

SUPPORTING THE ECONOMY THROUGH PUBLIC EXPENDITURES

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Abstract: *The exertion state functions internally and externally is made through a complex system of institutions and bodies. In order to support them, the state spends each year important amounts of money. Directly or indirectly, all public expenditures have effects on the economy, but in supporting it, the most relevant expenditures are on economic actions, education, culture and health as well as on research and development.*

Key words: *public expenditures, economic growth, education, culture, innovation.*

1. Introduction

The concern for collecting public revenues is explained by the need of the state to fulfill its functions and duties, which requires public expenditures. Sums from the state budget are assigned to military expenses, the state apparatus, public debts, subsidies and support for the business environment, covering social and economic needs, as well as to research and development. The size of public expenditures varies from one country to another and from one period or another, the whole budget procedure being guided by the principle of budgetary balance.

2. The System of Public Expenditures

The exertion of state functions internally and externally is made through a complex system of institutions and bodies, such as the army, the police, the justice department, the administrative apparatus, the school system and the medical system. In order to support them, the state spends each year important amounts of money.

Public expenditures tend to increase constantly, determined by military, social, political and economic factors. Some of these cause long-term effects, some affect the entire social and economic life, others only certain sectors. Usually, several factors act at the same time, either the same way or in different directions. Of these factors one can mention:

- population growth, diversified and increased need for social security as a result of a period of economic crisis
- the need to ensure the safety of the population which can lead to an increased police apparatus and equipping it with modern means of action,
- the extension of the public network of education, health, culture, social security institutions, and also the development of the state economy,
- the need to support the private economic sector, offering subsidies to stimulate production or export,
- the need to invest in the infrastructure and thus to build roads, bridges and

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airfields, to modernize means of road, air, train, sea transportation, to systematize the territory and protect the environment,

- the increase of military troops, perfecting the fighting techniques, the need to observe international military treaties,
- inflation.

The evolution of public expenditures is influenced by the modification in the purchasing power of the national currency. Monetary devaluation, following inflation processes, attracts price growths, a nominal increase in expenses carried out by the state while buying determined quantities of goods and services. On the contrary, in the case of price reductions following circumstantial factors, the state will pay a lower amount of money for the same quantity of goods. The actual size of public expenditures is influenced no doubt by monetary mutations. In order to have a clear understanding of actual public expenditure increases, it is necessary for their evolution to be analyzed according to that of the gross domestic product. The share of public expenditures in the GDP reflects the mutations that have occurred in distributing the GDP, in a specified interval, through the state. Collecting budget revenue must not over increase the fiscal pressure, otherwise one may find that the tax range, or the business figure in the case of economic agents, may constantly decrease and labor, entrepreneurship and investments are no longer stimulated. The effect obtained – a downsize in budget revenues – will be contrary to the one intended, so the growing budget expenditures will not be supported.

The field literature [1] explains the role and importance of public expenditures, classifying them by several criteria: administrative, economic, by destination, by their permanent or incidental character etc. In the budget practice [3], expenditures are synthesized as:

Current expenditures

- I. Staff expenditures;
- II. Expenditures on goods and services;
- III. Interests;
- IV. Subsidies;
- V. Back-up funds;
- VI. Transfers between units of public administration;
- VII. Other transfers;
- VIII. Projects involving post adhesion non-reimbursable funds;
- IX. Social security;
- X. Other expenditures;
- XI. Expenditures related to reimbursable financing programs;

Capital expenditures

- XII. Non-financial assets;
- XIII. Financial assets;
- XIV. The national development fund. Financial operations;
- XV. Loans;
- XVI. Credit reimbursing.

We may synthesize that, in order to exert its functions, the state carries out the following expenditures:

- public expenditures for social purposes;
- public expenditures on research and development;
- military expenditures;
- expenditures on the functioning of the state apparatus;
- economic public expenditures;
- other expenditures.

Directly or indirectly, all public expenditures have effects on the economy. Thus, expenditures on the functioning of the state apparatus are very important in the carrying out of activities in all domains, including in the economy. This way the adoption and application of laws is ensured, and also the judicial activity, the order and safety of citizens, the diplomatic activity, the collection of taxes, the protection of the environment, the consumer and competition protection etc. Economic growth implies political, social, legislative, diplomatic stability. These expenditures therefore create the basis for a competitive economic activity.

Military expenditures (maintenance, acquisitions of combat techniques, participating in international military actions etc) considered by financiers to be unproductive and wasteful, also have an impact on the economy. It has to be said though, that military protection is a special commodity, with a sale area which is different from that of ordinary commodities. This commodity is sold to the state (internally) and to governments of other states (externally). By having an own market, military products are a safe investment and a special status concerning the contracting of the sub-suppliers, numerous small and medium companies.

In the category of public expenditures on social purposes there are also social security expenditures, education, culture and health expenditures. Expenditures directed towards social security target pensions, social aids and allowances (like unemployment aid, grants for students, professional qualification aids, single parent family aids, children allowances or allowances offered to mothers in order to increase child births), offering of vacation tickets and medical stay tickets. These measures have the purpose of ensuring means of living for certain categories of the population, a decent living standard and ultimately social peace. At the same time, they can provide the basis for economic activities.

Still, out of all these expenditures, the most relevant in supporting the economy are those on education, culture, health and those on research and development. In the following we shall carry out a brief analysis, outlining their importance for the economic growth.

3. Categories of Relevant Public Expenditures for the Economic Growth

The first category of important expenditures in supporting the economy is that of expenditures on economic actions. According to article 135, paragraph (1) of the Romanian Constitution, "The economy

of Romania is a market economy, based on free initiative and competition". By benefiting from the approval of the Constitution, the protection of the competition and the free initiative can be carried out more easily. Public authorities cannot adopt biased measures, unless the circumstances require it and while respecting article 53 of the Constitution. Thus, according to article 53, any measure taken by a public authority shall be considered as allowed interference on a human right if this measure is necessary in a democratic society, if it is in proportion with the situation that created it, if it is non-biased and does not affect the right itself (but only its use). Fulfilling these conditions must be cumulative. Also, in Romania, private property is infrangible [4], being equally guaranteed and protected by the law, no matter the holder [5]. Therefore, in the constitution there are listed the principles of economic liberalism; market economy, free initiative and free competition, private property.

These provisions do not exclude state intervention in the economy. The Romanian state does not only ensure the legislative and institutional framework needed for the proper functioning of the economy, but it is obliged, according to the Constitution [6], to take (concrete) measures for economic development and social protection, meant to ensure:

- a) freedom of commerce, protection of fair competition, creating a favourable framework to capitalize on all the production factors;
- b) protection of national interests in the economic, financial and currency activities;
- c) stimulus for national scientific and technologic research, for arts and the protection of copyrights;
- d) operation of natural resources, in accordance with national interests;

- e) reestablishing and protection of the environment as well as maintaining the ecologic balance;
- f) the creation of necessary conditions to increase living standards;
- g) the application of regional development policies in accordance with EU objectives.

The economic and organizational function of the state is also characterized by the support for the development of national economy branches (of course, based on efficiency criteria), the state allocating each year a great part of its money resources. Budget resources meant to finance the national economy serve at increasing fixed funds by way of investments. In this category we can include new factories and machines, tools necessary for production as well as the reconstruction, modernization and extension of existing ones. Both the state and the private sectors of the economy. Are targeted Public expenses must also target agronomical, zoo technical and veterinary actions. The budget must not lose sight of the support offered to agriculture, as a supplier of food products for the internal and external markets. Expenses must be stipulated to cover some price differences, to stimulate industrial and agricultural exports, to support part of the interest to export credits taken by producers, as well as various mechanisms to ensure the commercial risk for exporters. One must not forget the fact that decisions regarding investments and carrying out of economic activities is influenced by the existence and quality of transport ways (terrestrial, aerial, maritime, fluvial) and of means of communication (fixed, mobile phones etc). That is why public expenditures must also target these areas. Without a medium and long term economic development strategy, safe from demagogy and political amateurism, Romania will continue to be a market for foreign products, in many economic

branches. The amounts allocated from the budget for industry, agriculture and transportation *are not wasted, but invested* in the economic future of the country. Existing companies are consolidated, their profit will determine other companies to enter the market, competition will increase, which will have beneficial effects on the quality and price of products and, ultimately on the consumer. By increasing the number of economic agents, the sums collected by the state through taxes will also increase, thus the state investment being liquidated and in time even raising a “profit”. The job occupation level will increase, the sums that must be allocated for social care will lower and the living standard will increase. In other words, these expenses, thoroughly substantiated could determine a financial rise.

Turning from a centralized economy to a market economy has not been easy for Romanians. Romania has gone through a transition period, in which there were attempts to create the adequate legal and institutional framework for the functioning of the new type of economy, but also to assume the spirit and ideology of a free market and competition. Measures concerning the development of the business environment must not be interpreted as measures of economic interference, provided they do not oppose provisions of the Constitution regarding freedom of competition, they do not distort competition and do not encourage inefficient management. Economic public expenditures have marked an increase into several states in the post-war era, carrying out interventionist policies. Romania is not a developed country, its resources being limited. That is why they must be carefully managed and used toward economic growth.

The financing of public and private education is carried out from the state budget, from the local community budget as well as from resources coming from

school taxes, donations, income from operating properties belonging to schools or activities carried out by third parties. The state budget also finances investments, land acquisition, construction works and necessary equipment. Given the special contribution of education to training the work force, to training medium and higher education employees, to increasing the level of education of citizens, education expenses are considered investments in human resources with high community productivity. Investing in human resources is considered to be using money resources towards acquiring knowledge by the individual, professional training, good health etc, with the help of which they can increase their contribution to community production and their potential gain at the moment of their employment on the labor market. Investments in this type of capital attempt to obtain competent labor power, which in the future will produce quality goods, will be well paid, and will have a higher living standard. The advantages of these investments, for the investor (mostly the state) as well as for the beneficiary, are obvious. The investor reduces future expenses on social security, and the beneficiary increases his chances of succeeding in life. The fruits of this investment are also reaped by the business environment, by the economic agents (indirect beneficiaries), who will be able to produce more, better and cheaper, thus increasing their own income and also increasing state income. Expenses on education and professional qualification can be considered efficient if they contribute to obtaining extra income, as compared with those that can be obtained without such training. Calculating them is difficult, especially in a developing country like Romania, as they are influenced by economic, cultural or political conditions. Turning to a market economy has brought sometimes painful changes for the labor power, but also for

economic agents who have been forced to train their specialists for the new economic fields that appeared. In Romania, the development of human resources at company level is still at a low level. That is why the state continues to hold the main responsibility in training specialists, *education being a domain of national interest*. Taking into account the medium and long term importance of the investment program in human resources, there is a necessity for a single national strategy, a continuity in its application, regardless of the political colour of the governments that succeed one another in ruling, and this is because *for the modern society education is expensive but ignorance is more expensive*. [2]

Public expenditures on health and culture are equally important because they aim to ensure a healthy labor power, with spiritual education, ethics and aesthetics. *An efficient economy cannot be shaped using ill, unqualified, non-educated people*.

Economic progress implies *innovation*. Public expenditures on research and development reflect the state policy in the field of science and are carried out to support and encourage innovation. Financing this area is done with certain differences, according to the shapes taken by the research:

- *fundamental research*, whose purpose is theoretical innovation and extending the boundaries of knowledge, is financed mostly by the state;
- *applicative research*, whose purpose is practical innovation, creating products, services, technologies, new or improved techniques, which is financed mostly by economic agents;
- *development research*, whose purpose is the application of research and / or its transfer into economy and society, which is financed mostly by economic agents.

None of these forms of research excludes a public-private partnership, as is the

practice in some countries like the USA. There are identified the following sources of financing: the state budget, research and development funds belonging to economic agents, external sources. The budget financing of researches is based on the principle of selection and competition between similar offers, out of which one is chosen based on the program proposed to the financier. Research and development expenditures are especially oriented towards fundamental and applicative research, which aims to create new products or new technologies, as well as to develop the national economy by checking the possibilities of manufacturing products at an industrial scale. The main areas in which developed countries carry out these expenses out of public funds are the military, nuclear energy and space research.

To determine the efficiency of research and development projects the method used is that of costs vs. advantages or costs vs. benefits. What it is taken into account are the probability of technical success for the project, the probability of commercial success, the cost price of the product, the selling price, the quantity of products that can be sold on the market and the lifespan of the product, the factors that by their action might influence the evolution of costs or of the anticipated income. The opportunity for research is judged by its final results, i.e. by the efficiency of the product obtained through research during the time it is placed on the market. When there are several projects entering the competition, these are arranged according to the results of the cost vs. advantages or cost vs. benefits analysis, keeping the project with the most favourable anticipated results.

In the Romanian legislation, the activity of research and development is defined in article 2, paragraph (1) of Government ruling no. 57/2002 concerning the scientific and technological research [7], as

being the activity that includes: fundamental research, applicative research, technological research. These are the main creative and progress generating branches. They constitute themselves into a national priority and have a decisive role in the strategy for sustainable economic development of Romania.

In order to support, develop and stimulate the research and development activity, the Government adopts stimulating and coordinating policies at national level for the research and development activity and for innovation; it provides sources of financing and sets up proper organizational structures to administer the respective funds; draws up policies and issues regulations for the creation of a favorable environment in the economy, for the protection of the national scientific patrimony, for the expansion, absorption and capitalization of research and development results in the benefit of a sustainable economic development, of an increase in welfare and the quality of life, of an enrichment of the national and international patrimony of knowledge. As a special body of the central public administration, which carries out its attributions in the field of research and development, the Ministry of Education, Research and Innovation [8] draws up and updates the National Strategy in this field, ensures the institutional framework for its application, and supports the development and monitoring of the research and development activity. *The main objectives of the National Strategy in the field of research and development* are: promoting and developing the national research and development system in order to support the economic and social development of the country; integrating into the international scientific community; protecting the technical and scientific patrimony of Romania; developing human resources in the research activity; developing the

material basis and financing the research activity.

The national research and development system is made up of the public and private law units and institutions with juridical personality, which activate in the field of research and development. The research and development system of national interest includes the following categories of public law units, with juridical personality, accredited to this end: national institutes of research and development; research institutes, centers or resorts belonging to the Romanian Academy or to the branch academies; accredited higher education institutions or structures thereof; institutes or centers organized within national companies and autonomous administrations of national interest.

Besides the institutions mentioned, other units and public law institutions (specified in the body of the ruling) are part of the national research and development system, like units and institutions of public law. The latter include: research and development units organized as commercial companies; commercial companies as well as their structures which have research and development as their activity; private accredited higher education institutions or structures thereof. Therefore the national research system is based on the public-private partnership as regards to its research and financing. Thus there are the following possibilities. Research can be carried out by the public law institutes (with public, private or external financing), and the results can be capitalized in the public sector, but also in the private one for free. Research can be carried out by private institutions that can attract various funding, including public ones and can capitalize the results while observing the law and the financing contract. Finally, the activity of research and development in the public or private field can take place within some associative institutions with various

financing, including public financing. It has to be said that the right to carry out research and development and innovation activities is recognized to any natural or juridical person and free access to public funds for research and development is guaranteed, provided the legal and contract provisions concerning copyrights and usage of results are observed.

Financial resources are very important for the research activity as it implies expenses, sometimes huge, on space, raw materials, installations, specialists etc. Financing sources for the research carried out by the units and institutions within the national research system of Romania is made up of: (1) state budget funds; (2) funds from economic agents; (3) funds from programs and / or international cooperation; (4) other funds constituted according to the law.

The identification of financing sources is influenced not only by the costs implied by the research but also by the results anticipated and their capitalization in the economy. Through results of research and development activities obtained through a public funded contract it is understood: documentations, studies, works, plans, sketches and others; invention patents, certificates of registration for industrial drawings and models; information technologies, methods and products, prescriptions, formulas, methods; physical objects and products manufactured during the carrying out of the respective contract. The research results obtained during the carrying out of a contract financed by public funds are shared by the juridical persons who carried them out and the main credit release authority (for the public sector), if not otherwise stipulated by contract. The state authority for research and development may finance out of public funds, the capitalization and transfer of technologies. Thus, economic agents may take over, free of charge, by contract, the research results and may receive up to 20%

of the total expenses related to the application of the results selected, out of public funds. Contracts will contain insurance stipulations concerning the industrial property and the obligation of keeping the results of the research taken over. In order to disseminate information and streamline expenses on research and development, the new technical creations resulted from the public financed research activity may be introduced into the economic circuit by awarding custody over them to economic agents, free of charge. In order to obtain them, the economic agents shall present the state authority for research and development with substantiated requests. The technological transfer is approved by a Government ruling, following the proposal of the coordinating minister of the economic branch. As a result of the approval given by the Government, the beneficiary and the research unit will sign technological transfer contracts and stipulations concerning the obligation to keep the technology, confidentiality and stipulations concerning the protection of industrial property. The research and development institutions that benefit from public financing are forced to ensure: the technological transfer; the adoption of organizational structures and of a more performing management, by following the best practiced used worldwide.; the elimination of possibilities of generating acts of unfair competition.

4. Conclusion

Regardless that the government is oriented towards liberalism or towards social-democracy, it cannot find itself on clear interfering or non-interfering positions. And if the neutrality of the financial policy is stated, then the statement is far from the truth. It is clear that the state must interfere and take measures in order to ensure social order

and the basis for an economic growth in the least. Appreciating the state's interfering effects on social life and the economy can be achieved with the help of the following indicators: the amount of public expenses from the state and local budgets, the proportion of public expenses in the gross domestic product, the average public expenses per inhabitant. Also, conclusions can be taken from a comparative analysis, by groups of countries, of these indicators. A deep analysis of public expenses is useful to characterize the financial policy of a state in a certain interval.

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4. Art.136 par. (5) of the Romanian Constitution.
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8. Within the Ministry of Education, Research and Innovation, there is the National Scientific Research Authority, a special body of the central public administration, through which the Ministry carries out its attributions in the field of research. The authority is a public institution financed by the state budget through the Ministry of Education, Research and Innovation.