The Size, Structure and Growth of Budgetary Expenditures of Singapore

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INTRODUCTION

It is widely acknowledged that the public sector, which includes the general government sector and financial and non-financial public enterprises, plays a pivotal role in the economic life of Singapore. The main functions of the general government sector are to produce nonmarket services primarily for collective consumption, to transfer income to other sectors for purposes of public policy, and to maintain high employment, price stability, and economic growth. Since one of the major instruments through which the government sector attempts to realize its objectives is its budget, the size, structure, and growth of various categories of budgetary expenditures are a matter of some importance.

The main purpose of this paper is to analyse the size, structure, and growth of various categories of expenditures incurred by the general government sector of the Republic of Singapore since its separation from the Federation of Malaysia in 1965. Thus, our focus is on financial transactions rather than on physical inputs and outputs of government programmes. This emphasis on physical aspects is one of the major advantages of the Planning Programming Budgeting System (PPBS). A limited version of this system will be introduced in Singapore from the fiscal year 1978-79.

Given the complexity and multiplicity of uses and objectives of budgetary transactions, no single system of collecting and analysing information regarding these transactions is likely to be satisfactory. Therefore, as far as financial transactions are concerned, most governments maintain three separate but closely interrelated budgetary data systems.

The first system, which in most countries (including Singapore) is the primary system, is designed for the purpose of control and accountability. Since under this system expenditures are classified by spending units, and within each unit by subject of expenditure, for example, wages, travel grants, etc., the system does not provide information for purposes other than budgetary control and accountability unless further reclassification is undertaken.
The second system is designed to make the data for the government sector consistent with the other sectors for constructing national income accounts.

The purpose of the third system is to facilitate government priority planning and analysis of the short-run impact of the government budget on economic activity. Under this system, various government transactions are classified according to the purpose (i.e. function) for which they are made irrespective of the spending unit which makes them; and according to various economic categories, for example, expenditures on final goods and services, on transfers, etc. The former is called the functional classification while the latter is called the economic classification of the budget.

The relationship between government expenditures and economic development is a highly complex one involving social, political, cultural, economic, technological, demographic and other factors. Therefore, the search for an expenditure law, explaining the secular or long-term relationship, has remained an elusive problem. This lack of a suitable hypothesis and the relatively short period of time covered by the present study has necessitated the use of descriptive analysis.

In this paper, functional and economic classifications are used to analyse the size, structure and growth of budgetary expenditures of Singapore. This analysis, along with the discussion of gaps in the available data, is presented in Section II. The last section provides the concluding remarks.

AN ANALYSIS OF BUDGETARY EXPENDITURES

In this section, we present first, a breakdown of total expenditures into main or current and development components. Then, wherever possible, a functional and economic classification of each of the components is discussed. Finally, a cross classification of selected categories of expenditures by economic character and function is presented.

For each category of expenditure, income elasticity, average annual rates of growth, and marginal propensity are estimated. While income elasticity may be defined as the ratio of a percentage change in government expenditure to a percentage change in national income, marginal propensity may be defined as the ratio of a change in government expenditure to a change in national income. Thus, the latter indicates an increase in government expenditure as a percentage of the increase in national income.

Current, Development and Total Expenditure

The breakdown of total expenditure into current and development or capital expenditure is intended to roughly approximate the distinction between consumption and investment. However, it should be noted that "it is often difficult to determine what is a capital investment as opposed to a current operating expense. The principle that if something produces long run returns, it is a capital expenditure is not always easily applied." Moreover, the recognition that many current expenditures, for example on education and health, make important contributions to the process of economic development, has reduced somewhat the usefulness of this distinction. To quote, "there has been an increasing challenge in recent years . . . to any conclusion that a higher priority should attach to expenditures on tangible assets