

Impact of the financial-budgetary balance on the economy

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Abstract

The state budget is, after all, an accounting document. An early form of it shows the predicted public revenues and expenditure during the subsequent financial exercise. The true dimension of the budget appears, however, after implementing the fiscal policy of the government in order to answer the necessities required by the economic growth or shrinkage, as determined by the domestic or foreign circumstances. Question is: how important is it to maintain a balanced public budget? The opinions on this matter are increasingly divergent.

Keywords: budgetary deficit; budgetary expenditure; budgetary levers; deficit financing; labour market

JEL codes: E62, H6, J21.

Introduction

The **budgetary deficit** became, within the modern society, a quasi-usual phenomenon, on the background of larger public expenditures and deteriorating financial situation in many, more or less, developed countries.

The existence of the budgetary deficit can be the effect of several causes, the most important ones being:

- Important decrease of the production of goods and services within the economy;
- Expansion of the “informal”, unfiscalized, sector of the economy;
- The excessive increase of the public expenditure is the main reason for the budget imbalance, particularly when this increase is not accompanied by a proper collection of the revenues to the budget.

Part of the theoreticians of this time, even the late Keynesian theories, after the moment when the market economy was introduced, started to take into consideration a possible imbalanced construction of the budget. After 1990, Romania assumed this practice, of constructing the budget with a deficit.

Under the current conditions of economic activity in which, most times, the need for financial resources exceeds the existing funds, budget construction is a major problem, particularly when the principle of the budget balance has to be observed. Generally, the levels of the revenues to and expenditure from the budget are affected by the

state of the economy at a particular moment. When the economy is on a downward slope, the budget tends to have deficit because of the lower revenues, which don't match the planned expenditure.

2. The principle of fiscal policy

A “quality” budget deficit¹ meets two compulsory conditions:

- The deficit is fully reflected in investment expenditures, particularly in developing the infrastructure;
- The deficit covered from sure financial sources, so as not to use inflationist monetary emissions.

The approaches regarding the size of the budget deficit, the means of financing and, particularly, the size of the public debt, are extremely different due to the specificity of each economy. Under the conditions of the current financial and economic crisis, the opinions on these matters grow in number and diversity.

In most cases, **budget equilibrium** is not achieved automatically, by covering the expenditure from the budget by the revenues to the budget. Budget equilibrium presumes an optimal ratio of the budget revenues to the public expenditure.

The classical theoreticians, as well as those after Keynes, *determined the impact of the financial-budgetary equilibrium on the economy function of the equilibrium between the revenues and the expenditures.*

The 2011 summit of the European leaders decided to strengthen the budgetary discipline of the countries from the Euro zone and, particularly, to impose rules that have constraining power, regarding the return to the budget equilibrium, with an automatic correction mechanism in case of sideslip.

The countries signatory of the Fiscal Pact must endeavour to achieve budget equilibrium throughout the period of an economic cycle, defined as structural deficit of 0.5% of the GDP.

During this cycle, the authorized annual limit for the public deficit was set to 3% of the GDP, while the ceiling of the total public debt to 60% of the GDP.

European Commission prognoses for 2016 show that the number of countries which will spend more than allowed by EU legislation, might be the lowest of the recent years.

The best administered budgets will be, in 2016, those of Luxemburg, with a deficit of 0.4%, followed by Estonia (-0.1%) and Germany (-0.2%), which will have surpluses.

In the case of Romania, the European Commission anticipated in the country report², that the budget deficit will reach 3.8% in Romania by 2017, while the public debt will exceed 40% of the GDP.

If the budget expenditure is used mainly to meet the redistribution function of the state and towards subsidies, in the absence of a real multiplication coefficient, the state of the budget deficit worsens.

Thus, within the current context, when the aim is to identify and support those branches and sub branches of the national economy which can be developed within the world economy, one of the basic decisions regarding the interpretation of the economic processes is the adoption of the dynamic and creative concept, which takes into account both the requirement of using the fiscal levers within the policy of economic

¹ https://ro.wikipedia.org/wiki/Deficit_bugetar

² European Commission country report.

development, and the possibility of changing the structure of the revenues to the budget and expenditure from the budget.

The increasing use of the budgetary levers as means of intervention within the economy, as well as the difficulties in the annual equilibration of the state budget, prompted the idea that the budget shouldn't be equilibrated each year. The proposition was to balance it during an economic cycle, because the surpluses achieved during the favourable periods could cover the deficits from the unfavourable periods.

Sizing the budget deficits, and the public debt, is part of the overall budget strategy which, under extremely restrictive economic conditions, must answer a basic perspective of the economic development, while also taking into account the possibility of the non-inflationist financing of the public deficits.

The effects cannot be explained without identifying the connection between the deficit and the public debt. The budget deficit is a variable of the flows, while the public debt is a variable of the stocks (Liebermann and Hall, 2010).

Different opinions on the sizing of the budget deficits, on the means of financing and on sizing the public debt, draw attention towards the diversity of economies. The existing economic, financial, social and administrative conditions raise problems which presume a very serious approach of the potentially unfavourable impact of an improper sizing of the budget deficits and of the public debt, above the real possibilities of non-inflationist financing.

The increase of the public deficit in 2016, up to the allowed European limit of 3% of the GDP and, particularly, the perspective of a budget deficit of almost 4% of the GDP in 2017, are reasons for a possible increase of the public debt. This shows that we are yet to learn from the experience of the recent past to manage things properly. When we have a period of sustained economic growth, with visible results, we should think that the situation may change at any time, and we should save for less favourable periods, or we should invest in areas that add value. The solution might be to draw up balanced budgets for a multiannual period, which allows some flexibility in adjusting the expenditure depending on the revenues.

Mankiw (2008) considers that the excessive worry about the budget deficit is dangerous because it distracts attention from different other policies which redistribute the income among generations.

The opinions of the classic school disciples on the budget deficit and public debt, said that they are serious dangers to the national economies.

Presently, the opinions are more varied. Mankiw (2008) has an interesting view on the deficit and debt *„...critiques of the budget deficit consider that the governmental debt cannot continue to grow endlessly, but it actually can. Same as the bank evaluates an application for a loan, we should also judge the burden of the governmental debt depending on the national income. The increase of the population and the technological progress make the economy to grow in time. As a consequence, the capacity of the state to pay the due interest for the governmental debt, also increases.”*

Liebermann and Hall, (2010) share the same opinion. Thus, they consider that *„... what worries a lot of people about the increasing public debt is that we will have to pay all of it one day. But even if we are able to pay all of it in one instalment, we must never do this.”* The authors support this statement using as argument the situation of large multinational companies, who let their debt to increase year by year, without paying it. The

reason they do this is a better use of the available funds, by investment in new equipment, in research and development. However, they do pay, in time and in full, the interests to these loans.

This example can be extrapolated to other situations and to other governments, which are in debt. They would make their citizens a service, if paying the debt would not be their major concern, and if the money would be better used, reinvested and allowing them to add value.

“As long as the governmental debt increases at a lower rate than the Gross Domestic Product, nothing should prevent the endless increase of the governmental debt “(Mankiw, 2008,).

If the GDP increases more than the interests to the public debt, the state can pay the debt without having to increase the taxes (Liebermann and Hall, 2010). The real worry of the government, according to Liebermann and Hall, should be the interests to the public debt, which should be paid every year, from the state revenues from taxes.

3. Conclusions

- Globalization, which allows liberalization of the capital, investment, commercial and labour force flows, within the context of a stronger international competition, makes the economic evolutions from one country to be influenced by the economic evolutions from other countries.
- The current global economic crisis has important consequences, determining the revaluation of the economic theories and processes.
- Budget execution in Romania needs discipline and a higher efficiency of the public expenditures.

4. References

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