

Budgetary Consolidation – Expression of Fiscal-Budgetary Policy

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Abstract

This work aims for a better knowledge of the concept of budgetary consolidation, representing in fact, according to the authors, the elimination of transfers of sums, between the budgets of the budget system components, in order to avoid double highlights. At the same time, seen from a different perspective, the budget consolidation can be interpreted, and as a result of fiscal-budgetary policy, revealing the aspect of mutual relations and the link between this and the growth at the national level. The issue of economic growth of a nation will be put under discussion in connection with the manifestation of political entities, namely from the perspective of public interventions on the government policy, in particular regarding the financial nature. The purpose of this paper is to highlight the influence of certain factors, some with high goals, others with subjective fundamentals, over budgetary consolidation at the level of our country.

Key words: economic growth, public financial policy, budgetary consolidation strategies, sustainability, budget vulnerabilities

J.E.L. classification: H50, H60, H70

1. Introduction

Amid the economic and financial crisis that started in the year 2007 in the U.S.A., since 2009, at the level of our country have been scientific and doctrinal foundations with respect to budgetary consolidation, as the expression of public government policy requirements and financial factors that influence such an approach.

If by the time of the first world war, the budget process had as its starting point the revenue available, the State limiting the spending to this income level, subsequently, taking account of the political, economic and social background have prompted the State increasing intervention in all fields, thus creating the false impression that the State has unlimited possibilities to spend. Therefore, aimed at restoring economic and social balances, governments have turned to the use of constant public budgets as active instruments of influencing concrete activities, becoming evident their ability to contribute to economic and social stabilization of the country.

The public budget has complex meanings, due to the two senses, one economic, which emphasizes macroeconomic correlations, particularly in touch with the evolution of the gross domestic product of economic relations, expressing in the monetary form and who take birth during the distribution of gross domestic product, according to the objectives of social, economic and financial policy, and the other legal relates to budget - as the main management economic-financial tool (for the purposes of the authorisation to carry out expenditure and revenue collection and to ensure their effective control).

The financial crisis has subjected the governments that followed a series of challenges, such as: a new approach to fiscal policy that determines rational budgetary choice in spending the public money for the purposes of analysis of cost undertaken actions, as well as a redesign of the costs for obtaining maximum effects, under the ownership of limited resources; the need to reform public services and concerted effort of all of the governments for the purposes of the global economic

downturn. We can say that the last financial crisis was a lesson for all the world's governments, this affecting different countries economy, depending on available resources and tools used by the State institutions for economic recovery.

2. Research methodology

Investigating the subject of the theme dealt sprang from with the need for knowledge in the budgetary field. The research approach taken with respect to budgetary consolidation, the study of the outlined relations was achieved by applying a methodology based on the constructivist model based on the principle of "coherent truth". In the context of its many dimensions, based on ideas found in the literature and normative framework was achieved a synthesis and an antithesis to budgetary consolidation issues. The methodology used in this research consists in observing the non-participative scientific research, i.e. discrete analysis method - content analysis of existing statistics, inductive and deductive method, the method of economic analysis, the statistical method, the synthesis and analysis of data.

3. Literature review

Public financial policy issue has been addressed in a number of studies, but the budgetary consolidation was handled in a narrower area of works, which does not diminish the possibilities in detail budget deficit and its implications. Different sides of the issue were addressed by foreign specialists (Alesina, 2010; Aiginger and Schratzenstaller, 2011; Polito and Wickens, 2011; Blöchliger, Song and Sutherland, 2012), and the peculiarities and its success factors were dealt with in different States (Gupta, Baldacci, Clements and Tiongson, 2005; Veld, Larch and Vandeweyer, 2012, Oprea and Bilan, 2012). A series of studies are focused on comparing the situation, measures and the results obtained in different States or groups of States to identify common elements so that could constitute the best practice benchmarks in the field of budgetary consolidation (Heise and Lierse, 2011). Other studies aim at fiscal vulnerabilities issues and their implications in the context of the manifestation of a financial crisis (Aizenman and Pasricha, 2010; Bagaria, Holland and Van Reenenand, 2012), a more interesting approach made the works (Eller Mooslechner, and Grunwald, Ritzberger-2011; Bakker and Christiansen, 2011; Leiner-Killinger, 2011 or Jedrzejowicz, 2011).

In the case of Romania, the lack of fiscal discipline in the period before the crisis and the negative effects of its economic growth plan is found in several works (Dumitru and Stanca, 2010; Socol and Măntescu, 2011; Oprea, Bilan and Stoica, 2012b) and other studies treat the particular aspects related to our issues, identifying shortcomings in the pension system (Preda and Grigoraş, 2011; Dragotă and Mircescu, 2009) of the inter- administrative transfer system (Dincă and Dincă, 2009; Oprea and Bilan, 2011a) or the notion of evolution or public debt sustainability (Oprea and Bilan, 2011b; Oprea, Bilan and Stoica, 2012a, Zaman and Georgescu, 2010 and 2011).

4. Budgetary consolidation - factors of influence

Most often the phrase "budget consolidation" is used in a technical-accounting sense with reference to the operation of removing transfers of the public budgets, in connection with the elaboration of the general consolidated budget, in order to highlight the state of balance or unbalance of the general consolidated budget. On the other hand, this phrase is used to refer to the purpose and nature of measures of financial policy adopted in order to reduce the budget deficit through empowering the income to cover the part of the budget expenditure for a longer time with the sustainability implications within the meaning of "reducing our dependence" on public incomes of extraordinary financial resources, reflected generically in the dimensions and dynamics of the relationship between the public debt and gross domestic product.

Seen from another perspective, "the budgetary consolidation" can be interpreted as a result of fiscal-budgetary policy promulgated in this regard, revealing its economic growth.

All these approaches have a common element, namely the problem of positioning in the context of the public financial politics whose appreciation within the meaning of the three E - efficiency, effectiveness, economicity must be deductive, from packages measures promoted by the public authorities during certain periods. Thus, the correlation between the economic growth and budgetary consolidation first assert by making some clear distinctions between public financial policy measures aimed at strengthening the budgeting and linking them with the results of other measures which subsumes the other objectives.

In principle, the budgetary consolidation may be affected by a number of factors (table no.1), such as:

Table no. 1. Factors influencing budgetary consolidation

| No. crt. | The name of the factor of influence | Explanations |
|----------|---|---|
| 1. | Electoral calendar | |
| 2. | The economic situation including the financial policies public, consistent with the commitments and objectives assumed by the policy makers | -as the determinant of the economic budgetary conjuncture consolidation triggers the government action when the macroeconomic variables or indicators used in appraisals (the balance of consolidated budget, the unemployment, the growth of gross domestic product, the level of public debt, etc.) register "unsatisfactory" values, and their qualification as such shall be in the discretion of the government group. From this point of view, dealing with the budgetary imbalances within the limit of sustainability, set against the backdrop of the economic stagnation, regarding decreasing or unsatisfactory growth compels the decision authorities to applying some specific measures for strengthening the budget (tax increases or reductions in public spending), their behavior being shared (converging) through the pursued aim, basically though, although any of the decision-makers involved shall act with the same goal (of budgetary consolidation), the composition of the adjustment measures will be a personalized one (either with regard to the budgetary revenue, either at the public expense in a mix of measures), the application time of the measures and the their macroeconomic consequences being different; |
| 3. | The accumulated government debt level; | |
| | The composition of the adjustment measures | -consolidation oriented on public expenditure; adjustment of public expenditure in the context of budgetary consolidation would be a simple mission (simplified), orientation towards investment spending emphasis, followed automatically by the stabilization and economic growth. The amplitude of the manoeuvre and concrete manner of public investment can dilute this effort, sometimes up to full compensation, the actual effects in the economic growth being minimal or non-existent. Regarding the option for consolidation through public spending cuts should avoid reducing those categories of expenditure that are presented as investment in human capital, they are representing an element of major impact for the longer-term economic growth. Along with spending on education, the research and development spending should have a privileged position, technology creation having a favourable impact for lasting economic growth. On the other hand, the budgetary consolidation by raising public revenue, either by increasing the share of taxation, or by resizing the tax base, we should move towards environmentally harmful activities, thereby supporting a component essential to sustainable growth; |
| 4. | Political composition | -at the level of the government and ministries; |
| 5. | Legal regulation and the effectiveness of its application | -practice shows that in the absence of any indication or limitation of reference values for such indicators, the government's action is likely to be less convenient in terms of the time of onset, intensity or duration of application of different reasons. In this regard, even if science consistently recommended financial orientation towards budgetary balance in different variations (annual, cyclic etc.), and proposing |

| No. crt. | The name of the factor of influence | Explanations |
|-------------|--|---|
| | | appropriate ways of reaching the objective (the cyclic theory of systematic deficit budgets, etc.), the regulation has provided for the legal impossibility of providing only some expenditure public budgets without covering the provision of resources, regardless of their status as ordinary or extraordinary; |
| 6. | The ideology of the government group | -influencing factor for the budgetary consolidation represented by the doctrine assumed by the governance programme endorsed by the legislature, in the structure and dimensions of the budgetary revenue and expenditure as main elements of impact on strengthening budget. Our opinion is that the ideology of the government group should not compete with the economic rationality, but it must be complementary; in terms of correlations between government interventions and budgetary consolidation, in the literature are put in direct relationship the diminishing efforts of public budgetary deficits and public debt, the growth and robustness of the budget being treated as possible effects caused by public intervention. The size of the public sector in relation to the private sector is another element that influence the relationship between government intervention and reinforcement of the budget. |
| 7. | The correlation approach of public financial policies of different types | -linking tax policy with monetary policy, so for the purposes of ensuring complementarity of objectives and measures implemented regarding the definition (personalization) of their appropriate mix, consistent with the needs of development; the complementarity of the action of public financial policies with structural adjustments required for the purposes of ensuring the potentiation of the effects of the therapy for the budgetary and fiscal nature and their long-term viability through action at the level of the case, not to the effect level, as sometimes from different reasons the process is followed; |
| 8. | Scientific substantiation of the decisions | -this would imply that decisions should be based on rigorous argument, prepared by technocrats, any action being preceded by a scientific study of impact. In practice, the danger is that of tolerating "forms without the background", both in the sense of adopting and practising specific rules only on the surface, the effect of the legal requirements, as well as in the sense of resorting to adopting mechanical models or best practices from other systems. In case of Romania, it is desirable a closer connection between public decision-makers and academia and more consistent recourse to the views of specialists established in areas such as monetary, fiscal, etc. |

All these factors have implications and a close connection with the development of the national economy.

5. Conclusions

The usefulness of the establishment and use of the consolidated budget for judgments relating to budgetary consolidation derives from the fact that this synthesis document allows observation in dynamics of the budget system components manifestation and the relationship among them. This image, often regarded as the global expression in terms of budgetary surpluses or deficits recorded by each of the components of the budget system reflected in the consolidated general budget provides an appropriate and useful support for budgetary decision-making, but not only.

Broadly, in terms of general policy, public authorities should note that the consolidated general budget does not serve as a decision-making support tool just to the fiscal-budgetary policy, but also to that of the monetary or exchange policy which are interconnected with. In addition, the consolidated general budget shall constitute an appropriate tool and indispensable to the formulation of value judgements regarding the tax system and its effectiveness, allowing the justification restructuring decisions. Under the practical usefulness of the consolidated general budget, it is remarked that the very decisions on restructuring public budgeting systems in terms of

components or of the relationship between these are grounded on the basis of the the information summarized in a document.

Consolidating the budget aims at reducing the budget deficit - a prerequisite for medium-term reduction of the public debt. Maintaining the public budget deficit within limits, ensuring the sustainability must express a concern of public authorities, in particular for the fact that periods of economic growth provides wider margin of manoeuvre for the governmental action, making possible a more "smooth" adjustment, avoiding broad austerity packages and, consequently, lower population sacrifices. We believe that we can talk about the budgetary consolidation and when, in times of prosperity budgetary surpluses are created to ensure some "maneuvers" in times of economic downturn. Incidentally, one of the most important lessons offered by the financial and economic crisis relates precisely to the consistency of government action against the problem of deficits and public debt, neglected in the prosperous period.

Although budgetary consolidation is put into relationship with the role of the budget to influence the socio-economic life through government financial policy, we notice that the "roots" of the budgetary consolidation, involves both the (fair) allocation and redistribution of resources in the economy and society, through divisions, dimensions and the way of the actual specific processes. Budgetary consolidation was well-received as a whole of government financial policy measures designed and applied with the stated goal of reducing the budget deficit, with the use of the sustainability of public finances and economic growth.

Starting from the premise that the effectiveness of the budgetary consolidation depends on a good knowledge of the factors that influence its success, thus were identified and analyzed the potential factors about the economic conjuncture in which are designed the public financial policies implemented in line with the commitments and objectives assumed by the public decision-makers, legal regulation and the effectiveness of its application, the ideology of the government group, the institutional arrangements and political and legal commitments of public authorities, the political and administrative fragmentation (both in terms of the proliferation of the centres of expense, and reflecting in the budget the system components and the relationships between them), the correlation of the public financial policy components with complementary policies, respectively the scientific fundament of the decisions which this specifies.

Long-term budgetary sustainability, and maintaining public budget balance to a positive level or as close to zero as possible, while diminishing the public debt and maintaining it in legally defined boundaries, it becomes in a certain level, in the present conditions, a necessity that should not cause more contradictions, expressing a "budgetary common sense". Getting budgetary consolidation must be permanently linked to the objective of the economic growth, whereas its insurance is the basis of society consolidation at all levels.

In addition to the requirements regarding the proper dimension and structuring the public spending budget, a special attention should be paid to the effectiveness of the use of the powerful positive effects. In this context, the generalization of budgeting - based on performance and its association with the permanent evaluation and monitoring of budgetary capacity (mobilization of budgetary revenues and spending of receivable amounts) are absolutely necessary prerequisites of enhanced efficiency for governmental spending.

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