

STRUCTURE OF EU SPENDING. COMPARATIVE APPROACH

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Abstract:

In recent years, many researchers have turned their attention to the changes that have occurred in Romania after the time of its EU accession.

The comparative analysis of the evolution and composition of public spending and fiscal policy in the European Union is a theme that aims at addressing the basic features of an economy's financing areas: education, health, culture, social security, national defense and identifying Romania's ranking within the EU 28.

Key words: *public spending, financing areas, fiscal policy.*

JEL Classification: H10, H50

1. Introduction

A state, irrespective of how it has evolved along the history, has been and still is the best structured solution to the issues generated by the complexity of the world one lives in. Aspects related to deeper social gaps, the increase of social demands against the decrease in the resources meant to finance them, the increasing dependence of man and organizations to technology, the emergence of threats upon people's security and health all make it necessary for a state to intervene in its economy.

In order to ensure the financial support of all these needs, a state requires financing; a fiscal system plays an important role in this respect.

The way an economy's fiscal system is implemented in accordance with the principles of taxation (neutrality of fiscal policies, certainty of taxation, fiscal equity, and efficiency of taxation) reflects the economic, social and political strategies promoted in a certain country. On the other hand, the way public funds are allocated according to purposes outlines the basic features of an economy's financing areas: education, healthcare, culture, social security, national defense.

2. Structure of Romania's Public Spending

By means of its public spending, a state covers its public needs for roads and services regarded as priorities at any time.

Public spending may be seen as representing economic-social relations in a monetary form between a state on one hand and society members on the other, in the context of state financial resource allocation and use under the circumstances where a state pursues the fulfillment of its roles and of the society's general needs.

Public spending takes place in the form of payments made by a state from resources deployed in various ways, in order to purchase goods or render services needed for the accomplishment of various goals envisaged by a state's policy: general public services, social-cultural acts, army maintenance and keeping up of the entire military activity, domestic public order, social security, economic activities etc.

What is specific to public spending is much more diversity at present. Some expenses manifest directly by the state's financing of public institutions in order to operate. Others influence the economic and social environment and therefore they are the tools of a policy changing the respective environment so that to improve it. Since it is used as an intervention tool, public spending should be analyzed not only from the perspective of the field it occurs in, but also in terms of the influence it can have upon the general process of social distribution.

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The analysis of public spending mainly pursues the collection of pertinent information related to the former's progress.

In order to analyze the dynamical and structural changes of public spending, the author of this article has used information taken from the official web site of the Ministry of Finance regarding the changes in public spending ever since 2000.

Table 1. Absolute Value Public Spending during 2000-2013

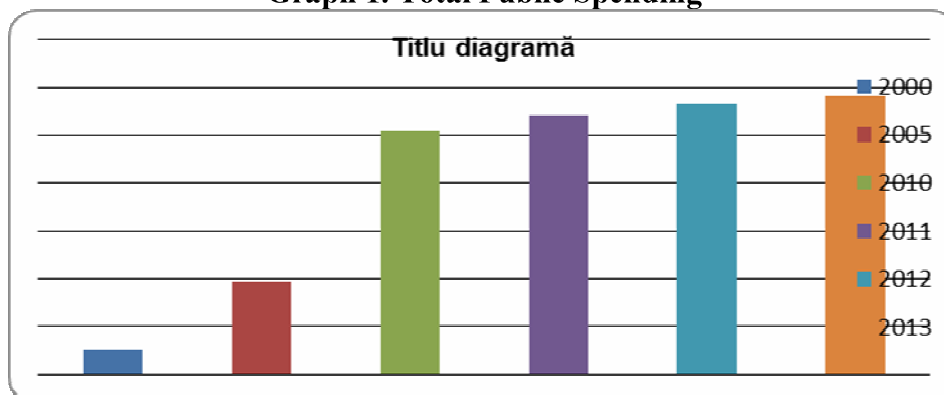
-in thousand Lei-

Indicators	2000	2005	2010	2011	2012	2013
Total public spending	10,429,689	38,778,688	101,678,400	108,481,950	112,920,380	116,359,340
General public services	729,739	5,783,868	32,639,623	42,106,387	43,203,998	48,160,084
National defense, public order, and security	2,510,324	10,246,492	15,756,360	14,604,872	15,327,511	16,848,288
Social and cultural spending	3,807,464	12,458,554	30,579,238	26,087,319	26,694,242	26,521,483
Public services and growth, housing, environment and waters	365,778	994,426	2,707,090	3,024,291	3,922,803	2,889,993
Economic acts	3,016,384	9,295,348	19,996,089	22,659,081	23,771,826	21,939,492

Source: prepared by the author based on the information accessed on www.mfinante.ro

There is a noticeable ongoing increase during the time interval in question related to the amounts of public spending. Since spending is an effort indicator, its increase can be seen as unfavorable, yet due to such spending's being justifiable, its increase is accepted. In the basic year 2000, public spending amounted to 10,429,689 thousand Lei whereas this year, namely in 2013, it has reached 116,359,340 thousand Lei. It can be noticed the value of spending has become almost twelve times higher.

Graph 1. Total Public Spending



Source: prepared by the author based on previous tables

The structural analysis of the changes in public spending during 2000-2013 reveals the information below:

Table 2. Relative Value of Public Spending during 2000-2013

- in thousand Lei -

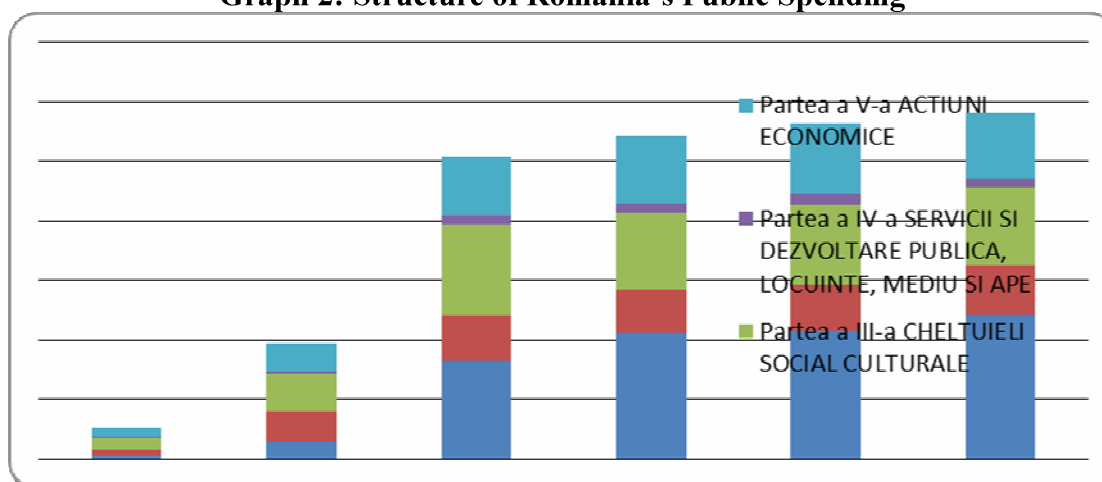
Indicators	2000	2005	2010	2011	2012	2013
TOTAL PUBLIC SPENDING	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
GENERAL PUBLIC SERVICES	7.00%	14.92%	32.10%	38.81%	38.26%	41.39%
NATIONAL DEFENCE, PUBLIC ORDER, AND SECURITY	24.07%	26.42%	15.50%	13.46%	13.57%	14.48%
SOCIAL AND CULTURAL SPENDING	36.51%	32.13%	30.07%	24.05%	23.64%	22.79%
PUBLIC SERVICES AND GROWTH, HOUSING, ENVIRONMENT AND WATERS	3.51%	2.56%	2.66%	2.79%	3.47%	2.48%
ECONOMIC ACTS	28.92%	23.97%	19.67%	20.89%	21.05%	18.85%

Source: prepared by the author based on the information accessed on www.mfinante.ro

The share of spending categories during 2000-2013 has been as follows:

- spending on general services meant in 2000 7% of total spending and in 2013 has reached 41.39% of total public spending;
- national defense, public order, and security were 24% of total public spending in 2000, and have dropped to 14.48% of total public spending in 2013;
- social and cultural spending was 36.51% of total public spending in 2000, whereas in 2013 it has plummeted to 22.79% of total public spending;
- spending related to public services and growth, housing, environment and waters used to be only 3.51% of total public spending, whereas in 2013 it has been 2.48% of total public spending;
- spending related to economic acts was 28.92% of total public spending in 2000 and it is 18.85% of total public spending in 2013.

Graph 2: Structure of Romania's Public Spending



Source: prepared by the author

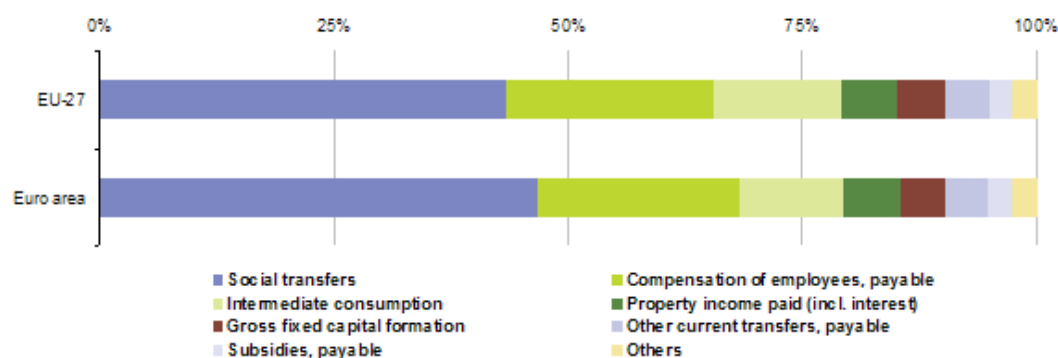
Legenda: Part 5: Economic Acts / Part 6: Public Services And Growth, Housing, Environment And Waters / Part 3: Social And Cultural Spending / Part 2: National Defence, Public Order, And National Security / Part 1: General Public Services

3. Structure of Public Spending in European Union Member States

In order to estimate the structure of public spending in the European Union member states, the author has used the data available for the year 2011.

Most public spending in the EU-27 in 2011 was the redistribution of incomes in the form of social transfers in cash or in kind.

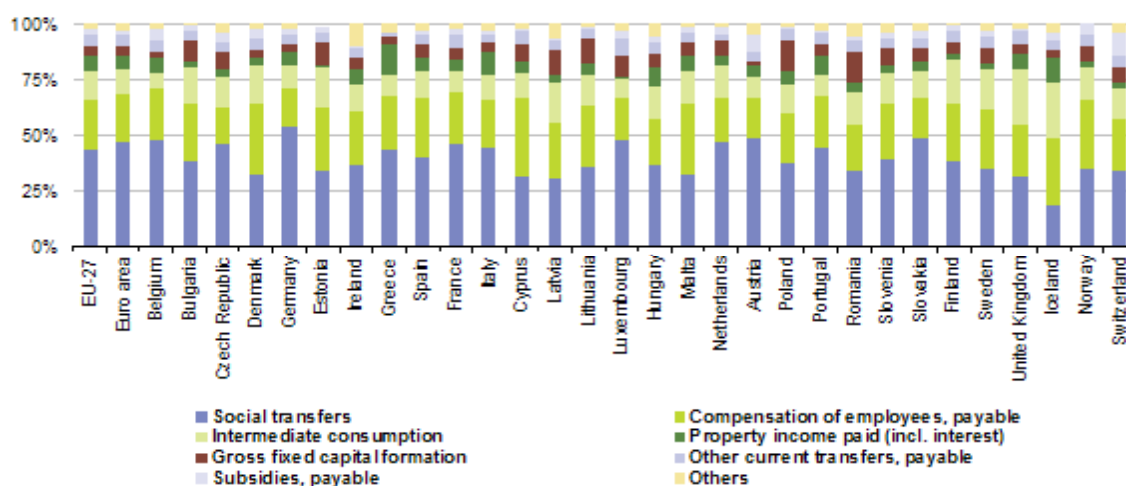
Graph 3. Structure of Public Spending in the EU-27



(1) Data extracted on 22.10.2012.
Source: Eurostat (gov_a_main)

Social transfers were 43.4 % of the total spending in the EU-27 (46.8 % in the Euro Zone). Compensating the employees was 22.1 % of public spending (21.4 % in the Euro Zone).

Graph 4. Structure of Public Spending in the EU – Country Particularization



(1) Data extracted on 22.10.2012.
Source: Eurostat (online data code: gov_a_main)

Analyzing each state's public spending provides the following information: in terms of the social transfers in Romania, they rank below the average of the European Union, exceeding Ireland, Great Britain and Latvia. Those ranking high above the EU average (43.4%) are developed economies such as Germany, Luxembourg, Austria etc.

Employees' compensation is in Romania quite low as compared to the situation of other countries below the EU average. Shares above the average are in Northern European countries and in others such as Cyprus and Malta.

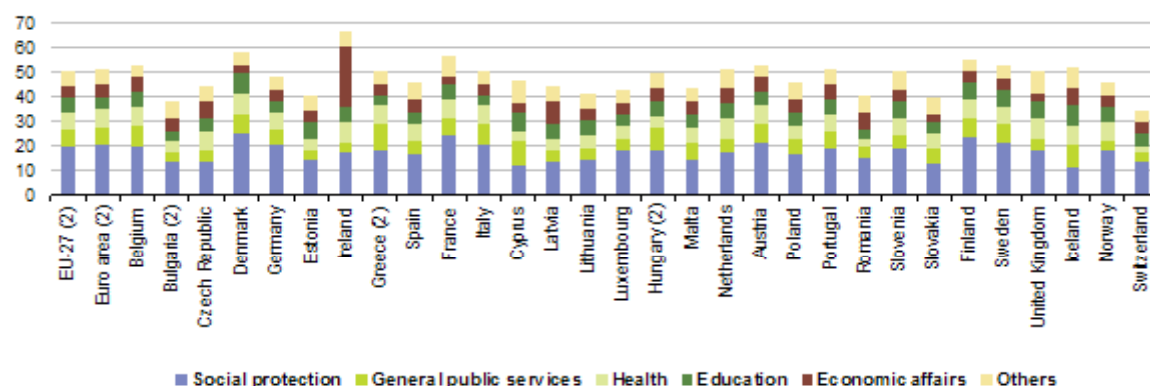
Property incomes paid – of which most are by far the interest payments – were 6.0 % of the public spending in the EU-27 (6.1 % in the Euro Zone), a percentage which rose to 13.9 % of total spending in Greece and 10.9 % in Iceland.

The spending of general public administration can be analyzed in more details by means of the classification of public administration positions (Ro. CFAP).

The classification of government positions, short CFAP, was developed in 1999 in its version as it is now by the Organization for Economic Cooperation and Growth and issued by the Statistics Directorate of the United Nations as a classification standard for governmental activity purposes.

In 2011, social security steps were the most part of public spending in all the EU member states, at a 19.9 % average of the GDP in the EU-27. This pattern has been representative to all the member states except Ireland where the capital transfers to support the Irish banking sector have influenced the high share of the “Business” function. The share of the “Social Protection” function has varied from 25.4 % of the GDP in Denmark, 24.2 % in France and 23.9 % in Finland, respectively, down to 11.7 % in Cyprus and 11.2 % in Iceland. The following CFAP functions in the order of their relative importance in the EU-27 have been healthcare (7.5 % of the GDP), general services of public administrations (6.5 %) and education (5.5 %). The spending related to economic affairs in the EU-27 was 4.7 % of the GDP in 2010, whereas to each function such as public defense, order and safety, environment preservation, housing and community business, recreation, religion or culture less than 2 % of the GDP has been affected (all these functions are grouped as “Others” in Graph 5).

Graph 5. Structure of Public Spending According to Government Position Classification



(1) COFOG: classification of the functions of government; data extracted on 22.10.2012.

(2) Provisional.

Source: Eurostat (online data code: gov_a_exp)

The spare efficiency related to budgetary spending is very high. For instance, Romania has been allocated the largest amount of investment-related expenses as a percentage of the GDP (and as a percentage of total budgetary revenues) of all the EU countries during 2002-2012, yet Romania’s outcomes were modest due to the fact that it has the weakest infrastructure in the European Union. Countries such as Poland, Hungary, Bulgaria, Slovakia and Slovenia with lower investment expenses have a better quality infrastructure.

The example above clearly shows that money was spent inefficiently. One mitigating circumstance is the low level of the GDP and the initial quality of the infrastructure in Romania.

4. Conclusions

An important aspect that is worth mentioning is that due to approaching the indicators in their relative terms, as a share of the Gross Domestic Product, the latter varies significantly from one country to another. Thus, Romania and Bulgaria have a GDP per capita which ranks a little lower than 50% of the average in the EU-27. Luxembourg has the highest GDP per capita and it is by far a leader in this ranking, with a GDP twice and a

half higher than the average in the EU-27 and six times higher than the GDP in Bulgaria and Romania which are the poorest EU member states with respect to this indicator. Under such circumstances, one cannot assign data comparability too high a degree.

It can be estimated that the structure of Romania's budgetary spending is characterized by the prevalence of consumer spending to the detriment of investment. The expenses belonging to the first category primarily include expenses related to salaries and social care (pensions, welfare), thus being part of the trends in other European Union member states.

The poor status of the public pension system is the major vulnerability of public finance as the share of this spending category in total revenues is still too high. Applying the new pension law should support on medium term the goal to decrease the share of this spending category in total budgetary incomes. From the perspective of medium- and long-term sustainability, it is important that a prospective salary spending increase in the budgetary sector during the coming years should take place only in compliance with the changes in economic performance and particularly with productivity gains. Therefore, a major issue Romania is currently facing is the deficit of social insurance budgets which has become more critical and more significant in the total deficit.

Thus, the deficit reported in the public pension system greatly affects the status of public finance and it means a relevant risk in terms of fiscal policy sustainability on medium- and long-term.

Careful attention should be given to fiscal policy, too as it is the one generating the most part of resources needed to finance public spending.

Romania's accession into the European Union has been a desideratum that ever since mid 1990's has marked the tax policy of our country. In practical terms, Romania's path towards the European Union started on 1 February 1993, the date of concluding Romania's EU Joining Agreement and was fulfilled on 1 January 2007, the date when it was granted the status of an EU member state.

All throughout this time interval, the fiscal system reform has been in progress with its main purpose to remove inconsistencies and to harmonize goals such as turnover, efficiency and equity that characterize an ideal fiscal system. One of the main goals of the fiscal reform in this context is harmonizing the legislation which has envisaged the consideration of economic, social and political structures of our country. An important step to accomplish the fiscal reform was the approval of Law 571/2003 regarding the Fiscal Code, a normative act that has combined all the taxes applied on our country's territory. It means the legal framework for the incomes and taxes that contribute in the public budget and local budgets, it states the taxpayers that are due to pay them and it sets their calculation and payment methods.

Unfortunately, even though in terms of principles the fiscal legislation has been harmonized with the provisions of the European Union, the reform of the fiscal system cannot be regarded as successful. Specialists, irrespective of their political beliefs, agree with one aspect: the fiscal policy has shortcomings and directly affects the economy.

The fiscal pressure in Romania is around 33%. As compared to developed countries in the European Union where the value of such an indicator exceeds 40-45%, at first sight, one might estimate that it is low. Yet, Romania's GDP reaches around 140 billion Euros which ranks our country as having a GDP per capita a little below 50% of the EU average. Under these circumstances, a 33% fiscal pressure can no longer be regarded as a sound fiscal policy!

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