

Aspects Regarding Policy and the Financing Mechanism of the Consolidated General Deficitary Budget

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Abstract

The purpose of the paper is the quantification and identification of the mechanism of financing the general government deficit. The theme of this paper is topical because the issue of the budget deficit is a topical issue both within the scientific community and decision makers in the public. The time period for which analyzed consolidated budget deficit is 2009-2015, and arrangements for financing the budget deficit presented in the paper are: financing from tax increases by reducing spending, by issuing monetary and public debt.

The results of analysis of the evolution general government deficit in 2009-2015 shows that the time was reduced from 36400.1 million lei in 2009 to 10361.3 million lei in 2015. The paper does not aim to bring solutions to reduce the budget deficit and aims at exposing the general government deficit in 2009-2015 timeframe and identify opportunities for its financing, so the future can serve other studies focused on the possibilities of influencing the deficit general government.

JEL classification: H6

Key words: revenue, expenditure, deficit budget, financing

1. Introduction

Objective of this paper is to clarify the theoretical concepts on the general government deficit, its funding and analyzing the consolidated budget deficit. The work is topical even if over time there have been multiple concerns for this topic. Due to solving complex problems trying deficit has not yet experienced a solution. Analysis of this trend in general government deficit developed in this work can be developed within the work further by extending the analysis of certain factors such as the use of other categories of government expenditure and revenues that were not cyclically adjusted (government investment, interest payments, government consumption etc.).

Importance of the topic is clear from numerous discussions on the optimum size of the budget deficit, its effects and the factors determining the size of deficits.

Analysis of the consolidated budget deficit was permanently II Project of political programs. Political concern about identifying the most effective ways of reducing the public deficit is due to the fact that in the early 80 most industrialized countries (but not only) were faced with imbalances in the public budget.

In analyzing the budgetary imbalances should be remembered and nominal convergence criteria specified in the Maastricht Treaty in 1992, which require Member States a level of general government deficit of 3% of gross domestic product, a level considered acceptable and is sustainable. Measures on the size of the budget balance and public debt stock was complemented by the Stability and Growth Pact adopted in 1997. The two documents provide special mechanisms of co-ordination of fiscal and budgetary policies involving preparation of stability programs that aim to rebalance the short term, or recording a budget surplus in the long term (Basno C; Dardac N., 1999, p 27).

In Romania, the studies on the determinants of the budget deficit are not numerous. The issue of financing the budget deficit requires much debate among both academics and practitioners in the

environment. Martin Feldstein declared in 1983 that the main long-term effect is to reduce budget deficits in the rate of capital formation. Financing government deficits result in crowding out private financing to entrepreneurs, which will result in reduced investment and therefore and productivity growth, real income and international competitiveness (Hoover, K.D.; Bisignano, J.R., 1983, p. 1).

In the same year, Donald T. Regan, US Treasury Secretary, said that "public opinion is quick to appreciate the phenomenon of crowding will occur in the next 30 days, while he will not occur even in the next three months.

Currents of opinion formulated over time, in literature, on the effects of public deficits and their financing reflects very well the currents of opinion expressed by Donald T. Regan and Feldstein.

Between 1989-1990, Bernheim, and Inman, reveals that the issue of budget deficits and public debt can be analyzed in terms of three schools of thinking. Thus, according to neoclassical paradigm, neoclassical deficits lead to long-term increase in consumption and where the economy operates under conditions of full employment of labor, consumption growth will reduce savings. In order to reconcile the financial markets will be necessary to increase the interest rate, which will have the effect of reducing the rate of capital accumulation in the private sector. In terms of the Keynesian paradigm, most people consume most disposable income and a temporary reduction in the level of tax rate would produce immediate and significant impact on aggregate demand. In the context of the paradigm Ricardian policies of the government deficit will lead to an indifferent attitude of individuals vis-a-vis the alternative chosen by political factors. In view of this paradigm, consumption is a function that depends on the volume of resources across all generations, which is why, when the deficit financing would entail an increase in the tax rate, they would not affect the resources of all generations.

2. Ways to finance the budget deficit

Funding from tax increases

Given the fact that in a market economy, tax revenues represent over 70% of total budget revenues, finance the major part of budget expenditure on account of revenue received in taxes owed by taxpayers is a reality. But increasing tax revenues to cover the budget deficit is a controversial way of financing the budget surplus spending it because consensus is against tax increases. Consumers base their decisions on consumption and investment savings or disposable income, after the payment of tax obligations.

Accepting the budget deficit as a reality, taxation policy by increasing its financing is a decision that should be carefully considered because of the effects involved. Thus, to consider issues such as tax incidence of taxation, excessive tax burden, consequences on consumption, savings, investment, labor productivity and strictly observe, on economic growth.

Budget deficit financing from tax increases are a way that it appeals, but in practical terms is not approved neither taxpayers nor political factors due to social and macroeconomic effects.

Financing budgetary expenditures

This method of financing budget deficits may be an appropriate solution, but in the short term. Practicing a restrictive budgetary policy by reducing government consumption can have positive impact on public financial equilibrium. If a solution in the short term, promoting such long-term policies will be followed with certainty, consequences that will affect economic growth. Studies in this regard shows that the strategy to reduce the deficit on account of a restrictive budgetary policy can be applied to short-term crisis, and therefore recommended that long-term fiscal policy is prudent, and where context allows to apply the selection criteria of rationality in public expenditure programs.

Funding through money issue

In academia, this method of financing the budget deficit is much debated because such a policy leads in most cases to higher inflation. An example enshrined in this regard is that of Germany, which in the years 1921-1923 had to resort to spending money issuance to finance public spending, increasing taxation as it was considered an unpopular measure, public funding was needed to rebuild the economy German World War I, and the first result was not recommended cuts in public

spending and borrowing would not have been possible because the needs of funded borrowing capacity exceeded Germany (Mishkin, F. 1997, p. 660-661).

Financing through debt

Budget deficit financing through public debt is considered a less expansionary way by the fact that it generates increasing the money stock but short-term interest rate increases, and thus reducing investment.

Table no. 1 Evolution of income, expenditure and deficit general government in Romania during 2009-2015
-Million lei –

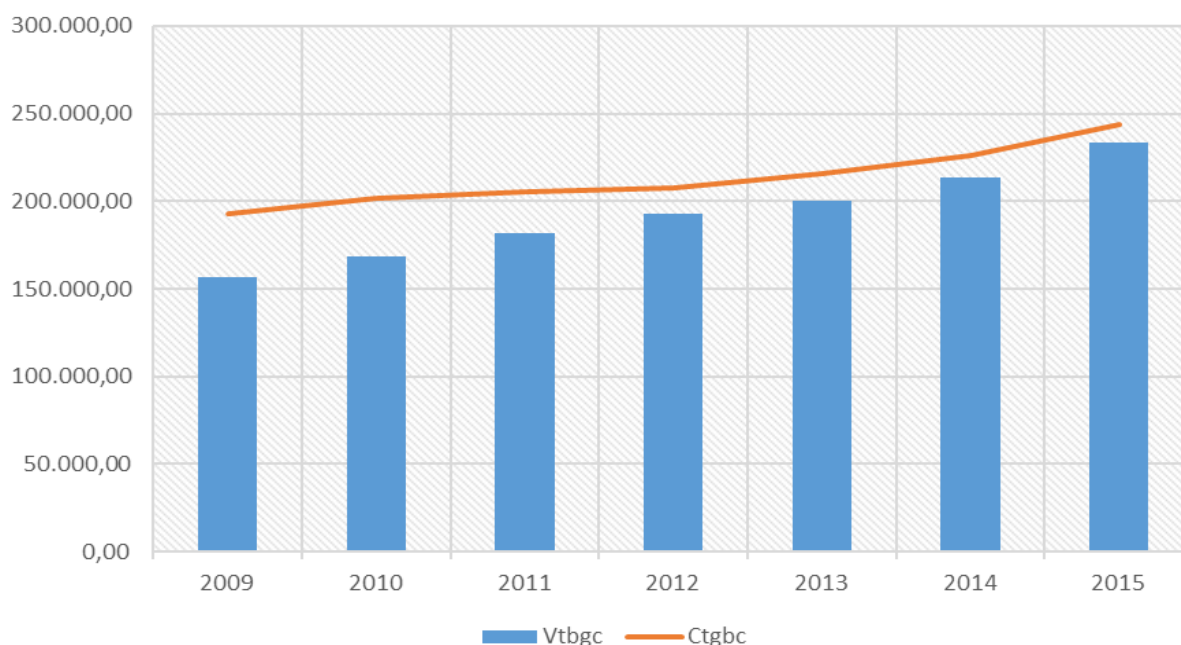
| Years | Consolidated budget revenues | Consolidated budget expenditures | The general budget deficit |
|-------|------------------------------|----------------------------------|----------------------------|
| 2009 | 156,624.9 | 193.025,4 | -36.400,6 |
| 2010 | 168.598,45 | 201.903,63 | -33.305,2 |
| 2011 | 181.566,9 | 205.403,6 | -23.836,7 |
| 2012 | 193.148,2 | 207.922,1 | -14.773,9 |
| 2013 | 200.045,7 | 215.816,9 | -15.771,3 |
| 2014 | 213.833,6 | 226.326,8 | -12.493,2 |
| 2015 | 233.554,3 | 243.915,5 | -10.361,3 |

Source: *mfinance.ro* (6)

In the analyzed period recorded consolidated budget deficit but the size of the deficit was reduced from 36,400, it lei 10361.3 million lei million. Analyzing the data in Table. no.2 note that the deficit has reduced its share in GDP from 7.20% to 1.47%, in observance of the convergence criteria for accession of Romania to the European Union, respectively meeting the budget deficit limit of 3% of GDP. The 3% of GDP budget deficit corresponds to fiscal sustainability in the medium term, the continuation of the disinflation process and reduce the current account deficit.

Graphic evolution of the revenues, expenditures and general government deficit is as follows:

Chart no. 1 Evolution of income, expenditure and general government deficit in 2009-2015



Source: *www.mfinante.ro* (6)

Reducing the budget deficit both in absolute size (table no. 1) and relative size (table. 2) means for the economy reduced demand for capital loan from the state, the resources available are designed mostly investment. Budget deficits to finance and refinance observed a shift towards foreign borrowing, which involves reducing pressure on interest rates and inflation.

The gradual reduction of the structural deficit involves adapting government expenditure and revenue, which involves both the review and reassessment of volume and structure of compulsory expenditure and improving budgetary allocation uses. “The establishment of budgetary incomes has to be made in accordance with the requirements related to yield, efficacy, equity” (Dobrotă G., 2010, p.21).

Table no. 2 The share of revenue, expenditure and the deficit of GDP general government during 2009-2010
-% GDP –

| Years | Consolidated budget revenues | Consolidated budget expenditures | The general budget deficit |
|-------|------------------------------|----------------------------------|----------------------------|
| 2009 | 30,98 | 38,18 | -7,20 |
| 2010 | 32,96 | 39,47 | -6,51 |
| 2011 | 33,14 | 37,49 | -4,35 |
| 2012 | 33,01 | 35,53 | -2,52 |
| 2013 | 31,98 | 34,50 | -2,52 |
| 2014 | 31,71 | 33,56 | -1,85 |
| 2015 | 33,15 | 34,62 | -1,47 |

Source: own calculations based on data from www.mfinance.ro

The ways that the general government deficit is kept below 3% of GDP (Moşteanu Tatiana, 2003, p.195) are different among those being detained:

- diversifying sources of financing the budget deficit and reduce the cost of coverage;
- improving tax control and increasing its role in reducing tax evasion and fraud;
- improved collection of budget revenues and more effective procedures for enforcement of non-payers;
- improving the allocation of budgetary resources.

3. Conclusion

The issue has raised many debates budget deficit over time, given the complexity of the issues posed.

Currently, the issue of public deficits is not terminated because of globalization, training European single market, the euro adoption requires policies of public finance that ensures stability and the necessary conditions for the development of states in the context imposed by the Maastricht Treaty and Growth and Stability Pact.

Although Romania has benefited from financial and technical assistance from international organizations still had to learn what the market economy and to create their own systems protected against various failures that would later manifest. One of the main effects on the economy is to increase public budget deficit.

Studying issues budget deficit cannot be achieved only in the context determined by the evolution of economic thought. Political events, social, historical led, over time, forming of opinion for or against the budget deficit as a way of showing imbalances in the economy.

Also studying the issue of the budget deficit and its impact on the economy cannot be analyzed without also consider how to finance the budget deficit. Most studies of literature produced to date, precisely analyze the effects of budgetary imbalances through the modality of financing the deficit. Funding arrangements recorded in the literature are: financing from tax increases, funding by reducing spending, and financing by issuing currency or by contracting debt financing. As each has advantages and disadvantages, we recommend choosing the best ways of financing based on existing economic environment. In Romania, the financing of the budget deficit was represented by state borrowing.

I appreciate that in Romania, to finance the budget deficit, the main instruments on which they were attracted financial resources and the availability Treasury issues addressed in a high proportion banking system. In recent years the issuance of bonds were directed, mainly, to the non-banking sector, population or economic. At the level of territorial administrative authorities, local

administrative authorities' decision were to finance public expenditure programs at the expense of funds raised as a result of the issuance of municipal bonds.

Noting the data presented in the paper that short-term deficit reduction has been achieved. Analysis deficits recorded consolidated budget shows that their level varies depending on several factors such as fiscal policy and budgetary situation of the economic environment, unforeseen events and behaviors unitary system of budgets to be taken into account in determining budget general government.

The results that we have reached analyzing both the relative size and absolute indicators presented in work best describe the Romanian economy, as these indicators have the greatest explanatory power (deficit developments, income and general consolidated budget expenditures, the deficit budget GDP expenditure weights with changes in GDP and budget revenues.)

I believe that the target for the budget deficit in the medium and long seems more prudent degraded. In the long term it seems that the budget deficit target is not safe even for large economies and development. For further developments, I propose to analyze the impact of the deficit on the economic development of Romania.

4. Bibliography

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