

The role and influence of the political factor in establishing the financial and budgetary balance and on national stability

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Abstract. *Financial-budgetary balance and political stability are two concepts strongly interconnected and interdependent.*

While political instability can lead to serious violations of financial and budgetary balance, financial and budgetary imbalances can lead to changes of government and, especially, to serious political unrest. No matter the type of imbalances and how they manifest, their effects are quantified into frustration and discontent and they cause the accumulation of real social tensions and threats against national stability. For these reasons, political action must observe a moral or ethical framework, supported by institutions whose role is to define a general direction.

Keywords: State budget, Government public debt, efficiency, financial and budgetary policies, political instability.

JEL Classification: E6.

1. Introduction

Any strategic analysis and perspective must be synthesized in a spatial and temporal context. One of the fundamental concepts of economic science is the concept of efficiency. If resources were not scarce there would be no major problems. And since resources are limited, they should be exploited at maximum; a problem which has an infinity of solutions. Wisdom in politics is not the wisdom of scientists, philosophers or economists; it is an art of execution.

Good functioning of market economy is not a „laissez-faire”; it is not the law of the jungle. To believe in human rights means that first you have to enforce them by developing culture and institutions like justice to materialize them. Human rights must be placed on top of the pyramid of norms because of the fact that they impose limits on the possible actions taken in the name of other values and force politicians to stick to certain landmarks in their continuous “movement through the fog”.

Political principles cannot be reduced to utilitarian calculations, if only due to the uncertainty that surrounds the consequences of any decision.

When it comes to any decisional issue, the specialist’s opinion is never neutral. In the complexity of budget management, politicians do not have the same approaches as the specialists, they don’t have the same opinions or the same information as the one who is responsible for his/her actions and who must face the consequences of these actions.

For these reasons, information - as product of economic and social activity - is a real “minerals of the future”. Well substantiated and well used information can replace substance and energy and other information. To treat service expenses that come from society (education, science, art, health, etc.) as net value consumption is a serious error, because they are actually investments in human capital with effects of multiplying the natural and social potential they introduce into the economy.

2. Methodological approach

The objective of this article is to shed light on the role and influence of the political factor in the management of financial and budgetary balance and of stability in Romania during the post-crisis period (2009-2014).

Different types of actions are analyzed, as well as their effects and the evolution of the barometer of efficiency of public policies and Government public debt.

From a methodological perspective, the paper is a critical analysis of the role and influence of the political factor in the achievement of financial and budgetary balance and of national stability during the post-crisis period (2009-2014).

Changes in government are presented by periods, from the Revolution and until the present, namely ten such changes between 1989 and 2009 and six after 2009.

Different types of actions are presented from the perspective of public finance, which have generated political instability and have affected the financial and budgetary balance.

What is noteworthy is the concise presentation of the fluctuations of budget forecasts between 2009 and 2014 and their effects on good financial management.

The analysis of the effects of public and government instability extends over public debt as well, which is presented in brief.

3. Bench-marks of political medium in Romania

The specialty literature reveals that there is an undoubtable connection between budget expenses and the political factor.

Thus, the “Leviathan” model (Caplan, 2001, pp. 825-847) underlines the fact that the existence of competitiveness between political forces may reduce the size of the public sector and the level of expenses as well.

On the other hand, the “Partisan” model (Boyne, 1994, pp. 210-222) reveals that left-wing governments prefer a larger public sector and increase taxes and expenses, while right-wing governments do exactly the opposite.

Although the aforementioned models vary from country to country and according to the political specificity and the political situation in each country (Zai, 2008, p. 142), the conclusion is that there is an undoubtable connection between financial and budgetary balance and the stability of a nation.

After the Maastricht Treaty, the stability of public finance and the reduction of budget deficits and of public debts have been the main concerns of most of the governments in the Member States of the European Union, in order to reach the convergence objectives and ensure a harmonious development thereof.

It is easy to anticipate that the political factor which has the power of reaching such objectives has not undertaken and it is very unlikely that it will undertake decisions that lead to short-term gains in popularity. The promotion of budget policies focused on emphasizing deficits, although it creates certain effects of wellbeing on the short and very short term, may affect price stability and the potential for economic growth on medium and long term, especially if the effect of using public funds is to stimulate non-government consumption.

Also, it is hard to believe that, in the absence of strong restrictions from a legal, institutional or supranational perspective, governments would willingly adopt just measures or the adjustments necessary to keep or reestablish the budget balance.

In the concrete case of Romania, the political instability of recent years can be analyzed through the number of post-Communist governments, as follows:

- The interval prior to the start of the economic crisis 1989-2009 (19 years), 10 governments.
- The interval subsequent to the start of the economic crisis 2009 – Present (6 years), 6 governments.

Thus, we find that the traditional difficulties and tensions existing in the relationship between the budget and the political factor which result exactly from the major differences related to the role, influence, objectives and typology of the two components, are heightened in Romania's case by the political and governmental instability of recent years.

From the perspective of public finance, political instability acts mainly with regard to the State budget, through various types of actions, like:

- difficulties in the elaboration/rectification of the State budget related to the electoral year/years and the occurrence of exceptional expenses;
- the unpredictability of political decisions on the budget amounts allocated to the different categories of entities through the State budget, irrespective of the type of budget (new/rectified State budget);
- reservations in taking decisions related to the objectives of the fiscal policy on the medium and long term;
- postponing the endorsement of the draft State budget law by social partners;
- possible deficiencies in communication and institutional and inter-institutional collaboration;
- frequent changes of the Government and/or of the government mechanisms;
- reservations in taking decisions and resistance to change etc.

4. Influence of the political factor on budgetary balance and national stability

In order to illustrate the effects of the aforementioned actions on the State budget, between 2009 and 2014 (post-crisis) the fluctuations of the budget provisions (State budget) will be analyzed, calculated as a difference between the initially approved budget and the final (rectified) budget, as well as the evolution of the barometer of public policies' efficiency: the government public debt.

The table below synthetically presents the fluctuations of budget provisions (State budget) with details about the main types of income and parts of expenses between 2009 and 2014:

Table 1. Changes relative to the initial annual budget provisions between 2009 and 2014

Fluctuations of budget provisions between 2009 and 2014 (difference between the final provisions and the initial provisions) Lei

Indicator names	2009	2010	2011	2012	2013	2014
Corporate income tax	-2.120.000.000	-1.597.000.000	535.715.000	-91.800.000	-916.800.000	624.900.000
Personal income tax	-1.765.815.000	-1.194.002.000	332.567.000	1.331.739.000	-308.000.000	-954.455.000
Shares and distributed shares from the personal income tax (to be deducted)						
Value-added tax	1.452.200.000	1.090.592.000	-256.040.000	-1.004.276.000	102.057.000	663.240.000
Distributed shares from the VAT (to be deducted)	-9.011.400.000	3.501.200.000	1.458.000.000	2.128.500.000	-138.800.000	-704.600.000
	148.629.000	1.612.144.000	-322.814.000	-1.891.660.550	-1.397.793.000	-4.424.635.150
Excises	-2.914.200.000	-528.200.000	1.283.200.000	-708.100.000	-1.108.089.000	-184.100.000
Income included in the EU budget's own resources						
	-481.100.000	-133.500.000	27.620.000	64.280.000	-150.000.000	3.000.000
Property income	-2.568.532.000	1.932.812.000	-570.785.000	-106.677.000	-953.349.000	521.035.000
General public services	6.560.559.000	3.139.913.000	-1.041.797.000	1.437.596.450	-2.718.209.230	-1.601.850.150
Defense, public order and national safety	-849.196.000	-981.937.000	1.053.716.000	1.078.752.000	1.623.452.000	2.559.401.000
Social and cultural expenses	-1.277.682.000	600.269.000	1.120.920.000	-100.890.000	-409.909.770	400.300.000
Public development, dwellings, environment and water related services	-357.396.000	208.189.000	613.076.000	-882.214.000	283.107.000	1.364.815.000
Economic actions	-423.446.000	2.033.418.000	2.949.706.000	-2.287.107.000	88.453.000	-2.268.631.000
Maximum fluctuation	6.560.559.000	3.501.200.000	2.949.706.000,00	2.128.500.000,00	1.623.452.000	2.559.401.000
Minimum fluctuation	-9.011.400.000	-1.597.000.000	-1.041.797.000	-2.287.107.000	-2.718.209.230	-4.424.635.150

Source: Own calculations based on Ministry of Public Finance.

We find that no matter the type of income or expense considered, the amounts provided in the annual budget laws have suffered significant amendments compared to the level approved initially.

Thus, we notice that although the biggest adjustments have been made with regard to the value-added tax and the part of the expenses for General Public Services (it includes expenses related to public debt), which are perfectly explainable in the framework of the effects of the global economic crisis, there are considerable changes compared to the initially approved values for the entire period under analysis and for all the categories of budget revenues/parts of expenses, irrespective of their type.

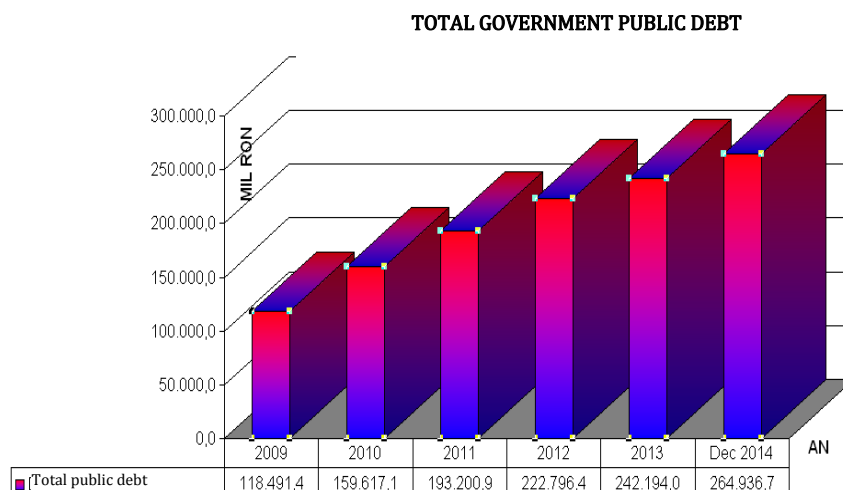
The uncertainty of the fiscal and budget policy is a less visible and harder to quantify cost, but it makes difficult the duty of public institutions of developing medium and long term plans and fuels the uncertainty of the actors involved (public/private entities).

Another indicator that is extremely important in the mission of quantification of the effects of political and government instability is public debt – it can supply an accurate image on the efficiency or inefficiency of these policies to the outside environment and to public entities. The public debt indicator is a sensitive and realistic barometer of the effects of government policies and it reflects in the first place the capacity and ability of different governments of covering the expenses with the available resources.

The detailed analysis of the government public debt indicator between 2009 and 2014 indicates a constant tendency of growth during the 6 post-crisis governments and reveals

financing needs that follow an ascending trend. Thus, in December of 2014, the value of the government public debt is of Lei 264,936.7 million (EUR 58,874.8 million), which is a growth of approximately Lei 146,445.3 million (EUR 32,543.4 million), compared to the level registered in 2009, and of Lei 118,491.4 million (EUR 26,331.4 million).

Graph 1. Evolution of the total public debt between 2009 and 2014



Source: Own calculations based on Ministry of Public Finance.

The main consequence of the increase of public debt between 2009 and 2014 is that the volume of related costs has inevitably increased, as well as that of total public expenses, and it has led to increased financing needs (the contracting of new loans, or the increase of income) and the increase of public debt per capita.

On the long term, the effects of such political behaviors have a direct influence on the increase of the fiscal burden of the population, which, corroborated with the big discrepancies in terms of economic development – which are more and more accentuated by unprecedented technological progress – can generate frustrations and discontent and cause the accumulation of social tensions or the occurrence of social crises.

The history of transition to market economy has taught us that lack of coordination between economic policies and political hesitations make it so that frequent economic adjustments are needed, which are costly from a social perspective (inflation, unemployment, debts) (Dănilă, 2010, p. 1).

In the framework of economic globalization, social crises are accompanied not once by identity crises, which generate unexpected violence (Parliament of Romania, 2001, p. 7) - thus representing real threats to national stability.

It is exactly due to these reasons that we appreciate that the continuance of government policies and reforms, the stability of the political environment and the adoption of coherent political decisions focused, on the one hand, on the development of the national

economic potential and, on the other hand, on covering budget deficits with savings and resources coming from “intelligent” (Government of Romania, 2010a, p. 5) operations, represents the expression of a national economy that has a real contribution to the safety of the individuals and ensures at the same time the minimization of the unfavorable potential that the accumulation of social tensions caused by the excessive fiscal burdening of the citizens can have.

Therefore, an efficient management of the economy and of public finance through a responsible use of the budgetary financial instruments and the adoption of new approaches of the budget and financial policies by the political factor which must make choices of rational and intelligence expenses, analyze the costs of the actions it undertakes and redesign the expenses in order to obtain maximum effects with limited resources (Government of Romania, 2010, p. 6), will have positive effects both with regard to economic security and with regard to national stability.

5. Conclusions

In a framework in which separation of powers, decentralization and administrative autonomy are configured as foundations of social reality, not only as social representation, the organizational structures of the administration are created at State level and generate the public administration both at central and at local level, where the local public administration is configured. We must show that in public institutions management efficiency is a constant influenced by the quality of civil servants.

Typologies of relationships between different components of the system must be applied, described and elaborated, as follows:

- relationships with authority;
- relationships of cooperation;
- relationships of representation;
- relationships of audit and control;
- relationships of services provision.

From a legislative perspective, public administration reform exists on paper, but the institutions, committees and commissions appointed to contribute to its enforcement have not actually worked, some because they were never established and others because it have very low budgets.

Public function, decentralization and processes of formulation of public policies are segments which require improved reforms in the near future.

Civil servants must be educated to have straight spines, no political involvement and, most importantly, they must be motivated both morally and materially.

Turbulence and uncertainty in the modern work environment of public entities impose the establishment and use of professional management, the need to resort to strategic planning, to early warning systems and, especially, to the elaboration of program budgets and multiannual budgets on all budgetary segments.

Acknowledgements

This paper is made and published under the aegis of the Research Institute for Quality of Life, Romanian Academy as a part of programme co-funded by the European Union within the Operational Sectorial Programme for Human Resources Development through the project for "Pluri and interdisciplinary in doctoral and post-doctoral programmes" - Project Code: POSDRU/159/1.5/S/141086. Sectoral Operational Programme Human Resources Development 2007-2013. Project Title: Pluri and interdisciplinarity in doctoral and post-doctoral programmes.

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