Traditional budgeting → incremental budgeting

- start with current operating & expenditure levels as ~~operating base~~ established base
- analyse only the increases
- Peter Drucker → psychology of govt institutions/ budget based instis
  ↳ 'performance' = maintain or ↑ budget
  'results' = larger budget
- Not to spend the budget to the hilt will convince the budget makers that it can be cut ⇒ fourth quarter rush
- if all is not spent → budget might be considered inflated & base level might be reduced → "CREEPING Incrementalism"
- static tool → doesn't provide for reduction or elimination of current activities, funding higher priority progs, efficiency of current activities not analysed, budget cant be reduced.

ZBB

- diff from trad budgeting → entire budget of last year taken as zero
- alternative ways of attaining objectives analysed
- best alternative through CB analysis
- prioritization of objectives and progs
- switching resources from low to high priority
- eliminate progs that outlive their utility
- Justify not just the new proposals but also the provisions for existing progs. ; i.e., from scratch each year.

Steps in ZBB

- identify decision units (DU)
- analyse each DU in a decision package (DP)
- evaluate and rank all DPs to develop appropriation request

Prepare the detailed operating budget reflecting those DPs approved in the budget appropriation.

//Sunset clause: provision in a statute that terminates all or portions of the law after a specific date unless specifically continued by the legislature through legislation//

advantages of ZBB (Phyrr):

1) low priority progs can be eliminated or reduced
2) Prog effectiveness can be dramatically improved
3) High impact programmes can get increased allocation by shifting resources.
4) Tax increases can be checked. first three reduce necessity for increased taxes.

problems of ZBB

1) Orgs dont like outsiders to know on how little they could survive
2) bureaucrats threatened as ZBB evaluates effectiveness of their progs
3) ZBB needs effective admn, communication & training of managers
4) not a sure remedy for financial laxity. Successful in USA because of profit motive and organisational resilience which do not operate in govt setting
5) bureaucratic temperament → growth impulse clamouring for larger budgets rather than challenging assignments
6) Political pressures → prospects of ZBB uncertain.

Some principles of Budget making

1) budget must be balanced ←
   - ✓ expenditure = revenue ⇒ balanced
   - ✓ expenditure < revenue ⇒ surplus
   - ✓ expenditure > revenue ⇒ deficit

✓ Orthodox financial practice frowns upon constant deficit budget but recent trends → deficit budget as instrument of compensatory fiscal policy,

✓ how?

capitalism → profit motive → overproduction → slump and unemployment → ↓ purchasing power → ↑ depression

∴ ↑ Govt expenditure on public works and finance it via deficit budgeting → puts more money into peoples hands than it takes from them → ↑ purchasing power → stimulates prices → counters depression

✓ But too much of deficit financing → ↑ inflation, currency depreciation.

2) Estimates should be on cash basis
   → estimates of what is actually spent or received not liabilities or demands to be realised some other years

   merit → speed demerit → inaccurate picture

Revenue base : accurate picture but slow

3) Revenue and capital portions should be kept distinct
4) Budgeting should be gross and not net
5) form of estimates should correspond to form of accounts
6) Rule of Lapse
7) estimation should be as accurate as possible

* Read Performance Budgeting & PPBS from Sadana.

PUBLIC DEBT

- Govt income – 2 sources : tax revenue, borrowing from public
- 'public debt' = borrowings undertaken by public bodies
- generally in form of treasury bills or bonds

Causes of Public Debt

1) To meet budget deficits
2) To meet war expenditure
3) Remedy business depression (deficit financing covered earlier) → better to ~~to~~ borrow than tax as taxing → ↓ income → ↓ demand (Keynes)
4) To develop the economy

} planned borrowing

Public Debt	Pvt Debt
Govt can borrow internally from within the economy	can't borrow internally
can print currency to repay debt, (doesn't do it as it adversely affects stability)	Can't
wider effect on economy	
Govt can ↑ taxes, fresh loans, print currency, ↑ prices of goods & services of PSEs, ↑ capital levy	excess debt can lead borrower to insolvency
lower rate of interest on public loans	higher rate of interest

- external loans are a drain on the resources of the country, internal loans are not
repayment of ext loan → foreign currency or gold

Classification of Public Debt
(i) Internal & external
(ii) Productive & Unproductive

Productive → investment → income → repay interest & principal
Productive → good for the community

Unproductive or dead weight debt → useless burden for the community
e.g. to finance a war

(iii) Redeemable & Irredeemable

Redeemable ↓ Govt promises to pay off in future on a specified date
terminable

Irredeemable ↓ only promises to pay interest regularly
perpetual.

(iv) Funded and Unfunded

Funded ↓ long term

Unfunded ↓ short term

(v) Compulsory & Voluntary
Mostly, Govt Debt is voluntary