

RSOG Seminar : Public Expenditure Management – Lesson From Japan

With

Professor Hideaki Tanaka, Meiji University Japan

When : 15 November 2013
Where : Razak School of Government
Speakers : Professor Hideaki Tanaka

About The Seminar

Weakening public finance across the global is off the concern to everyone. Some countries are technically insolvent. Perhaps the causes vary from jurisdiction to another. Be as it may, an effective Public Expenditure Management is crucial and getting serious attention worldwide. Men in the street would like to see more accountability and transparency in Public Expenditure Management. Malaysia through its Look East Policy, emulated Japan in a number of ways such as accelerated development, government 'influence' in businesses (i.e. Malaysia Inc.), dependency on international trade and considerable investment in public infrastructure. It is timely to catch up with the recent development in Japan as far as Public Expenditure Management is concerned, focusing on issues, challenges and the way forward.

Summary

Professor Tanaka opened the session by outlining the objectives of the seminar He outlined the importance of understanding the nature of the public sector and its budgeting and resource allocation, providing skills for expenditure and financial management in the public sector and to look at other countries as case studies to develop better public expenditure management.

Most countries face the traditional problems in budgeting which range from almost exclusively focusing on inputs, focusing solely on incrementalism, short-term approach to decision-making, inconsistency with macroeconomic policy, bottom-up approach to budgeting, last minute, across-the-board cut, incentives to spend everything as quickly as possible, no costing to achieve outcome and limited incentive to enhance transparency. Due to these problems, many countries end up facing tremendous negative effects with their budgeting processes.

Due to the various issues with the traditional budgeting systems, it has been recommended that a PEM system is adopted. PEM is a new approach to an old problem (Allen Schick, 1998). It is basically concerned with the planning, management, control and accountability of public financial resources. The three main outcomes of PEM are firstly aggregate fiscal discipline, secondly strategic resource allocation and thirdly efficient delivery of services.

Before one looks closer at the PEM structure, it is important to understand the reason behind a deficit budget within a country. According to Poterba and Hagen (1999) persistent budget deficits can be modeled as the result of a rational choice by self-interested political actors. According to Professor Tanaka, if a political actor acts in a rational manner then it will also be reflective in the budget. Therefore political actors should be conscious of their actions and their motivations. Professor Tanaka claims that the fundamental problem in the public sector is the mindset 'spend other people's money'. This sort of mindset breeds wastefulness and is a challenge to overcome. One way that has been effective in overcoming this sort of wasteful mindset is with a strict budget constraint and planning.

According to Von Hagen (1992) budget deficit is caused by any of the following factors: the relationship between finance minister and spending minister is not hierarchical but collegial, there is no restriction on budgeting, there is less transparency and the amendment process by parliament.

The issue of transparency is seen as an important factor in overcoming or reducing budget deficiency. The more transparent a country is with its budget, the lower the budget deficiency.

According to Professor Tanaka, if budgetary institutions matter for the determination of deficits, deficits may be avoided by strategic design of the budget process with these aspects in mind: centralization and transparency.

Professor Tanaka stresses that in order to achieve PEM, the three outcomes identified have to be achieved. The three main outcomes of PEM are firstly aggregate fiscal discipline, secondly strategic resource allocation and thirdly efficient delivery of services.

Professor Tanaka explains the importance of aggregate fiscal discipline. In order to achieve an aggregate fiscal discipline a medium term fiscal framework (MTFF) should be adopted. Sweden is a good example of a country which has adopted the MTFF. Sweden is a good case study for budget ceiling management. That is the main reason behind the saving within the Swedish budget. The Swedish MTFF budget framework is planned for 3 years ahead. A three year planning framework adopted by Sweden provides better financial allocation and has been seen as a positive relationship between the financial minister and line managers.

Professor Tanaka stresses that most countries require a budget reform but he also claims that a budget reform that doesn't touch upon political decision making process will not bring any real change.

Questions and Answers

Q1: What is the best strategy for Japan to overcome its budget deficiency?

You need drastic actions and impacts. A real political decision making process change is required.

Q2: Japan has been selected as the Olympic host. What impact has this on the Japanese economy?

It is a good reason to spend more money and also a good time to revitalize the much dated infrastructure.

Q3: What is the impact of financial education in Japan?

We should be spending more on education but as usually there is always more pressing areas which need the allocation

About The Speaker

Professor Tanaka graduated from the School of Engineering at the Tokyo Institute of Technology. He obtained his masters degree in Social Security Policy at the London School of Economics and completed his doctorate in Policy Studies at National Graduate Institute for Policy Studies. He has considerable experience in public service in Japan such as the Ministry of Finance where he worked on budgets, government investments and loans, free trade negotiations, central government ministries and agencies reforms, among others. His contribution also extended to other organizations such as the Organization for Economics Co-operation and Development (OECD), International Monetary Fund (IMF) and Japan International Cooperation Agency (JICA)

Photo Gallery

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