



Course: Financing and economic management

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Deciding on public expenditure

1 Public expenditure

Public expenditure - it is the flow of funds that are in the public budgetary system allocated to the implementation of the fiscal functions of the state on the principle of Non-recovery and inefficiency.

Public expenditure consists of funds in a certain volume and structure, with certain allocation principles, drawing and control of fulfillment; public expenditure projects and public expenditure programs are terms denoting economic processes, activities, products or targeted transfers of funds to various entities according to certain principles.¹

The main issues related to the definition of in public expenditure:

1. What involve (nature)?
2. What should be spent (purpose)?
3. What would be their volume (how much)?
4. From what sources are covered (what)?
5. What are the consequences in public expenditure (effects)?

2 Public expenditure - breakdown

From a macroeconomic perspective in the context of public expenditure (PE) distinguish two large groups of expenditure:

- government expenditure (G),
- transfers (T).

¹ PEKOVÁ, Jitka., PILNÝ, Jaroslav., JETMAR, Marek. *Veřejný sektor – řízení a financování*. 1. vyd. Praha: Wolters Kluwer ČR, 2012. 488 s. ISBN 978-80-7357-936-4.

Public expenditure is the sum of government expenditures and transfers. Expressed mathematically:

$$PE = G + T$$

Government expenditure (G) can be divided according to their purpose on government expenditure consumable (Gc) and government expenditure investments (Gi). Transfers are specific to public expenditure. These are the resources that are provided with a purpose to various entities, but there does not arise any consideration.²

While in the case in public expenditure (G) for the purchase of goods and services are burdened with the production capacity of the economy, in the case of transfers (T) is nothing like that does not take place.³

In terms of methods and consequences of public expenditure allocation can be divided:

- allocation expenditure,
- redistributive expenditure,
- stabilizing expenditure.

Allocation expenditures are expenditures for purchases of goods and services for the public sector, expenditure on the provision of public goods. With these expenditures related to government expenditure (G).

Redistribution expenditure includes cash transfers (T) different entities. This expenditure allows you to reduce inequalities in property and pensions. They are primarily the realm of the state budget.

Stabilization expenditures are particularly important volume in the state budget. Their increasing and decreasing can affect aggregate demand. Include expenditures on goods and services for the public sector.

3 Classification of public expenditure

There are different classifications of public expenditure domestic and international character. The home belong **budget structure**, which sets binding sorting income

² HAMERNÍKOVÁ, Bojka., MAAYATOVÁ, Alena a kol. *Veřejné finance*. 2. vyd. Praha: Wolters Kluwer ČR, 2010. 340 s. ISBN 978-80-7357-497-0.

³ SAMUELSON, Poul, A. *Ekonomie*. 18. vyd. Praha: NS Svoboda, 2008. 775 s. ISBN 80-205-0590-3.

and expenditure side of the budget. The international classifications include **classification of the International Monetary Fund (IMF) - GFS** (Government Finance Statistics), based on:⁴

- functional classification,
- economic classification.

According to the time factor divided public expenditure on:

- **Short-term,**
- **Medium-term,**
- **Long-term.**

Within a time point of view, we can subdivide public expenditure on:

- current (operating) expenditures,
- capital expenditures (investments)

Current expenditure is expenditure that must be regularly financed within the limits of the competences and tasks relevant budget. One important category of current expenditure consists of **mandatory expenditures. Mandatory expenditures can be defined as "commandment" expenditures.**

Among **capital expenditures** include expenditure to finance investment and other needs, whose consumption exceeds a single budget period

Another aspect by which we can divide public expenditure is expected. Expenditures, but income should be planned. State budget is planned balance. Breakdown of expenditure:

- planned (projected) expenditure,
- unplanned (extraordinary) expenditure.

⁴ SZAROWSKÁ, Irena. *Veřejné finance A*. Studijní materiál. Karviná: OPF SU Opava. 2005, 240 s.

Very useful can be a sector breakdown of public expenditures. Within the Czech legislation⁵ to divide public expenditure into six basic categories, which are:

- Agriculture and forestry,
- Industrial and other sectors of the economy,
- Services to the population,
- Social Affairs and Policy,
- National security and legal protection and
- General Public administration and services.

4 Causes of public expenditures growth

Constantly growing demands on the quantity and quality of public expenditure and related requirements for increased volumes issued funds are causing the constant growth of public expenditure.

The main factors behind this phenomenon include:⁶

- a) demographic factors,
- b) geographic factors,
- c) the situation on the labor market, unemployment,
- d) technical and technological progress,
- e) urbanization, population migration to cities,
- f) inflation,
- g) budgetary constraints,
- h) demonstration effect,
- i) the effect demand elasticity,
- j) political influences,

⁵ Česká republika. Vyhláška Ministerstva financí ČR č. 323/2002 Sb., o rozpočtové skladbě, ve znění pozdějších předpisů. In: Praha: PS PČR, 2002.

⁶ HAMERNÍKOVÁ, Bojka., MAAYATOVÁ, Alena a kol. *Veřejné finance*. 2. vyd. Praha: Wolters Kluwer ČR, 2010. 340 s. ISBN 978-80-7357-497-0.

k) other factors (war, etc.).

5 Efficiency of public expenditures and its measurement

Criteria of economy, efficiency and effectiveness (3E) are the main criteria for the evaluation and control of public expenditure projects and programs. This obligation to act in accordance with the criteria 3E gives workers the public sector Financial Control Act.⁷

Economy, expresses "do things efficiently (economically)." For economy, it is such a use of public funds when the goals and targets to achieve the lowest possible outlay of resources.

Efficiency, efficiency refers generally invested resources and benefit gained by them. It is the ratio of inputs and outputs of an activity or system.

Efficiency of public expenditures can be monitored in two basic forms:

- cost efficiency,
- productivity of public expenditure.

Cost- efficiency is trying to find out what the cost per unit of output. The productivity of public programs they are using public funds by which we achieve the greatest possible extent, quality and benefits of tasks performed in comparison with the volume of funds spent on their fulfillment.

List of tasks for students:

- 1) Explain the content aspect of public expenditure.
- 2) Explain the methods of classification of public expenditure.
- 3) Explain what aspects of divided public expenditure.
- 4) Describe the growth of public expenditure - causes, give an example.
- 5) Explain the terms: efficiency, effectiveness and efficiency in public expenditure.

⁷ Česká republika. Zákon č. 320/2001 Sb., o finanční kontrole ve veřejné správě a o změně některých zákonů (zákon o finanční kontrole), ve znění pozdějších předpisů. In: Praha: PS PČR, 2001.