

BUDGET AND DEVELOPMENT AT THE BEGINNING OF THE 21ST CENTURY. LET US UNDERSTAND THE PAST IN ORDER TO DESIGN THE FUTURE

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Abstract

In order to formulate the governmental policies, it is important to understand the experience of the past and not to repeat the same errors. The Government needs to analyze the experience of the past in the budgetary field and design a wise policy in accordance with the acquired relevant experience.

Exiting the crisis and re-launching the economic growth have been seen by most specialists as becoming possible first of all by means of budgetary policies. A part of them want to be analyzed the main components of budgetary policy from the perspective of the 19th and 20th century valuable thinking.

Expansionist fiscal policy is a policy of reduction of taxes and feeds in order to reanimate the economy. It is particularly recommended for the economic re-launch in the conditions of crises such as the one started in 2008.

The too high quotas of the taxes are useless and dangerous. They are useless because being too high they will not help equilibrating the budget, on the contrary.

Key-words: *budget, development, designing the future, taxes, Government*

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Introduction

The paper refers to the review of budgetary policies focused on development in the light of the experience provided by the economic thinking of the 19th and 20th centuries.

One of the most debated economy topics at the beginning of the 21st century is represented by the budgetary policy in the context of the need for fast development. The past pointed out increases or collapses of empires especially due to modifications of budgetary policy. Conflicts and alliances between States were determined by budgetary policies and the progress was a reflection of budgetary policies led by the various authorities.

In the epoch of globalization, the difference between development rhythms of the various nations shall be made by the budgetary policy. One can state: Tell me what budgetary policy you apply to tell you your future.

Global and national economic thinking already has a history in treating problems pertaining to the correlation of any government strategy with the budgetary policies. In this paper, I wish to reopen the debate on the arguments of the 19th and 20th century – economic thinking valid for the nowadays realities.

The paper focuses on debates and ideas expressed in the liberal economic literature. This is not a polemic material so there are no references to the social-democratic literature or, in a wider meaning, to the interventionist literature.

Review of the specialized literature for the present paper

In writing the present paper, we referred to the “Selected Writings” by the classic author of political economy, David Ricardo, in the translation published by the Romanian Academy. We used the opinions of the great economist concerning taxes and fees, which are valid even nowadays.

From the 19th century and beginning of the 20th century French doctrine, we used the French version of C.L.P. Terrier’s work entitled *Le Bilan d’état*, and the collective volume, also in French, entitled *Cours de science des finances et de législation financière française*.

From the 19th century Romanian budgetary doctrine we used the volume elaborated by Aslan, Th.C., entitled *Finantele Romaniei de la Regulamentele Organice pana astazi*.

For the approaches in the current doctrines our reference was the Mrs. Elena Doina Dascalu’s work *Sistemul bugetar din Romania*. In correlating budgetary policies with the evolution of the economic cycle we took into account the synthesis elaborated by Tiberiu Braileanu, *Politici economice conjuncturale*. We also used the volume *Macroeconomics*, by Rogery LeRoy Miller and Robert Pulsinelli, for the correlation of the budgetary policies with the perspectives of development.

Theoretic fundamentals

A series of experiences of the past can be used for improving policy fundamentals. In addition, a series of conclusions by thinkers in the field of economy established very general rules that should be applied in order to improved the performances of current policies.

Content of the paper

Budgetary policies are essentially part of a decision of economic nature. They are concerned with the allotment of limited resources for practically unlimited needs. Equilibriums help at implementing budgetary policies but are influenced in their turn by the same, their connections having a strong link to the development policies. Under these circumstances, the budgetary policy needs to be analyzed just like any economic projection. Such projection takes into account certain hypotheses and is limited by constraints that need to be taken into account, first of

all, by the tax payers. In order to change the trend of development, there need to be analyzed the main components of budgetary policy from the perspective of the 19th and 20th century valuable thinking. Exiting the crisis and re-launching the economic growth have been seen by most specialists as becoming possible first of all by means of budgetary policies.

The doctrine approaches of taxes have always had an impact on the content of the development policies. Taxes have been the subject of study ever since the classical age of political economy. David Ricardo granted a special attention to the definition and analysis of taxes. According to him, “taxes are a portion of the product of the land and labour in a country, made available to the government and are paid, after all, of the country’s capital or income.” This remark is particularly important for the classification and grouping of taxes. One of the criteria shall be the taxing basis. We shall therefore find capital (property) fees and income fees. Another remark which is conceptually very important and has implications on the perspectives of development is made by David Ricardo with regards to the matter of the correlation between public or private consumption and the effects of budgetary policy. “If the government’s consumption, in case the same increases by the application of additional taxes, is covered either by an increase of the production, or by a reduction of the consumption by the people, taxes shall fall on the income, and the national capital shall stay intact; yet, if production is not increased nor the population’s unproductive consumption is reduced, taxes shall naturally fall on the capital, which means they will attack the fund assigned to productive consumption.”

The dynamics of fundamental correlations under the conditions of budgetary policy are the subject of another important analysis of David Ricardo’s. This is the forecast that the great economist made throughout time as for the evolution in the bureaucratic countries led by kleptocracy. The causal chain identified by the great economist remained valid even nowadays and has been invoked in various shapes and nuances. “To the extent a country’s capital is reduced, its production will be necessarily reduced too; consequently, if the same unproductive expenses continue both on the population’s side and on the Government’s side, with a constant decrease of annual reproduction, the population’s and the State’s resources will decrease more and more, and the result will be misery and ruin.”

Within the French doctrine of the beginning of the 20th century, the budget was considered as “an anticipative management plan meant to foresee the goals, importance and scope of the tasks to fulfil.” The budget elaboration was considered to be in accordance with financial prudence norms. Time proved though that financial prudence can be a brake of development.

During the same period, also in France, the budget elaboration was considered by Gaston Jeze as a condition for prosperous public finances. We can notice that at that moment there was theoretically accepted the implementation of the State activity without an approved budget, but the efficiency parameters imposed it as a useful instrument. Nowadays, the budget is a strictly necessary instrument, without which the implementation of the State functions is not possible

in any way (efficiently or less efficiently). In the absence of the budget, there appears a blockage of the State functions. For this reason, there exists the constitutional provision stating that in the event the budget is not approved, the one of the previous year remains in force. The lessons for contemporary times of Gaston Jeze's observations concern the realism of the budgetary construction as a condition of the efficient allotment of public resources.

The limits of yearly public budget have been pointed out as soon as the accountancy of private entities was developed, as specialists of the public sector noticed that they do not have enough elements for setting the fundamentals of financial projections. Under the conditions of erroneous predictions there may appear the waste of budgetary resources which in its turn becomes a brake of development. Unlike the public sector, the private enterprise had available much more instruments for analyzing and establishing the causes of various evolutions. This is how there appeared concepts such as public balance statement, public budget, public accountancy. This was one of the notable moments when between microeconomy (economy of the enterprise) and macroeconomy (even without having an idea of the concept at that moment) there took place a transfer of instruments. From that moment onwards budgetary policies were permanently reported to the budget as an instrument of public management and the perspectives of development started to be deciphered from the numbers recorded in the balance statement and in the public budget.

Expansionist fiscal policy is a policy of reduction of taxes and feeds in order to reanimate the economy. It is particularly recommended for the economic re-launch in the conditions of crises such as the one started in 2008. Restrictive fiscal policy has been adopted especially during the period 1996-2000 in order to reduce inflation. The fiscal policy for fighting recession takes into account the concept of budgetary impulsing. It is sustained that budgetary multiplication is based on the interaction demand- production – income as a result of the deliberate variations of the budgetary sizes within the budgetary process. A real axiom is considered to be the reduction of fiscal pressure under the recession conditions for impulsing economic re-launch. The deviations from this axiom are a serious error with negative effects that we can see in the budgetary execution of Romania after the start of the crisis.

Whatever may be the definition that we accept for development we all agree with the fact that there must be found the ways, means, resources, instruments for achieving a development as fast as possible and avoid as much as possible the risks of crises and recession. Synthetically, development is stimulated if there take place improvements of the used technology, if the allotted capital is increased, if the work quality and productivity is improve, if resources are allotted more effectively.

Although within the European Union specialists' opinions remain split, especially with regards to the role of the State in economy, in Europe, people speak more and more of the so-called "new paradigm of development". Essentially, this new paradigm is to a great extent a return to several classical truths, unanimously acknowledged and accepted in the 1930s: private property, free market, State focused on its fundamental functions, first of all on the creation of coherent and clear constitutional right system, including the control practiced regarding the functioning thereof.

Institutionally, I sustain that the possibility of a fast and long-term development is not provided by the specific intervention of the State but by the co-existence of certain conditions (basic factors of development). In principle, the bases of fast development are provided when the tax and fee system sustains the macroeconomic stability, the free and competitive market, the mainly private economy, the opening to the outside world, the functional system of financial institutions, the elastic labour market. The relatively low proportion of taxes are a favourable premise in this regard.

Public finances during the liberal period were a lesson to the current period concerning the place and role of budgetary policy in the governmental action, and also for the attention which must be provided to it. The basis conception of the respective period is focused on the free initiative of private persons. The economic agent could initiate, develop, maintain or restrain a certain economic activity, a business, employ himself freely in exchange actions, in associations or companies with lucrative purpose. This was considered the most important element of economic progress and development, being at the same time in the most obvious opposition with the fiscal system. According to the materials published in that epoch, "the principles aimed at were the following: maximal limitation of public expenses, easiness and neutrality of taxation, compliance with the annual budgetary equilibrium, use of loans only in the case of exceptional circumstances".

In the same spirit of the liberal epoch, the French philosopher H. Taine violently condemned any action of the State apart from its specific missions: "The State is a bad head of the family, a bad industrial, land cultivator and trader, a bad distributor of subsistence, a bad regulator of production, exchanges, consumption, a philanthropist without discernment, an incompetent director in art, science, education and religion. In these cases its action is slow or badly directed, of little effect and poor efficiency, always far from the real needs it claims to satisfy".

Professor G. Tasca, who will become a member of the Romanian Academy, referring to the financial reform of 1921 makes a series of positive remarks concerning the proportional cedular taxes. As for the progression of the global income tax, he provides arguments perfectly valid even nowadays: this is, without any justification and without any fiscal necessity a real confiscation as it raises up to 50% of the net income, which had already been reduced with the cedular taxes. One should remark that during the period of transition the quota of global taxation had reached at a certain moment the level of 40%.

Professor G. Tasca comes to a conclusion valid even nowadays: "the too high quotas of the system proposed by N. Titulescu are useless and dangerous. They are useless because being too high they will not help equilibrating the budget, on the contrary". Besides, in Romania, large fortunes being only few, the taxes with too high quotas risk to remain without tax payers. Even those very few, scared of the exaggerate taxation, will emigrate, will hide, or will commit fraud, so that the fiscal system will cash in much less than it would have gathered with average quotas.

More serious is the fact that this tax is also dangerous. He who so far has put his capital into the production, who has striven day and night to produce as much

as possible, will be overtaken by desperation when he sees that 70% of what he produces is taken by the fiscal system. The production will slow down and the State will remain with its taxations, but without tax payers.”

Conclusions

1. Establishing taxes only by law and considering the principle stating that he who spends public money (the Government first of all) cannot and should not have access to the approval of expenses thresholds or to the mechanism of taxation, only proposals of regulations in this regard being eventually admissible; taking into account that the constitutional jurisprudence of Romania has unfortunately admitted erroneously the establishment of taxes by Governmental proceedings in the form of Ordinances or Emergency Ordinances, it is necessary to include in the text of the Constitution within the so-called process of State reform a provision that would impose the establishment of taxes and fees only by Parliament’s proceedings.

2. The budgetary policy should permanently take into account the “fiscal effectiveness criterion” that is the necessity of an efficiency as high as possibly

3. Professional training of the personnel working in synthesis bodies concerning the budgetary policies in the direction of improving or refreshing the basic economic training and the doctrines applicable to the budgetary policies

4. In the case of Romania, especially in the first years of the post-accession period, I recommend a quota of the fiscal pressure of less than 30%, and with a continuous tendency of decrease. The compliance with the budgetary equilibrium should start from the diminution of public expenses.

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