THE PUBLIC BUDGET - FROM EQUILIBRIUM TO IMBALANCE

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Abstract

For many countries, in recent decades, a characteristic feature of public finances was the budget imbalance, so the situation in Romania in recent years does not appear to be out of the question. Taking into account the fact that the fiscal-budget flows are formed and operate on the real circuit of the economy, they are influenced by decisions of economic, political, social or personal nature. A high-performance of fiscal policy must know and anticipate the potential disruptive factors for the public budget in order to adopt "on the go" measures to limit and counteract the adverse effects that may arise.

The budget deficits that have succeeded in our country since 1989 are chronic. These are not dangerous simply because they prove the lack of financial means for the normal functioning of the state, but rather the complexity of the factors that have generated and maintain them, as well as the financial and economic implications that follow.

Key words: budget balance, budget deficit, public expenditure, public debt, fiscal policy

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Introduction

As no economy is perfect, the optimal running of fiscal-budgetary flows can be affected by the manifestation of disturbing factors that may occur throughout their development. In many countries at different stages of development, there are malfunctions and imbalances in fiscal and budgetary flows: budget deficit, tax evasion, increased fiscal pressure, public debt accumulation, subsidies etc. In transitory periods, on the backdrop of less well-grounded regulations and free-market training, apart from the above, may arise: arrears (including tax ones); special extra funds and sustained for a long time; the low tax collection rate, due to the degradation of financial discipline and the inadequate dimensioning of budgetary indicators.

Each of these aspects may be the subject of a separate study addressing the generating factors, the magnitude of the manifestation, the length of time, the connections and the effects produced on the economic and financial processes as a whole. In this paper, we will only discuss about some of these to signal their disturbing effect on the public budget.

1. Budget deficit

In general, the budget deficit is formed on the background of some malfunctions in the real economy, generating, perpetuating or deepening, in turn, imbalances in the economy. The public financial deficit is one of the forms of manifestation of the general economic imbalance, as the balance between public revenues and expenditures has been affected by the imbalance between demand and supply of goods, services and labor, the discrepancies between the money income of the population (often eroded by inflation) and its living needs, the differences between the need for foreign exchange resources and the possibilities of purchasing them. The public budget deficit is also deepened by the influence of the results of companies that conclude their activity with modest profits and losses, delays / refuses to pay the taxes, fees and contributions due (already withheld to employees), postpones the payment of suppliers or loans to banks, generating chain debt in the economy. Sooner or later, these behaviors directly or indirectly propagate their influences on the balance of public budgets.

In terms of budget revenues, failure to achieve them at the projected level causes a number of negative effects in the economy, which are reflected in the budgetary balance.

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Induction of chain reactions reduces the possibility of unilateral effective intervention by the budgetary authority, requiring concerted, long-term actions in the real economy, banking and fiscal-budgetary framework. Thus, in addition to being unable to pay their tax obligations to the public budget, loss-making businesses are consuming public finances through subsidies - who lose their ability to act as a leverage, which leads to the failure of economic policy measures in certain periods. Often, in order to put banks out of the loop, the decision-makers have resorted to the non-performing loans for public debt, affecting the subsequent budgetary exercises.

The emergence and maintenance of budget deficits is a natural consequence of rising public expenditures - a consequence of the evolution of society - at a faster rate than rising gross domestic product and public revenues[2]. From the status of the "golden principle" of the budget, the budget balance rule gradually lost ground to the idea of balancing the budget over periods of more than a year, or even to the creation of deficits to be used for economic recovery.

The budget deficit is public expenditure incurred on the domestic and external public borrowing. Any debt must be paid at maturity, plus additional expenses related to the launching and reimbursement of the loan. If the budget deficit covers expenditures for the maintenance of an administrative apparatus inappropriate for the economic and social situation of the period or unjustified economic or social costs, then the budget deficit produces a waste of social effort which will, without any benefit, press on the task of budgetary exercises subsequent.

Corresponding to Keynesian demand-side economics, public spending can be a driver of economic recovery through the multiplier of budget expenditures. In this situation, the budget deficit can be an important source of direct economic growth and economic growth in general under certain economic and financial circumstances.

It has been found that policies of economic recovery through budget deficits or increasing public spending have a limited impact, sometimes even adverse to growth and employment. Thus, in order to finance its expenditures, the state borrows on the capital market, amplifying the demand for financial funds, which increases the interest rate. In addition, there is a phenomenon of evasion of private investment that counteracts or offsets the impact of public spending on global demand for goods and services, and by creating currency, destabilize the monetary system and increase prices. Also, if with inflation there is also an increase in wages, not only does not achieve the desired job creation effect, but it can even produce the opposite. Although public spending can be productive by providing services and increasing national wealth in future periods, the stock of productive assets belonging to the state is continuously degrading.

The Keynesian economists' reasoning - according to which the recovery through budget expenditures accelerates economic activity, increasing the circulation rate of the currency and implicitly the saving, so that the budget deficit can encourage private spending - worked under certain conditions: the existence in the economy of important unused financial resources; insufficient development of the hoarding instruments, which has facilitated the financing of the budget deficit through the issuance of government securities; reduced capacity to anticipate economic behavior; and reduced communication speed.

The success of the theory depends on the concrete conditions of the market, the type of measures and their intensity, as well as the structure of the country's economy. Thus, we consider that the Keynesian guidelines had their glory in the 1950s and 1960s, justifying the

[2] The patterns of public spending development have, over time, had many followers. Since 1880, Adolf Wagner has stated "the law of the increasing expansion of public activities and, in particular, of the state", according to which the increase of public expenditures in all economic activities is related to a number of factors: industrialization, modernization of economy, demand for goods collective or quasi-selective, which is elastic to income, as well as the inefficiency of private firms.

term "Keynesian Revolution" when objective factors (low inflation, high saving, insufficient financial market, capacity and speed of information reduced) but also subjective[3] have enabled their success and the influence of recovery policies on economic activity and job creation, over short periods of time.

As a result of the impact of expectations in the economy, and especially in the case of inflation, contrary to the Keynesian vision, it was noted that economic agents do not react passively to recovery policies, but adjust their behavior according to their forecasts of prices and incomes, learning from mistakes. By the phrase "in the short term, we are all Keynesians," Milton Friedman admits that fiscal and monetary policies can influence economic growth and job creation in the short term.

The adepts of rational anticipations have taken this reasoning by claiming that people can not be systematically deceived, and they obtain very quickly and using any information about economic conditions. As a result, individuals quickly adapt their behavior to new information, which causes macroeconomic policies to be ineligible on budget, tax and currency. In the eyes of school of rational expectations followers, this type of policy is doomed to failure, both in the short and long term, as employees, entrepreneurs, investors and consumers adapt to changing environment and change their attitudes whenever a new policy is put into practice, so only unanticipated policies can have real effects.

Also, if the expected positive outcomes (growth and employment) are limited in time, negative outcomes (cost of measures), especially inflation, manifest and persist for much longer periods. Hence, it is necessary: to set, to announce and to maintain medium and long-term credible targets on the evolution of taxation, public spending, money supply and other market reforms - which is consistent with the concepts of monetarists. As a consequence, one should limit the application of short-term policies that are incapable of influencing economic activity and job creation in a sustainable manner and, on the other, focusing on measures of medium- and long-term economic policy, characterized by stability and predictability.

As Nouriel Roubini said, "inflation is always and everywhere a fiscal phenomenon ... In the face of a structural deficit, trying to reduce inflation by issuing bonds rather than by issuing money leads to an increase in public debt that will force the government at a certain time (when the debt ceiling is reached) to resort to monetization of the deficit, which will generate inflation. Thus, inflation is a fiscal phenomenon and its avoidance is not possible as long as the issue of the structural budget deficit is not addressed ... Consequently, the immediate cause of high inflation is always monetary, as inflation is associated with high growth rates of aggregates but the real structural cause of high inflation persistence is often a fiscal deficit that is not eliminated by budget cuts and / or tax increases ... ". (Nouriel Roubini, 1998)

In Romania, over the last decades, public loans to finance the budget deficit contracted from the domestic market had an unfavorable influence on the money market, as they contributed to raising the interest rate on the borrowing capital, thus increasing the credit for the real economy. In order to obtain the necessary resources on the public lending path, the state offered potential creditors higher interest rates than commercial banks, which was even more damaging to the economy, as the main purpose of public lending was to cover expenses consumption - mainly salary - and, to a lesser extent, capital expenditures.

[3] The so-called "Keynesian Revolution" was determined by a series of objective factors linked to the demands that the interwar economic crisis had on economic science and the contribution of J.M.Keynes to meeting these requirements. The success of Keynesian theory was also favored by subjective factors; referring to them, H. Jonson (Jonson H., 1972) notes with no irony that JMKeynes's theory was sufficiently iconoclastic to abolish the recognized economists' authority and sufficiently unexpected to surprise and marginalize the followers of theory classics, which he found unprepared to give an adequate response (C.A. Pigou, D. Robertson etc.). Unlike them, the new generation of economists (A. Hansen, J.R. Hicks, J. Robinson etc.), still insufficiently stated, found in the new theory a field that they could impose quickly and, using this opportunity, contributed from full of consecration of that theory.

Although the budget deficit in Romania had an increasing trend and the chance of rebalancing the budget over a long period is modest, the public authorities did not outline a financing strategy for it. The lack of a strategy for combining sources of financing the budget deficit in recent years has led to major changes in legal regulations, limited capacity to source available financial resources, high costs in deficit financing, and ultimately, additional inflationary pressures.

Internal financing of the budget deficit was mainly made from the surpluses of other treasury accounts and, secondly, by the inclusion in the treasury of accounts that were not initially considered (the case of the unemployment fund and of the supplementary pension).

It should also be noted that the Ministry of Public Finance also faced the Court of Accounts' ban on making loans when it was available in the Treasury (under the pretext of protecting public money), which would have allowed it, at certain times, to benefit from favorable market conditions. "As a result, instead of being proactive and counter-cyclical, the Ministry of Finance was reactive and pro-cyclical - which impeded the formation of a liquid market of government securities and substantially increased their cost". (Rădulescu Eugen, 1999)

2. Public debt

Public debt is the result of the evolution of budget (im)balance, so it can be said that its negative repercussions are, in fact, the direct consequences of budget deficits. Accumulating a high level of public indebtedness has negative effects on real economic activity, due to the fact that:

- involves a high debt service and a downturn in order to finance the budget deficit;
- puts pressure on the level of the interest rate in the direction of growth, which discourages private investment;
- diminish domestic saving and foreign investment in the country, postponing the potential growth of production;
- reduces the credibility of government policy, leads to rising risk premium, fueling monetary expansion and inflation;
- increases the vulnerability of the economy to shocks, while restricting budget policy flexibility;
- generates slowdown in labor productivity growth mainly due to reduced investment and slower growth of capital stock.

According to the convergence criteria established by the Maastricht Treaty, the level of public debt considered acceptable for European Union member states is 60% of GDP. The degree of indebtedness in 1999 was in Romania at 34.7%, well below the level set by the Treaty. At that time, the specialists warned: "But this should not calm us, because the foreign public debt service of our country shows significant increases from one year to the next, while neither gross domestic product nor exports are keeping pace with reimbursements of external credits, nor with interest and commissions related to external public debt". (Iulian Văcărel, 2001) In 2015, Romania's public debt amounted to 38.4%, which confirms previous fears about its growth trend.

The choice of financing sources, the extent to which they will be used, the consequences and who will support them becomes an issue that is more difficult to solve, as the increase in public debt increases the cost of financing.

Public debt (internal and part of the external public debt administered by law through the state budget) is the natural consequence of the budget deficit accumulated during successive budgetary exercises. By public debt, future earnings are being spent at the moment. Public debt is a financial burden for subsequent budgeting, which will be perceived by future generations as an additional tax burden (transfer of value between generations according to the classical concept) if there is no increase in gross domestic product over time and of the income of the population. It would be possible for the public debt note not to fully recover to future generations, unless for its pay, the present generation would make efforts to production re-launch, work more and reduce their living standards (offsetting the excess of public spending) deficit "is no longer a deferred tax. It's simply a diffuse tax". (Jean Rivoire, 1992)

To prevent the escalation of domestic public debt, it is also necessary to use it as a tool for managing the money supply in the economy, which would give it an active role. For this, at the level of the Ministry of Public Finance, a dynamic financing strategy can be developed, both for the chronic budget deficit and for the current treasury deficits. In this sense, it is necessary to change the role and amplify the Public Treasury's attributions, which at present has an exclusively passive role, functioning as a "simple financial relay" (Emil Călin Dinga), which determines that the surpluses recorded are not fructified, and deficits lead to government loans generating internal public debt. As the Public Treasury manages large fiscal-budget flows, we believe that it can be given limited bank credit responsibilities specific to treasury activity to enable it to actively and efficiently manage current account surpluses / deficits (including management related risks).

3. Arrears and degree of tax collection

It has emerged since the beginning of the 90s, due to some deficiencies in the lawmaking, development and control of financial relations, the arrears have gained a great deal in the next period, immediately finding their place in the Romanian economy, a fact remarked by specialists: "Stabilization policy caused the growth of arrears in the economy, which, without being part of the money mass, took over some of its functions, respectively overcoming the money crisis and flexibility of the money circulation". (Stoica Victor, 1998)

Given the frequent occurrence of incapacity for payment, arrears have become a form of pseudo-liquidity that allowed them to continue their activity (Eugen Rădulescu, 1999). The global clearing solution in question has had the effect, on the one hand, of increasing inflation and compromising the foreign exchange mechanism introduced in 1991 (increasing the demand for currency and lowering the level of its repatriation on exports) and, on the other hand, maintaining the behavior which has led to the creation of arrears, through the government's tolerant attitude towards financial indiscipline. Periodically, some components of the quasi-fiscal deficit were explicitly recognized by the authorities, being taken over by the public debt (the losses accumulated by the Agricultural Bank and Bancorex resulting from the preferential financing of agriculture and energy).

Given the major risk of the accumulation of losses and arrears in the sector of companies where the state is a major shareholder in fiscal and budgetary sustainability, public authorities have had to intervene with public resources, which has led to a deterioration in the public finances situation, respectively by increasing the budget deficit. Thus, starting with 2000, the reduction of arrears of state-owned companies was among the Government's concerns, these being monitored, including within the framework of agreements concluded with international financial institutions.

Most of the arrears of state-owned companies were to the consolidated general budget, especially to the social security budget, as opposed to private companies whose arrears affected mostly suppliers. Beyond the direct fiscal and budgetary consequences that arrears of state-owned companies generate - by depriving the consolidated general budget of the revenue due - the accumulation of outstanding payments to the private sector is likely to create liquidity problems and hinder economic growth. Operating them under conditions of low financial discipline harms the business environment, with direct and indirect impact on public finances.

In 2013, the top 10 hierarchical state-owned companies in terms of outstanding payments amounted to more than 60% of the total arrears of state-owned companies, being concentrated in particular in the rail, mining and chemical industries. (Fiscal Council, 2016)

If until 2013, the rate of decrease in arrears was relatively slow, after the implementation of EU Directive no. 7/2011 on combating late payment in commercial transactions (Law No 72/2013), as well as other legislative measures[4] taken in recent years to reduce the stock of arrears, in recent years there has been remarkable reduction in outstanding payments of the consolidated general budget (from 3.8 billion lei in 2012 to 0.5 billion lei in 2016).

It is also worth mentioning the progress made in recent years in making the tax collection administrative apparatus more flexible and efficient, on the one hand, by reducing their number at the central level (while increasing the number of employees within them); and on the other hand, in terms of the ease with which the taxes are paid. We consider it necessary to continue the effort to reduce both the number and the staff at the level of the local structures, as Romania is still above the average of the new European Union member states on the number of financial administrations per inhabitant.

The reduced collection of compulsory deductions[5] is transposed into public revenue streams below the amount foreseen by the annual budget laws, so they will not be able to finance the projected level of budgetary flows, which creates an imbalance in the overall fiscal-budgetary circuit.

The low level of public revenues in Romania and the increased discrepancies between the projected and the realized level of revenues, especially those of a fiscal nature, are determined not by the reduced taxation, but also by the low level of tax collection. In this context, it is of particular importance that the fiscal revenues are dimensioned on realistic basis within the framework of the consolidated general budget links, as well as their equitable distribution by categories and groups of taxpayers.

The need for realistic dimensioning of tax revenues is closely related to the payer's real contributory capacity and is based on at least two major considerations: on the one hand, to avoid worsening the taxpayer's financial situation with repercussions on saving and, on the other hand, so that budget policy does not rely on illusory revenues that can generate or increase budget deficits.

The oversupply of the tax liabilities of economic agents has at least two major effects: (1) the failure to achieve the tax revenues in the envisaged amount, which leads to an increase of the gap between the public revenues and expenditures and (2) the discouragement of the economic agents from paying the mandatory levies set in a volume that exceeds their contributory possibilities.

Conclusions

This paper attempted to briefly present some of the problems faced in recent decades by the financial practice in our country. The existence of some of them can be considered as objective, given that phenomena such as public debt, budget deficits, fiscal pressure above the optimum level were also manifested in economically developed countries. We believe that, in order to solve them, the authorities in the field had to demonstrate transparency and cooperation with foreign specialists so that we could benefit from the experience gained by other states and implement the necessary measures in due time.

[4] Among these legislative measures we mention: GEO no. 29/2011 for the regulation of the payment schedule; GEO no. 3/2013 which restricts the possibility for local authorities to contract new loans strictly for extinguishing arrears; GEO no. 12/2013 which introduced a mechanism for the settlement of reciprocal payment obligations

[5] According to the Fiscal Council's calculations regarding the degree of collection of revenues to the budget by categories of taxes, four of the main taxes (income, profit, social security contributions and excises) are at approximate 80%, while VAT is decreasing and tends to 40%.