditure so that expenditure is equal to revenue. Expenditure restraint is implemented to deal with inflation as well. Inflation makes the price in market increases. This causes government expenditure increases as well. However, there is political reason why the governments should impose expenditure restraint. The political reason which encourages the government to implement expenditure restraint is that they want to

maintain their power as government. They want to stay in office as long as they can keep budget balance and control it.

To keep budget balance, expenditure restraint is not enough. It requires reforms to budgetary system by modernizing expenditure management, imposing new budgetary system, and even reforming the public service. Therefore, expenditure restraint is effective if it is supported by budgetary reforms.

Expenditure restraint and financial management in Australia

Secretary of Finance argues that budgeting is different with financial management (Wanna, *et al.*, 2000:184). Financial management mainly focuses on 'decisions taken at a detailed level and usually in a different way to budgeting decisions' (Wanna, *et al.*, 2000:184). However, financial management and budgeting are tools for government to arrange and control public financial resource. Moreover, Schick asserts that financial management is not incompatible to budgeting (Wanna, *et al.*, 2000:184).

In the context of relationship between financial management and budgeting, expenditure restraint would affect financial management. Expenditure restraint can encourage efficiency of financial management significantly in Australia. To make financial management more efficient and effective in managing public financial resources, there are some policies imposed such as, the Financial Management Improvement Program is introduced to provide education, training and standards for middle to senior management; the Running Costs Arrangements; and Efficiency Dividend. However, efficiency of financial management would not be achieved if expenditure restraint is not supported by reforms in public service.

Expenditure restraint and economic management in Australia

Expenditure restraint in Australia is successful to make the government budget balance and even surplus. Budget deficit decreased from 4.2 percent of GDP in 1992-1993 to 2.1 percent in 1995-1996 (Wanna, *et al.*, 2000:244). This would increase government's confidence to prolong their position because decrease in budget deficit is an

indication that government is successful to manage their finances. However, expenditure restraint causes a decrease in public service delivery. Expenditure restraint caused a decline in important outlays from 27 percent in 1995-1996 to 23 percent in 2000-2001 in the Howard government (Wanna, *et al.*, 2000:258). In 1996-1997 the Howard government cut their budget in some sectors such as universities (by 4.9 percent), road funding and welfare payments to migrants. Cutting budget in these underlying sectors influences public service delivery because it can decrease quality and quantity of the services which are provided for public.

Budget balance does not often reflect a proper economic management. Expenditure restraint which aims to balance government budget just focuses on how to arrange and to control outflows of public financial resource rather than paying attention on budget outcomes of which would affect the public services. Expenditure restraint does not concern on whether or not public services is provided to public adequately. As a result, expenditure restraint would impede the economic management.

The Howard government is aware of the negative effect of expenditure restraint on economic management.

Expenditure restraint is a correct action to keep government budget balance but it gives negative effects on economic management especially on the public service delivery if it is undertaken without reforms to budgetary system and the public sector. To mitigate the negative effects of expenditure restraint, the Howard government attempted to reform their budgetary system by making it more business-like, by imposing accrual budgeting in government budgetary system, by introducing purchaser-provider delivery models, and by contracting out some public service deliveries. Therefore, the negative effects of expenditure restraint on public service delivery can be diminished by imposing reforms to budgetary system and public service delivery.

Conclusion

Expenditure restraint is the policy imposed by the Australian government to balance government budget by decreasing public expenditure. Budget balance can be a standard to measure government's performance in managing public financial resource. However, tight budget which the government implements leads decrease in public service delivery. Decrease in public service delivery can affect economic management. This

requires actions to mitigate and to recover negative effect of expenditure restraint. Reforms in budgetary system and public service delivery are so helpful to reduce the effect of expenditure restraint. Therefore, it can be concluded that expenditure restraint can improve financial management and economic management so far it is undertaken with reforms to budgetary system and to public service.

References

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