

Analysis and evaluation of government activities related to provisioning of public goods

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Abstract: The article deals with the issues of involvement of the public sector of the economy of Kazakhstan in the formation of incomes and expenditures of households. The authors use the method of the system of national accounts - 93 and evaluate dynamics and structure of the household sector income indicators based on it.

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1. Introduction

The public sector of the country economy is one of its structural unit, the activity of which is mirrored in the system of national accounts (SNA-93), which summarizes the whole information on the economic processes on the macrolevel based on a number of internationally accepted concepts, definitions, classifications, and accounting rules. The existing system of national accounts makes it possible to represent economic information in a form suitable for analysis, decision-making and policy elaboration. [1]

Main economic functions of public bodies are connected with the following:

- 1) Provisioning the society with goods, services on nonmarket basis for social and personalized consumption.
- 2) Redistribution of incomes and wealth for achievement of social policy goals, i.e. support of social groups that are in risky situations by means of social insurance and social aid.

The difference between the public and the government sectors of the economy is that the public one beside public bodies, which fulfill the functions of public management being their main activity, nonmarket non-commercial organizations, which in their legal essence are non-governmental organizations, are controlled and financed by governmental units and implement government policy. Some of foreign countries already have the experience of influence of such organizations on the formation and development of public sector and economy socialization. [2, 3, 4, 5, 6].

In this context, by the control we mean the ability to determine the general strategy or action plan of the non-commercial organizations along with the right to appoint the top management. Non-commercial organizations of this type can be engaged in scientific research and development of standards used by both enterprises and the population in such

spheres as healthcare, education, security, protection of environment, finances, and accounting. [7]

The sector of public management also includes governmental funds of social insurance.

The institutional units included in the sector of public management mainly deal with rendering nonmarket services, but sometimes can have divisions in their structure, which sell their products at economically significant prices, i.e. prices that significantly affect the demand and the offer for the particular product or service. For example, these are charged municipal pools, governmental publishing houses, kindergartens. In this case, we can study their prices from the availability for the consumer point of view.

It is necessary to emphasize that the government sector is a wider concept within the SNA-93, which includes the sector of public management and all state corporations and quasi-corporations.

Participation of the public sector in the formation of incomes of the household sector based both on monetary transfers and services rendered free of charge or at economically insignificant prices under the SNA-93 methodology is represented in Chart 1.

About the first economic function of the government.

To determine the scale of government participation in the final consumption by the country population, the system of national accounts provides all required information.

The main macroeconomic indicator in the SNA-93 system is the gross domestic product, which is calculated in three ways: by production, by utilization and by income determination.

The calculation of the gross domestic product by the utilization method includes the following elements:

- 1) Expenditures for final consumption;

- 2) Gross accumulation;
- 3) Net export. [1]

We have considered SNA-93 indicators shown in Figure 1.

Indicator 1 - Expenditures of households for final consumption.

Expenditures of households for final consumption, which consist of three elements:

- Expenditures of households for final consumption;
- Expenditures of non-commercial organizations, which render services to households;
- Expenditures of public bodies for purchasing consumer goods and services from market producers for further transfer to households.

Expenditures of households for final consumption consist of expenses, incurred by households at purchasing consumer goods and services, which consist of:

A) Expenditures for purchasing consumer goods at the expense of their own budget (disregarding the duration of their utilization (except for purchasing houses and apartments));

B) Expenditures for purchasing consumer services, which are formed by expenditures for healthcare, education, transport, communications, utilities, household, financial services and services of culture institutions, restaurants and hotels;

C) Consumption of goods and services produced for own use;

D) Expenditures for purchasing consumer goods and services by residents abroad.

If we add to these expenditures the ones of non-commercial organizations rendering services to households (NCORSH) and the expenditures of public bodies, the following picture is formed in dynamics (Figure 1).

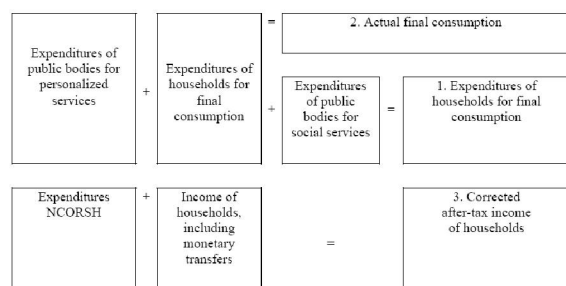


Figure 1 - Participation of the public sector in the incomes of households according to the SNA system indicators. * Prepared by the authors

The study of the structure of expenditures for final consumption in the GDP of the Republic of Kazakhstan, which was calculated by the method of final utilization, showed that the proportion of

expenditures of households during the period between 2005 and 2010 decreased from 80.3% to 78.1%. The trend equation has a negative ratio equal to -0.4432 (Table 1).

This indicated the growth of other sectors of the economy in the expenditures of households for final consumption.

Table 1. The Structure of expenditures of households for final consumption in the GDP of the Republic of Kazakhstan between 2005 and 2010, in percentage

Expenditures for final consumption:	2005	2006	2007	2008	2009	2010
Households	80.3	79.8	79.5	79.6	78.2	78.1
Public management	17.1	17.8	18.4	18.2	19.7	19.8
NCORSH (consumer expenditures and services of social organizations rendered to households free of charge)	2.6	2.3	2.1	2.1	2.1	2.1

Remark - this was prepared by the authors according to [8]

During the reviewed period, the expenditures of non-commercial organizations decreased in the structure of final consumption by households from 2.6% to 2.1%, and they consist of expenditures of these organizations for consumer goods and services transferred or rendered to households free of charge or at economically insignificant prices. Because the main source of financing the expenditures of NCORSH are the contributions of their members, donations and other transfers, government financing within the framework of the public sector, it is obvious that its participation grows at a slower rate, i.e. governmental financing of the non-commercial sector is obviously less than financing of organizations owned by the government.

As a result, in the total amount of expenditures of third-party sectors (public management and NCORSH) for final consumption in the household sector, the share of NCORSH decreases from 13.1% to 9.2% and the share of government expenditures increases from 86.9% to 90.8%.

The sector of non-commercial organizations rendering services to households includes:

1) Mutual organizations of association type, which live for members contributions and render services to their members only. These are trade unions, political parties, social and sport clubs, entrepreneurial associations, etc.

2) Non-charity organizations (environment protection societies, non-commercial scientific and social organizations, etc.), which render services to the whole society and individual groups.

3) Charity organizations, which render various services to households that need them

(religious organizations, consultative and crisis centers, diet kitchens, etc.).

The proportion of expenditures of the system of public management and NCORSH for final consumption by households is represented in Table 2.

Table 2. The structure of expenditures of public management bodies and NCORSH for final consumption by households, in percentage

Expenditures for final consumption:	2005	2006	2007	2008	2009	2010
Public management	86.6	88.5	89.6	89.5	90.2	90.8
NCORSH	13.1	11.5	10.4	10.5	9.8	9.2

The expenditures of public management bodies for final consumption include expenditures of institutional units for consumer goods and services provided and rendered to households free of charge or at economically insignificant prices. The expenses of public bodies are financed from the government budget and extra-budgetary funds.

The share of the public management sector in the GDP in the form of expenditures for final consumption in 2010 was equal to 19.8%, including 9.6% of personalized services, and 10.2% of social services. In general, this percentage is comparative to CIS countries, particularly to Russia, where same indicators showed slightly less values: 17.7%, 8.2%, 9.5%. [9]

The expenditures for final consumption by the system of public management bodies includes:

- expenditures for purchasing consumer goods and services from market producers for further transfer to households free of charge or at economically insignificant prices;

- non-market services rendering, which is determined as the difference between the total output of state-owned enterprises and receipts from selling goods and services at market prices minus partial compensation to consumers of the price of these services.

- compensation of expenditures of households for purchasing goods and services at the expense of government funds of social insurance.

Expenditures of public bodies for final consumption are divided into the following types:

1) Expenditures for goods and services of personalized nature;

2) Expenditures for services of social nature;

Functions of public management bodies are categorized with the purpose of determining the methodology of dividing goods and services into these two groups. Main categories in this classification are:

- general purpose public bodies;
- defense;

- public order and safety;
- economic issues;
- protection of environment;
- housing and public utility services;
- healthcare;
- recreation, culture and religion;
- education;
- social protection.

Social services are rendered by bodies of management, defense, public order and safety, science, public utilities, transport, etc.

Expenditures of public bodies for personalized goods and services are the expenditures for goods and services meant for transfer to households in order to meet their personal needs free of charge or at economically insignificant prices. These services are rendered by bodies of healthcare, education, social welfare, culture and sports.

Expenditures for them are determined as a total of:

- expenditures for production of goods and rendering services;
- expenditures for purchasing consumer goods and services from market producers for further transfer to households;
- partial reimbursement of the cost of goods and services purchased by households;
- reimbursement of expenditures of households for purchasing goods and services at the expense of the government fund of social insurance.

The ratio of expenditures for social and personalized services is provided in Table 3.

Table 3. The structure of expenditures of public bodies for final consumption in 2005-2010, in percentage

Expenditures of public bodies for final consumption:	2005	2006	2007	2008	2009	2010
Expenditures for social services	52.1	52.3	51.9	51.0	52.0	51.5
Expenditures for personalized goods and services	47.9	47.7	48.1	49.0	48.0	48.5

The ratio of the two items of expenditures remains mostly constant. At that, the expenditures for social services rendered by the government to the society in general are by 2-5% more. But, taking into account the sign of the trend line ratio, we can notice that there is a trend for increase of the share of budget expenditures for personalized services.

At that, it is to be emphasized that expenditures for personalized services target implementation of the system of measures that form the human capital. These are public services in the sphere of education, healthcare, social protection of population, culture, and sports. Accumulation and further appropriate expenditure of budget funds

allows the government to form conditions for developing the human potential of the country population. At implementing the policy based on certain principles, the government aims to decrease social differentiation of the population by providing citizens with access to main social services, which determine the primary formation and further accumulation of human potential of citizens.

Indicator 2 - Actual final consumption.

The SNA system has an indicator that determines the actual final consumption by households, which consists of:

- expenditures of households for final consumption;
- expenditures of public bodies, which render personalized services to households (excluding expenditures for social services - indivisible public goods);
- expenditures of non-commercial organizations, which render services to households.

As a result, the actual final consumption by households consists of goods and services purchased by households at market prices at the expense of their current incomes and received from the bodies of public management and non-commercial organizations free of charge or at economically insignificant prices. The latter is normally called *social services* or *social transfers in kind*.

Deletion of the amount of government expenditures for social services changes the internal structure of actual expenditures of households for final consumption (Table 4).

Table 4. The structure of actual final consumption by households in Kazakhstan during 2005-2010, in percentage. Remark - this was prepared by the authors according to [8]

Expenditures for final consumption:	2005	2006	2007	2008	2009	2010
Expenditures of households for final consumption	88.2	88.1	87.9	87.8	87.1	87.1
Expenditures of public bodies for personalized services	8.9	9.4	9.8	9.8	10.5	10.4
Expenditures of NCORSH	2.8	2.6	2.4	2.4	2.4	2.5

The comparison of internal structures of actual final consumption by households represented in Table 4 and final consumption, represented in Table 1, shows that, in actual final expenditures of households, the share of government expenditures for rendering personalized services grows at a lower rate if compared to the share of government expenditures for total personalized and social expenditures. Where in the first case the share grows by 0.5% annually, in the second case the rate is 0.3%. This confirms our conclusion that government expenditures for

indivisible social services (the public management system, public order and safety, etc.) grow at a faster rate than the divisible personalized services for households.

Accordingly, the share of actual final consumption provided by households themselves at the expense of employment and property incomes is larger: 88.2% in 2005 and 87.1% in 2010. At the same time, with the social expenditures included, this share decreased from 80.3% to 78.1%. The rates of reduction of the government share in the expenditures of households is lower if we consider only personalized consumption: -0.24% against -0.44% when considering the total government expenditures for social and personalized consumption as a part of expenditures of households.

The share of NCORSH in the actual final consumption by households is much larger; it changed from 2.8% to 2.5% against 2.6% and 2.1% if the expenditures for final consumption are considered, as provided in Table 1.

If we draw a comparison in a long-term, we can state that in the actual final consumption by households in Kazakhstan, the share of personalized (divisible) services in the form of social transfers increased and almost reached the 1990's level equal to 11.83%. [10]

Indicator 3 - Corrected after-tax income of households.

The amount of primary incomes and current transfers creates the after-tax income for each sector of economy, which income is finally divided into expenditures for final consumption and accumulation. But, the process of reallocation of incomes, as mentioned before, is carried out not only in monetary form, but also through rendering services by public management bodies and NCORSH.

The amount of the after-tax income and social transfers received in kind results in the value of the corrected after-tax income of households, which is divided into the actual final consumption and accumulation. The actual final consumption exceeds their expenditures for final consumption by the amount of social transfers in kind.

The share of social transfers in kind in the corrected after-tax income of households in Kazakhstan in 2005-2010 is between 7.9% and 8.9% and thus demonstrates positive shift dynamics. In 1990, this share was equal to 20%, which is typical of a socialistic economy with all of its reallocation processes.

About the second economic function of the government.

The government participates in the elimination of social inequality of different social groups of population in the process of development

of human capital of citizens not only through making social transfers but also through insurance payments from the system of governmental social insurance system and through social transfers as social support.

From this point of view, the scales of the household sector support can be evaluated by monetary (or current) transfers, which include retirement benefits, allowances, scholarships, and donations.

Monetary transfers and insurance payments provided by the government to households target the following goals:

1) To reduce the gap in the level of material welfare of employed and unemployed members of the society who do not work due to external factors (disabled people, maternity issues, etc.).

2) To compensate negative external factors during the period of a person's adaptation to market environment (rise in unemployment, poverty, and misery in some cases).

In the structure of incomes of households during the period between 2005 and 2010, some structural shifts took place (Table 5).

– The share of salaries and wages increased from 48.8% to 56.3%;

– The gross mixed incomes reduced from 34% to 26%; at that, in 2008-2010 the share did not change, which indicates less intensive growth of incomes from non-corporate enterprises, which belonged to the household sector in the SNA system, if compared to the share of salaries and wages;

– In the structure of incomes, the share of property incomes increased significantly: from 3.5% to 10%, which indicates the formation of property as a crucial source of incomes for households;

– The share of monetary transfers reduced almost twofold, from 13.6% to 7.7% and resulted in becoming the lowest income item.

Table 5. Structure of incomes of the household sector, in percentage. Remark - this was prepared by the authors according to [3]

	2005	2006	2007	2008	2009	2010
Salaries and emoluments	48.8	54.5	50.0	53.5	55.7	56.3
Property incomes	3.5	3.6	6.4	8.5	10.7	10.0
Current transfers	13.6	9.9	16.2	12.0	7.7	7.7
Gross mixed incomes	34.0	32.0	27.4	26.0	26.0	26.0
Total	100	100	100	100	100	100

This brings us to the conclusion that the scale of reallocation of wealth and incomes in Kazakhstan in monetary form, in which the current transfers are made, reduces.

Generally, we come to the conclusion that the social policy of Kazakhstan prioritizes the production of public personalized (divisible) services over monetary transfers. This indicates the political choice of the country and the priority of the principle of encouraging economic activity of population over the principle of solidarity based on monetary transfers.

Summarizing the analysis carried out in this paragraph, we come to the following conclusions:

1) The activity of the social sector in the economy of the Republic of Kazakhstan related to production of public social and personalized goods and services is characterized by the tendency to increasing their share in the final consumption. In the structure of the GDP calculated by the method of final consumption, the share of government management increased during 2005-2010 by 2.7% and reached 19.8%. The annual growth is equal to 0.53%. Therefrom, the share of social services equaled to 10.2% and of the personalized ones – to 9.6%. There is a parity between the shares with a slight prevailing of expenditures for social services during this period by 2-5%.

2) During the reviewed period, the proportion of expenditures for final consumption by non-commercial organizations, which render services to households, decreased from 2.6% to 2.1%. This indicates that the sector developed at a lower rate if compared to the growth rate of income of households and the expenditures of the government sector.

3) The actual final consumption by households, i.e. consumption excluding the expenditures for rendering social services, also indicates the growth of the government sector's share (free services of education, healthcare, culture, etc.), but this growth shows lower rates – just 0.3% a year. Nevertheless, it is worth noting that the achieved share of social transfers in kind in the actual final consumption by households quite closely reached the level of 1990, when it was 11.83%. If the growth rates continue, this value can be reached within 4 or 5 years.

4) At the same time, we can notice that monetary transfers to households in the result of implementation of the social policy, which involves reallocation of incomes in the form of scholarships, retirement benefits, and allowances, reduce their participation in the incomes of the household sector. During the period between 2005 and 2010, their share decreased by 5.7% and the income item became the last in the importance rating.

5) The social policy of Kazakhstan dedicated to overcoming the social inequality and development of human potential of the country's population develops in the direction of reducing

monetary transfers in the incomes of households and increasing social transfers in kind (social services of personalized consumption) in the final consumption by households. At the same time, the expenditures for social services loom large in the final consumption, but the expenditures items tend to level off. The only negative trend on the macrolevel is the reduction of the NCORSH share in the final consumption by households, which indicated the insignificant development of the sector and lack of regular institutional partnership between the government sector and the NCORSH as related to rendering services to households.

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