FROM GOVERNMENTAL ACCOUNTING TO NATIONAL ACCOUNTING: IMPLICATIONS ON THE PORTUGUESE CENTRAL GOVERNMENT DEFICIT

RELEVÂNCIA INFORMATIVA DAS DESPESAS DE INVESTIGAÇÃO E DESENVOLVIMENTO: UM ESTUDO PARA O CASO PORTUGUÊS

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From Governmental Accounting to National Accounting: Implications on the Portuguese Central Government Deficit

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Based on the relevant differences between Governmental Accounting (GA/microeconomic perspective) and National Accounting (NA/macroeconomic perspective) this paper examines the main adjustments made in Portugal to the General Government Sector data required to convert Governmental Accounts into National Accounts. It also assesses the impact of those adjustments on the Central Government deficit, the largest share in the Portuguese public deficit.

Following mostly a qualitative research methodology, the empirical study is based on interviews to officials preparing NA and on several documental sources. The purpose is to validate the major data adjustments from GA into NA regarding Central Government, while, in addition, assessing their impact using data from April 2008 Excessive Deficit Procedure notification, covering the 2004-2007 period.

The main findings indicate that differences concerning the accounting basis are the most relevant and that the subsequent adjustments have a considerable impact on the Portuguese Central Government deficit. This research points therefore to the need for more convergence between GA and NA, namely with respect to the transactions recognition criteria in order to use a common accounting basis, and for a complete and coherent reporting information system in GA.

Classificação JEL: H61, E62
1. Introduction

The existence of Governmental Accounting (GA) can be traced to centuries ago. It was initially viewed as an important tool in the transition from an «absolute-power» model of government to new forms of shared power. By then rulers had to count their expenditures in order to know how much taxes to collect. GA was then an instrument for the People to limit the Sovereign’s power to spent public money, to collect taxes and to decide on the type of expenditures (Borgonovi and Anessi-Pessina, 1999). National Accounting (NA), in turn, is much more recent, and accompanied the emergency of macroeconomics after the Great Depression, although the elaboration of a system of National Accounts was not made possible before the World War II, when for the first time issues regarding an internationally harmonized system were raised, leading to the first United Nations System of National Accounts in 1953, followed by revisions and new editions from 1960 to 1993 (Jones, 2000; Vanoli, 2005).

The purpose behind both systems seems to have been totally different: while GA has always aimed at preparing and managing the Government’s budget, NA was aimed at calculating the key aggregate indicators (e.g. gross domestic product, volume growth, national income, disposal income, savings and consumption) so that the whole national economy could be evaluated, including comparisons with other countries’ aggregates (Bos, 2008).

NA highlights the transactions between national institutional sectors (non-financial corporations, financial corporations, General Government, households and non-profit institutions serving households) and between them and other Nations, for the purposes of external accountability and decision-making at political and macro level (Cordes, 1996). NA systems work over an economics-based conceptual framework, whereas an accounting conceptual framework underlies GA systems (Pinto and Santos, 2005).

Therefore, one may argue that NA is not a true accounting system in the sense it is understood in business accounting, that is, it does not allow recording and reporting on each governmental entity’s (separately or as a group) budgetary, financial and economic situation, as GA does, especially if one considers that the latter has started to follow business accounting principles and techniques, providing information for purposes of control and accountability (Jones, 2000). In any case, NA computes macro aggregates for a Nation as a whole and by institutional sector, including the General Government Sector. The source for these data is naturally the accounts at micro level, hence the relationship between the two systems and the need for a certain alignment, at the least, on the basic principles (Jones and Lüder, 1996; Lüder, 2000; Jones, 2000).

The relevance of studying the relationships between Governmental Accounting (GA – microeconomic perspective) and National Accounting (NA – macroeconomic perspective) has been underlined by several authors, such as Cordes (1996), Jones and Lüder (1996), Lande (2000), Lüder (2000), Jones (2000), Montesinos and Vela (2000) and Keuning and Tongeren (2004).

The main issue that arises within the EU countries concerns whether the current Governmental Accounting systems are able to meet the requirements of the European System of National and Regional Accounts (ESA95), namely in what relates to the data provided by the General Government Sector (GGS), according to the definition of institutional sectors in ESA95 (§ 2.17). This is particularly important inasmuch as it has been politically established within the EU Treaty regarding budgetary discipline, that the convergence criteria would be assessed using data from the member-States’ (harmonised) NA and not from GA, having the deficit limits been defined based only on the GGS (applying GA) and not on the whole economy (Jones and Lüder, 1996; Jones, 2000).

This aspect is very relevant to Portugal as well, as the country, as an EU member state, has to prepare the National Accounts according with ESA95 requirements, and to accomplish with the convergence criteria of the EU Treaty regarding budgetary discipline. Furthermore, the