

## Public Finance and the Responsible Factors Coupled With Public Expenditure: Ghana as the Focus.

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### Abstract:

The phrase public expenditure deals with the subject of government activities and their financing. For instance, capital and recurrent expenditures. "The expenditure incurred by public authorities like central, state and local governments to satisfy the collective social wants of the people is what the phrase public expenditure connotes." Public spending is planned to benefit categories of individuals and enterprises irrespective of location, or where locations are prioritized using national criteria. Throughout the 19<sup>th</sup> Century, most governments followed laissez faire economic policies and their functions were only restricted to defending aggression and maintaining law and order. The size of public expenditure was very scanty. But now the expenditure of governments all over has significantly increased. In developing countries like Ghana, public expenditure policy not only accelerates economic growth and promotes employment opportunities but also plays a useful role in reducing poverty and inequalities in income distribution. Besides, in the developing parts of the world, there are poor budgeting systems and lack of transparency and accountability always climb the platform of the frowning moments hence underdevelopment.

**Keywords:** Public Finance, Responsible Factors, Public Expenditure, Ghana, Focus.

### 1. Introduction

In any society that has passed beyond the lowest stage of social development, some form of governmental organization is found to be an essential feature. The various activities or functions of this controlling body furnish the material for what are known as the 'Political Sciences'. Every governing body or 'State' requires for the due discharge of its functions repeated supplies of commodities and personal services, which it has to apply to the accomplishment of whatever ends it may regard as desirable. The processes involved in obtaining and using these supplies naturally vary very much in the several stages of social advance: they are comparatively simple and direct in a primitive community, while in a modern industrial society they present a high degree of complication, and are carried out by elaborate regulations. For all States, however, whether rude or highly developed some provisions of the kind are necessary, and therefore the supply and application of state resources constitute the subject-matter of a study which is best entitled in English, Public Finance.

The importance of the subject hardly requires much insistence. The collection of funds for state purposes and the use of the resources so obtained are such vital parts of the political organization, that they are almost certain to receive attention from all who are interested in political and social inquiries. But, if demanded, abundant evidence is at hand. The citizen of any civilized country need only reflect for a few minutes in order to satisfy himself of the number and importance of the actions of the state on its financial side. His letters are carried by a state agency which claims a monopoly, and in some instances realizes a large profit for the general revenue. The commodities that supply his table are in many cases taxed to create a fund for the payment of public services. Either his income or property or some of their elements is sure to be subjected to a charge of greater or less amount, and several of the most ordinary avocations are only open to him on obtaining a costly license for permission to engage in them. Nor do the claims of the State cease here. In addition to the central body, the local authorities have to be considered. If the person of our supposition be the inhabitant of a town, his house may be lighted by public agency, while it is highly probable that for one of the first necessities of life water he is dependent on his municipality. There is little need for further working out of details. The way in which the purely financial agencies of the State and still more those which have some connection with finance affect the members of the society in their everyday existence, is being ever illustrated afresh by the ordinary course of social life.

Underpinning the expenditure information system is an accounting system. Most developing countries have the basics of an accounting system but do not use it effectively likewise Ghana. In a number of countries accounting

systems are not well integrated with planning, budgeting, cash and debt management, and auditing systems. Information on non-cash resources (assets, liabilities, people) often do not exist. Performance information of either the outputs of government or the outcomes of government policy is scarce. A more results-oriented public sector will require this information. The challenge will be to define the information required for the various levels of decision making and to avoid overloading the center. Management information systems that integrate information on costs, expenditure, outputs, and outcomes will need to be developed. A key point is if the institutional arrangements and the incentives embodied in those frameworks are set up “right,” i.e., if flexibility and restraint are appropriately balanced and mechanisms for transparency and accountability are introduced and enforced, quality information will be demanded and used to improve public sector performance.

## 2. The Study Area.

Ghana is a country located on the Gulf of Guinea, only a few degrees north of the Equator, therefore giving it a warm climate. The country spans an area of 238,500 km<sup>2</sup> (92,085 sq. mi). It is surrounded by Togo to the east, Côte d'Ivoire to the west, Burkina Faso to the north and the Gulf of Guinea (Atlantic Ocean) to the south (Benneh, G. and Dickson K. 1977). Ghana lies between latitudes 4° and 12°N, and longitudes 4°W and 2°E. The Prime Meridian passes through the country, specifically through the industrial city of Tema. Ghana is geographically closer to the "center" of the world than any other country even though the national centre, (0°, 0°) is located in the Atlantic Ocean approximately 614 km (382 mi) south of Accra, Ghana, in the Gulf of Guinea. The study area in so far as this piece is concerned is Ghana. Though part of it concerns Africa as a continent at large, Ghana is coined as the bone of contention from among the lots.



(Study Area) Political Map of Ghana showing all its regional capitals (source: Google map)

### 3. Objectives Of Government Expenditure

Every household has expenditure. So it is applicable to every government to have an objective in so far as government expenditure is concerned.

To commence with, maintenance of law and order is regarded as essential objective of every government. A country can be run smoothly when there is peace and security in the country. This can be maintained internally and externally. Government's annually expenditure takes a greater percentage of budget allocation to the Ministry of Defense and interior to ensure that there is peace and tranquility in the country. For instance, in 1990, 14% of expenditure on general services went to defense (source: The State of the Ghanaian Economy in 1999).

Secondly, provision of infrastructure is another objective. Goods can effectively be produced when there are efficient and adequate infrastructural facilities in the country. As a result of this, the government has taken it as a responsibility to provide some of these facilities because the private sector is not prepared to provide those facilities. Some of these facilities are: roads, hospitals, schools and electricity. Government spending money to re-construct Accra-Ho, Ho-Aflao, Salaga-Bole and Accra-Kpando and Konda-Agudzi roads.

Thirdly, provision of social services such as education and health has been a burden to most governments in West Africa. This is mostly done in order to improve the quality of the labor force and health conditions of workers. Through this, the country will be able to have skilled healthy laborers who can also help to exploit the resources of the nations in order to promote economic development. This is why the government of Ghana has opened and still making efforts in opening more other Universities in addition to the existing ones. Eg. in 1999, 53% out of the total money meant to provide social services, 20% went to education and 14% went to health.

Further, direct participation in economic activities is not overlooked here. Most governments take part in some economic activities in order to produce essential goods and services to be sold to the public at a cheaper price in order to avoid exploitation. Some of these are production of services of which the government has established ECG, GWCL and others. To produce goods to be sold at a cheaper price, the government spends money in the running of GIHOC. The government also enter into joint venture with local and foreign businessmen to engage in the production of goods and services, for example in Ghana, the government owns shares in Ashanti Goldfields Corporation and 55% shares in Ghana Consolidated Diamonds Company Ltd and Ghana Bauxite Company.

Most government in recent years draws up ambitious development plans. This always requires additional source of income to meet such expenditure. They therefore borrow huge sums of money to meet this excess expenditure either internally or externally. The amount needed to pay the debt with higher interest rate mostly creates problems for government. Since large sums of money are borrowed for development schemes, the amount spent in servicing this debt continues to increase from year to year hence, servicing the national debt is also factored into the objectives.

To add to the above, administratively, government spends part of its revenue to ensure day to day administration at the District, Regional and National level. This appears in the salaries and other expenses of National Assemblies, Civil Servants, Regional and District administration. For instance, in the year 2000, 19% of government expenditure was spent on salaries and wages.

#### 3.1 Factors Responsible For The Increase Or Growth Of Government Expenditure In West Africa

There has been increase in government wage bill and allowance paid to state officials and their dependents in recent years. This money spent on government administration forms an essential part of the recurrent expenditure. This has increased due to the adjustment of the exchange rate on foreign components of expenditure and also because of high rate of inflationary tendencies workers now agitate for an increase in wages as it was witnessed in September 2002 which increased the government's wage bill by ₵ 100 billion. In addition, in 2000, government of Ghana's expenditure on administration was ₵ 220b but in 2002, it increased to ₵ 1,452.4 billion. What could the status quo be as at 2015 now in as much as increment in government recurrent expenditure is concerned? A question of personal evaluation.

Governments in West Africa have the tradition of defending nations through armed forces, police, law courts, prisons in order to ensure that there is law and order in the country, which can promote development. West Africa has recently been the scene of political instability. This is because most of the governments in West African countries came to power through the use of guns, because of this they always entertain fears that they may be over-thrown and as a result, they spend large sums of money to recruit soldiers, policemen, body guards and buying of expensive ammunitions while some of them also create their own security wings and huge sums of money are secretly spent on such people.

In recent years, most governments in West Africa are trying as much as possible to ensure that there is increase in production of goods and services. As a result, huge sums of monies are spent in the provision of infrastructural facilities. Goods can only be produced efficiently when there is sufficient and effective roads, electricity supply, health facilities, hospitals, schools etc. This has compelled most governments in West Africa to spend huge sums of monies to provide these facilities. For example, under the Economic Recovery Programme which was launched in Ghana in 1993, 681km of roads were constructed at a cost of ₵1.5 billion.

Governments in West African countries have seen that they can exploit the natural resources in the sub-region to promote economic development only when there is qualitative labor. As a result of this, all efforts are being made to expand health and educational facilities within the sub-region especially Ghana. Due to this, huge sums of monies are spent annually to provide more health and educational facilities. For example, the government tried as much as possible to open more secondary schools in areas where there were no secondary schools and also more Universities in addition to the existing ones. Hence, the increased need to improve the quality of labor.

Up next is the participation in economic activities. The state's participation in economic activities and the extent of participation differs from one political regime to another. There has been increase in governments' participation in recent years due to lack of investment capitals and shortage of labor, which is making some of the industries within the continent to produce inefficiently. To ensure effective production, a government enters into a joint venture or establishes state-owned enterprises to engage in the production of goods and services. In addition, the government also supports industries not performing well with financial support. For example, in 1992, the government of Ghana set aside an amount of ₵2 billion to support industries which were not performing well and in 1999, ₵10 billion was used to establish Business Endowment Fund to help inject firms.

Servicing or Increase in National Debt is another alarming responsible factor for the increment in government expenditure. Most governments in West Africa draw up ambitious development plans; they always have additional responsibility of raising loans from internal and external sources to finance their developmental projects. These loans or monies are supposed to be paid with interest and all this has increased debt burden of most governments in West Africa in recent years. For instance, in 1983, Ghana's total debt was \$2903 million but as at 1989, it has increased to \$3072 million and in the late 2003, it was about \$6,446.7 million. Where could it be as at now, 2015?

Last but certainly not the least is increase in population. The rate at which the country's population has been growing in recent years has increased the government's expenditure both capital and recurrent. Birth rate in Ghana now is about 42% and this has pushed up the rate of population growth to 2.6%. As a result of this, the government is compelled to use scarce resources to provide certain goods and services, which are mostly demanded by the children such as Toys, Day Care Centers, primary school and others.

### **3.2 Effects Of Large Increase In Public Spending On The Economy**

Public spending is coupled with a lot of effects on an economy. Such effects emanates as the after mouth of the spending on the economy.

If the government increases its expenditure on capital items in the form of providing more infrastructural facilities like roads, schools and hospitals, a lot of people would be employed to help in the construction works. These people will receive income which will encourage them to increase their demand for certain goods and services and this will automatically encourage producers to increase their output of goods and services which will bring about increase in output of goods and services. If the spending is through increase in wages and salaries, there will also be increase in demand for goods and services.

Inflationary pressure and balance of payment is the next effect. If there is increase in public spending by providing infrastructural facilities, it will not bring any increase in output of goods and services but those people who are employed to help in the provision of the infrastructural facilities will increase their demand for goods and services as they are now receiving income. This will bring about excess demand over supply, which will push up prices. The government or businessmen will import to supplement the local production that will bring about excess imports over exports hence balance of payment problem.

Further, promotion of urbanization is not discarded when accounting for the effects of the increase in public spending on an economy. If the government of a country decides to undertake infrastructural development in the urban areas as the government is currently doing at Accra, Kumasi, Tamale, Takoradi and Tema, this will attract a lot of people to leave the rural areas to settle in the urban areas in search of non-existent white-collar jobs. This will bring about reduction in output of goods and services in the rural areas.

Increasing employment avenues is not left into oblivion when counting the successes of public spending on an economy. An increase in government spending may be due to the setting up of more industries and public corporations as it was seen under the PNDC administration through establishing GNPC (Ghana National Petroleum Corporation). Through this, a lot of employment avenues are created for resources which might have been unemployed for sometimes, and this will reduce unemployment problems in the country.

### **3.4 Sources Of Government Revenue**

The first source of government revenue is taxation. Tax is a compulsory payment to the government for which there is no direct benefit or service to the taxpayer, and this is divided into two, which are Direct taxes and Indirect taxes. It is the greatest source of government revenue and it is on this that the government depends for undertaking developmental projects, which involve provision of infrastructural facilities such as roads, hospitals, schools etc. in 2003, Direct tax fetched the government of Ghana an amount of ₵3.593.7 billion there about. As at 2014, 900 thousand Ghana cedis which is thrice the amount as at 2003 were fetched.

Secondly, profits and dividends from state owned enterprises are next. Government engages in trade and other economic activities such as running of transport, railways, ECG, GWCL and others. Though they charge low prices, they make some profit that goes to the government as source of revenue. In addition, the government has also entered into joint venture with both foreign and local investors to undertake production of goods and services.

Interestingly, lotto is another serious area of contribution. It is one of the greatest sources of revenue to the government. Mostly, the government of Ghana depends on this to finance its developmental projects and pay the workers of the country. In recent years, the revenue the government gets from this continues to reduce due to legalization of “Banker to Banker”, VAG, West Raffle and operation of different kinds of Lotto in the country. For example, in 1998 the government had an amount of ₵13.5 billion from lotto and as at 2014, 15.4 billion was fetched from lotto again.

Fees, Fines and Licenses are also contributing factors. Most governments provide certain goods and services, and users of these goods and services pay certain fees that go to the government as a source of revenue. Some of these goods and services are bridges, hospitals, roads and courts. For instance, according to the 1997 budget, the government of Ghana decided to increase bridge tolls and as at now thus 2015, motor bike is paying GH₵1 and saloon cars GH₵2. Trawlers go for 5 cedis.

Up next are grants. This forms a minor part of entire government revenue. During colonial periods, large sum of grants were received from our colonial masters. But after independence, this reduced despite the fact that countries like America, Japan, Canada continue to do this in the form of food and money. For example in August 1993 the government of Ghana received a grant of \$8.9 million or 6.3 billion cedis towards the rehabilitation of 17 pumping stations in Accra Tema areas from French government and the African Development Bank. In 2003 Project Grants amounted to \$509 million.

To add to, the government of Ghana derives a lot of revenue from the activities of the various marketing boards in Ghana some of which are Cocoa Marketing Board, Timber Marketing Boards and Diamond Marketing Board. This is done by relying on the various marketing boards in the country and this is why some economists consider the marketing boards as essentially taxing derives for the government.

Last but certainly not the least, government also raises revenue through privatization or divestiture of state owned enterprises which are not performing well or producing efficiently. For example in the year 2003 divestiture of State owned firms fetched the government an amount of €421.4 billion.

#### **4. Analysis, Conclusion And Recommendations.**

There should be a balance between restraint and flexibility and recognizes that this will shift as the fundamentals are embedded. This is what we describe as “Having the Fundamentals in Place” Hence, introducing mechanisms to promote transparency and accountability, key elements of the restraint framework, will check abuse of flexibility and generate demand for information. This will surely create the avenue for institutional mechanisms to go hand in hand with performance orientation for all perspectives.

Transparency underpins accountability, whether this is transparency in the form of timely and reliable ex post external audits or in specifying ex ante performance targets. Transparency demands that the reasons for decisions and the results and costs of these decisions be accessible, clear and communicated to the wider general public. Decision makers must be held responsible for the exercise of the authority (flexibility) provided to them. In summary, decisions made, the basis upon which they were made, and their results and their costs must be made available. A dimension to transparency not directly linked to accountability is also crucial to sound budgetary outcomes. This is that decision makers should have all relevant issues before them when they make decisions. The task is to identify institutional arrangements that will help government confront these real world problems in building an effective public expenditure management system. Transparency and accountability mechanisms lie at the center of a system that will encourage commitment by all the players to government’s formal rules on spending and the deficit and to impose costs on politicians and bureaucrats for violations.

The government sector should be clearly distinguished from the rest of the economy, where policy and management roles within government should be well defined. There should be a clear legal and administrative framework for fiscal management. The public should be provided with full information on the past, current, and projected fiscal activity of government expenditure. A public commitment should be made to the timely publication of fiscal information. Besides, the prerequisites of budgeting are a matter of technique and will, rather than the product of environmental conditions. Politics are not as indispensable as economics. Good budgeting is a matter of regulation and significant to development.

To explore further the problem encountered by public expenditure will take us into the mathematical arena of “Sociology” or “welfare politics” which Arrow, Duncan, *et al* have begun a rigorous scrutiny and excavations profoundly into. Political economy can be regarded as one special sector of the general domain, and it may turn out to be pure lack that within the general perspective, there happened to be a sub sector with the simple assets of traditional economics.

#### **Acknowledgment**

Glory is thy name for seeing us through this piece. This is an opportunity for us not only to get familiarized in the international arena, but also to bring our modest contributions in scientific research.

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