

30th Annual Meeting of the SBO

Rationales for Ex Ante Budgeting

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Is Ex Ante Budgeting (for disasters) Better?

- Preventive measures (mitigation)
 - Generally better than just repeated ex post patchwork recovery for recurring disasters
 - But in some cases better to relocate people from disaster-prone areas (e.g., floodplains)
- Recovery and relief
 - Funds allocated ex ante for ex post use
 - Possible to operate disaster fund for recovery + preventive measures to “fix it properly”

The Economic Rationale

- “Smoothing” is better
 - Smoothing between discrete events:
Expected utility theory says risk sharing is the superior solution: insurance, lotteries
 - Smoothing between time periods:
Savings or borrowing

OK, but should governments get involved in...

- Insurance? (let the market take care of it)
 - Market failure: adverse selection or international arrangement
 - Lower cost(!): large insurance provider may have monopoly power
- Ex ante consumption smoothing (saving?)
 - Ex post appropriations (borrowing) can achieve the same effect, though there may be a slight loss

Assessment

- Overall, there's a good case for insurance
- The argument for government savings in some kind of disaster fund is not that strong, especially from the budgeteer's perspective (susceptible to "raiding" or misuse)

What about “contingency funds”?

- Ex ante appropriations for unspecified purposes, *not limited to natural disasters*
- Korea, Japan, Taiwan
 - Legal bases in constitution and/or budget laws, with regulations that specify procedures, reporting, etc.
- Brazil
 - Contingency fund: 2% of revenues
 - Contingency reserve: for entitlements overshooting
- France: LOLF’s “depenses accidentelles et imprevisibles” (?)
- Thailand (?)
- In principle, goes against good budgeting practice, but some justification can be offered (expedites emergency spending in countries with less discretion, more rigid or legalistic cultures)