

PUBLIC EXPENDITURES EVOLUTION. POSITIVE OR NEGATIVE ASPECTS?

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Abstract:

This article analyzes the situation of public spending and the transformations that occurred in state budgets over the past ten years in Romania. Data are collected from eurostat, state budgets laws and corrections occurred. Simultaneously, there is a parallel with the evolution of public debt.

Keywords: *public expenditures, public debt, capital investments*

JEL Classification: H50 – General, H53 - Government Expenditures and Welfare Programs

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1. Introduction

The evolution of society after 1990 marked the obvious manifestation of public spending financial phenomenon. Addressing the issue of public spending occurs usually in the context of fiscal policy alternatives promoted by governments. This means their options on different actions or objectives that spending financed from public budgets, determining relationships involving knowledge of them as trigger, and financial resources coverings, including finding solutions to their correlation, which differ considerably in real terms time and space. In this context, it is noteworthy that the very public spending choices are made to achieve the targets assumed by government programs and priorities in relation to a period or another, is to decide on needs to be financed, as and opportunities; funding.

A comprehensive characterization of public spending should be done, both in terms of public expenditure, and by analyzing their structure and dynamics.

For the present article, we propose to analyze the evolution of public spending in recent years comparing the situation before and after the crisis years. In this analysis we rely on comparing to its neighbor Bulgaria but the average recorded in the 28 EU Member States.

2. Analysis of public spending in the last decade

The first table shows the situation analyzed the share of public expenditure as a percentage of GDP. Considered time series refers to the five years leading up to the onset of the economic crisis and the last five years after this time (table 1).

Table 1. Evolution of public expenditure in the period 2003-2013 as a share of GDP

Country/Year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
EU 28	47,2	46,7	46,7	46,2	45,5	47,0	51,0	50,6	49,0	49,4	49,1
Bulgaria	39,1	38,6	37,3	34,4	39,2	38,4	41,4	37,4	35,6	35,7	38,7
Romania	33,5	33,6	33,6	35,5	38,2	39,3	41,1	40,1	39,4	36,7	35

Source: eurostat

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For Romania it is found that a 10-year period the share of public expenditure in GDP increased 1.5 percent. In 2007 and 2008, represented the first time the growth of public spending as a share of GDP. In 2009, Romania recorded for the largest share of the entire analyzed period. This increase is, we believe, given the natural recoil and automatic entire world economy and the Romanian economy. Thus, both the GDP in real terms declined but increased government efforts to meet the needs of increased economic stability. Year 2013 recorded a 35% share of public spending in GDP, close to the 2003 level, which leads us to believe that the economy is on a positive path that GDP is growing. Both Bulgaria and the EU average 28 reported a similar trend to that of Romania. Thus, in 2009 the record year up to the share of public spending in GDP: 41.4 and in the case of Bulgaria the EU (28) 51%.

Subsequent to this analysis, it is presented in Table 2 the status deficits or surpluses recorded by the state in this period in order to deepen the previous analysis.

Table 2. Situation deficits / surpluses in 2003-2013 (percentage of GDP)

Country/Year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
EU (28 countries)	-3,2	-2,9	-2,5	-1,5	-0,9	-2,4	-6,9	-6,5	-4,4	-3,9	-3,3
Bulgaria	-0,4	1,9	1	1,9	1,2	1,7	-4,3	-3,1	-2	-0,8	-1,5
Romania	-1,5	-1,2	-1,2	-2,2	-2,9	-5,7	-9	-6,8	-5,5	-3	-2,3

Source: eurostat

It may be noted immediately in the case of Romania, the fact that 2009 was a deficit maximum recorded (-9). As can be seen, since 2008 deficit was, on average, more than 5%. In 2013, a decrease consistency of our state deficit (-2.3), which gives us some hope for the future and look forward to the results reported at the end of the year. Bulgaria, from the perspective of the figures presented in Table 2, it shows that a country with a stable economy, although the reality is different. Thus, fluctuations in terms of deficits were very small, registering a peak in 2009 of 4.3. The average of EU member states gives us the picture Overall, the situation of difficult crisis since 2009 effects were not fully overcome but a number of signs that indicate a positive trend, including the decrease of deficit states.

Once with the situation deficits, each state public debt has changed. Table 3 shows the public debt situation and its evolution in the last decade.

Table 3 The Evolution of Public Debt (% of GDP)

Country/Year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
EU (28 countries)	61,8	62,1	62,6	61,4	58,8	62	74,4	79,9	82,4	85,2	87,1
Bulgaria	44,4	37	27,5	21,6	17,2	13,7	14,6	16,2	16,3	18,4	18,9
Romania	21,5	18,7	15,8	12,4	12,8	13,4	23,6	30,5	34,7	38	38,4

Source: eurostat

The data in the table does not present the whole dramatic situation experienced by several countries, even European Union member states such as Spain and Greece. On average, since 2008, public debt recorded by the EU 28 rose 20% share in GDP. Thus, if in 2008 the share was 62%, in the year 2013, the average of the EU countries is over 87%. Bulgarian state situation is one worthy of consideration in future studies because in the years 2003-2008 recorded a strong a decrease in public debt from 44% to a low of 13.7% in 2008. Years of crisis produced for the Bulgarian state public debt increased by 5 percentage points to 18.9%, which ranks it in the states leading from the perspective of a low level of public debt. In case of Romania, the evolutionary line is similar to most EU Member States and thus the EU 28 average, increasing public debt by 20% in the years of

crisis. Level of 38% is not yet worrying through comparatie with other EU member states but should not induce the idea that the results have been most positive.

The situation presented in Table 4, on the evolution of different types of public spending can give us an insight into areas where they have made compromises and reductions which were mainly targeted public investments.

In light of the importance but also the segment that are directly concerned, education segment will explore the social and cultural expenditure shares. These are presented as a substantial share of budget expenditure, reflected in relatively high share of total public spending, particularly in terms of their contribution to the development of the nation and even humanity in general. As a feature of this category of public spending, we note that it has a specific doctrinal in that foundation is directly related to the role of the state interventionist conception.

Depending on its specific action is social-cultural public may materialize in terms of public expenditure budget by financing activities (services) that the benefit target (eg creation of libraries, theaters, orchestras, stadiums, meeting sports, etc.) or by making payments to beneficiaries (for example, to grant allowances, benefits, pensions, scholarships, allowances, subsidies, etc.).

Table 4 The evolution of public expenditures 2003-2012 (Functional Structure, % of GDP)

Public expenditures/ Category	Country	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General public services	BG	4,3	5,5	6,1	4,7	7,6	5,0	7,4	3,6	3,8	3,7
General public services	RO	4,1	3,9	3,3	3,3	4,3	4,7	4,2	4,4	4,8	4,9
Defence	BG	2,5	1,8	2,1	1,7	1,5	1,3	1,3	1,8	1,3	1,1
Defence	RO	2,5	2,2	3,0	2,3	1,8	1,5	1,5	1,5	0,9	0,7
Public order and safety	BG	2,8	2,8	2,7	2,6	3,0	2,8	3,0	2,7	2,5	2,3
Public order and safety	RO	1,9	1,8	2,1	2,4	2,4	2,2	2,2	2,4	2,2	2,2
Economic affairs	BG	5,2	5,0	4,3	4,2	5,2	6,5	4,4	5,0	4,3	5,1
Economic affairs	RO	4,9	5,6	5,3	6,9	8,3	7,8	7,7	6,8	6,7	6,2
Environment protection	BG	0,9	0,8	0,7	1,2	1,3	0,7	1,1	0,7	0,7	0,7
Environment protection	RO	0,2	0,1	0,3	0,4	0,4	0,5	0,6	0,7	0,9	0,8
Housing and community amenities	BG	0,6	0,6	0,7	0,6	1,4	1,5	1,4	1,0	1,2	1,0
Housing and community amenities	RO	2,1	2,1	1,6	1,5	1,6	1,3	1,4	1,3	1,2	1,1
Health	BG	5,3	5,2	4,8	4,0	4,1	4,5	4,2	4,7	4,5	4,6
Health	RO	3,5	2,5	2,7	2,7	3,1	3,2	3,8	3,6	3,4	3,1
Recreation, culture and religion	BG	0,9	0,8	0,7	0,7	0,7	0,9	0,7	0,8	0,7	0,8
Recreation, culture and religion	RO	0,7	0,7	0,7	1,0	1,1	1,1	1,1	1,1	1,1	1,0
Education	BG	4,2	4,1	4,3	3,7	3,8	4,1	4,3	3,8	3,6	3,5
Education	RO	3,5	3,6	3,6	4,1	3,9	4,5	4,1	3,3	4,1	3,0
Social protection	BG	12,4	12,0	11,0	10,9	10,7	11,2	13,6	13,5	12,9	12,8
Social protection	RO	10,0	11,0	11,1	11,0	11,2	12,4	14,6	14,9	14,1	13,6

Source: eurostat; state budget laws – own calculations

Legend: RO – Romania; BG - Bulgaria

Education expenditure segment, shows a troubling reality from two perspectives. The first reality is seen, and is not encouraging for Romania refers to a simple comparison with the Bulgarian State. We know that the educational system in Romania is underfunded but,

however, the amounts allocated are even lower than they allocate including Bulgarian State. With few exceptions, the entire analyzed period of 10 years the Bulgarian State directed up to 0.5% of GDP more to educational segment. The second reality refers to the fact that the crisis years were hard on the education system in Romania and the government was forced to reduce, and more funding to this area. Thus, if in the years 2007-2008 funding to this area reaches 4.5% of GDP, the reality of our current years expressing difficult situation where we are: 3% of GDP. However, there are a number of areas whose a funding increased but not the case in this study as an opportunity to develop additional funding or those from other areas, such as education, that we consider true engines of economic recovery short term and long term.

Health System shows even harsher reality; Bulgarian state finances up almost 2% more this area to our state and within 10 years, financing the health system declined. Thus, if the health system reported a maximum funding of 3.8% of GDP in the year 2012 it dropped to 3.1%, ranking it well below the developed countries.

As expected, in crisis, social protection expenditure increased consider consistent. If in 2003 they account for 10% of GDP, in 2012 they reached a maximum of 13.6%.

3. Conclusions

In the broader context of the evolution of public spending, their analysis highlights the influence of several factors with different meanings. There is a growing trend of public spending to GDP growth. From the perspective of the evolution of public spending as a share of GDP, we can mention positive aspects. Thus, the share recorded in the year 2013 has returned to the pre-crisis years, allowing the government to not be overly burdensome beyond the capacity of financing. This situation is shown and deficits, which shows us that the 2013 deficit is 2.3%. From the perspective of public debt can count all positive. Romanian State to meet the costs had to resort to loans. The state debt increased by almost 20% reaching a level of 38%. Not worth worrying, particularly when we look at this compared to developed countries in Europe that have exceeded 100% of GDP.

Public Expenditure Review functional structure presents but another reality. Areas of strategic, long-term drivers of growth but short, such as education and health were the most affected by the economic crisis. Additionally, it can be seen that the neighboring state finances these areas in a manner consistent with nearly 2% of GDP to more than our state.

4. References

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