PUBLIC EXPENDITURE POLICY IN THE CONTEXT OF ECONOMIC CRISIS - CHALLENGES AND IMPLICATIONS

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Public spending is a key component for both public finances and government financial policy. In this situation, government expenditures are made in direct relation with the results of governance with economic and financial crises and global social welfare of the nation. From this perspective, our article aims to highlight the correlation between public expenditure and budgetary financial and economic crisis and, also, state government responses, anticipating their impact on medium and long term. Also, in the context of the crisis and the concomitent lack of public revenue, we identify the pillars on which to base the budget reduction in public expenditure. The implications of the economic crisis in Romania are analyzed along with proposed measures to be followed by the Government through budgetary fiscal strategy. In relation to the purpose and objectives of the research, documentation was made both in terms of bibliographic resources and the plan of legislative documents and quantitative reporting. We believe that the issue of increasing allocative efficiency of resources is vital to counter the current crisis, but also to maximize the positive effects of public interventions in general and from another state, we consider that state and, consequently, public expenditure budget which should be used to replace the market, can not be regarded as some suggest to be founded and we suggest a line for developed countries.
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I. Introduction

The financial crisis that hit the world economy since 2008, had the initial effect of the massive decline in production in many countries, whose level effects were considered comparable with those of the Great Depression. Simultaneously, unemployment rates have increased and will probably be some time still growing in some countries and in Romania. Income tax revenues have also declined, sharply. This crisis can be categorized as having an unusual character, a fact supported by its two main features: (a) how it has spread very quickly from the U.S. to other countries, and (b) how it has become globalized, compared with past financial crises which have generally been limited to one or several countries.
Many analysts considered the current crisis as a clear evidence of market failure, calling for governments to intervene and play an important role both in the short term to stabilize the economy and long term, to expand activities in the public sector and public spending. The theme of the current debate can be considered "more market and less government intervention" (Tanzi 2009: 31). From this perspective, we see that the manifestation of the crisis has provided a convenient argument for increased government spending, but also for their serious restructuring

in many countries. In early 2011 states are still involved in the short term to stabilize the market. It is perhaps too early to predict what will happen long term but inevitably short-term actions will have a major impact on long-term consequences. Now, when countries will come out from the financial crisis, will face a fiscal crisis, which is more difficult to solve.

II.Literature review

The issue of public expenditures was, by its nature, the subject of extensive research in the literature. Normally, however, in the absence of confrontation with another similar economic crisis as it was in 1929-1933, with which cuurently comparisons are made, no studies have been conducted on evidence showing the correlation between the expression of crisis, government responses and public spending. Extensive studies on the issue of public expenditure were undertaken in the work by Vito Tanzi - *The Changing Role of the State in the Economy: A Historical Perspective,* IMF Working Paper 97/114, International Monetary Fund, Washington in 1997, but olso in the work done with L. Schuknecht *Public spending in the 20 th century. A global perspective,* Cambridge University Press, 2000, in whitch was captured a comparative analysis of their impact on society and economy development. Alan Sutherland stressed the impact of public spending in an economy continuously changing conditions in an article entitled *The Expenditures Switching Effect, Welfare and Monetary Policy in a Small Open Economy* CEPR Working Papers published, in April 2004. An important analysis is carried out by Anwar Shah World Bank *Public Expenditures Analysis* in 2005. The issue of public expenditure is enhanced by Vito Tanzi, in the context of recent economic crisis, seeking their role and impact in the new context that most states have faced, in the article *The Economic Role of the State Before and After the Current Crisis* of the 65th Congress International Institute of Public Finance, Cape Town (South Africa), 2009.

III.Research methodology

In relation to the purpose and objectives of the proposed research, documentation was made both in terms of bibliographic resources (books, studies, articles) and the plan of legislative documents (eg., Fiscal and budgetary strategy) and the reporting of quantitative (statistical yearbooks, official reports, national and international forecasts such as those of Eurostat, OECD, World Bank, IMF or the ECB). Data collected were processed and summarized in graphics, in order to capture more adequately the trends identified. It is also used comparative analysis of data which allowed highlighting the differentiation and peculiarities of public spending and their differential impact on social and economic development.

IV.Research results

IV.1.Public expenditure policy in the context of international crisis

At this stage, all states have relied on massive public spending increases, giving rise to major public deficits, public expenditure budget later found related with borrowings, interest and fees. Many institutions (IMF, OECD, ECB, European Commission) have made various estimates of the impact on fiscal variables, implicitly revealing developments in public spending budget. Table no. 1 also reflects estimates by the European Commission in Euro-12 area average and seven other countries. Data refer to the general consolidated budget reflecting final figures for 2007 and projections for the end of 2010.

Table no. 1 Evolution of public expenditure, public debt and balance of payments in the period 2007-2010 (percentage of GDP)

Countries	Balance (execedent/deficit)		Public debt		Public expenditures	
	2007	**2010p**	**2007**	**2010p**	**2007**	**2010p**
USA	-2,8	-14,2	63,1	91,1	37,4	43,7
Japan	-2,1	-8,7	173,6	194,0	36,4	46,7
England	-2,7	-13,8	44,1	81,7	44,0	52,4
Germany	-0,2	-5,9	65,1	78,7	44,2	49,0
France	-2,7	-7,0	63,9	86,0	52,3	56,4
Italy	-1,6	-4,8	104,1	116,1	47,9	51,1
Spain	2,2	-9,8	36,2	62,3	38,8	47,1
Euro zone-12	-0,6	-6,5	66,1	83,8	46,1	51,1

* P - forecasts for the end of 2010

Source: European Commission Report, 2010

Year 2010 was the moment expected that the vast majority of countries to overcome the crisis, although in many cases these expectations proved overly optimistic. In this context, should also be noted that the starting point of analysis has specific characteristics, meaning that although 2007 was considered essentially a good year for the economy in general, all countries listed, except Spain, had consistent budget deficits and high public debt, which means that expectations may not materialize in large numbers with positive values in the short term.

According to data summarized in the table, it is noted that there were remarkable increases in public spending as a share of GDP between 2007 and 2010. Elevations range from a minimum of 3.2% of GDP for Italy at a high level 10.3% of GDP for Japan. The increases recorded for the UK (8.4% of GDP), and Spain (8.3% of GDP) are also remarkable, but the fact remains that, in large part, these increases are due especially from lower GDP rather than the real growth of public expenditure.

During this period, local budget deficits, toward which the central budgets of states have initiated substantial balance transfers, in turn led to dramatic increases in deficits in the period 2007-2010. Thus, in the United States and England, deficits reached about 14% of GDP, levels that have not been recorded after World War I and much higher than during the Great Depression. Olso, in other countries have recorded spectacular growth, especially in Spain and Japan. As a global effect, increases budget deficits, due to decreasing tendency of gross domestic product and increase public spending budget, have resulted in massive increases in public debt, seen through the prism of its share in GDP, data showing sometimes dramatic levels of the public debt in the analised contries.

The events of recent years illustrates the danger of an economy in which the financial system operates without careful supervision and regulation, which leads to cycles „boom-bust", which ultimately are damaging livelihoods and savings of citizens. Forecast estimates that 2011 to represent out of crisis, without knowing what might happen beyond the year 2011 if the crisis would continue. But certainly, these forecasts should take into account the expected increase in public expenditure budget, due to aging and the effects after the crisis. Increase overall public spending and worsening budget deficits will be caused mainly by increases in social spending (pensions, healthcare and long-term care), but also the impact on fiscal revenues and earnings growth rates. In this regard, Table no. 2 reflects the results of forecasts for public spending budget, with the expected adverse demographic issue for the period 2007-2060, in several countries. Even without the impact of the current crisis, these increases in public expenditure budget will become difficult to bear for countries with an already high level of taxation, high public deficits and debt.

Table no. 2 Forecasts of Public expenditures due to an aging population: 2007-2060 (percentage of GDP)

Countries	Pensions	Health	Long-term care	Total growth
Germany	2,2	1,8	1,4	4,8
Spain	6,7	1,6	1,7	9,9
France	1,0	1,2	0,8	2,7
Italy	-0,4	1,1	1,0	1,7
Netherlands	4,0	1,0	4,7	9,4
England	2,7	1,9	0,5	5,1

Source: Economic Policy Committee's forecasts of the European Commission, 2009

In the foreground of the analysis, in which the majority of developed countries are in, but also countries such as Romania, the future potential to increase public spending on the rise in taxation can not be considered feasible. This we can argue in terms of taxation levels which is already high in most states, namely, the fragility of the tax base. In the same context, the possibility of future funding of increased public expenditure can hardly be regarded as sustainable at the expense of contracting new loans because the debt levels are already too high.

In the United States, which are not included in the table, long-term outlook is even more worrisome. The Commission's budget of the US Congress in 2009 stated that "current policies are unsustainable" (Budget Commission of the US Congress 2009), whereas, if they are maintained, and in the most optimistic forecast it will cause deficits (for federal budget) of 7% of GDP in 2020 and a debt of more than 100% of GDP by 2023.

In the current crisis, among countries that have not managed to cope with financial crisis and wih a fiscal crisis later, are, first, foremost Dubai Emirate (UAE). Colossus of investment set in motion by the state for construction has generated unprecedented debt and no viable solutions.

Greece is also faced with a violent economic crisis, which has a budget deficit of about 12% of GDP and public debt is estimated to exceed 130% of GDP by 2011. Japan's debt already amounted to 200% of GDP.

Thus, the global financial crisis has exacerbated the fiscal crisis. This is because, on the one hand, the onset of recession, which reduced tax revenues and led to conduct additional public spending on social protection, and on the other hand, in some countries, the huge costs that the public authorities had to bear to avoid bankruptcy of financial institutions.

As we noted earlier, public expenditure budget to GDP increased and is expected to grow in the next period.

Although since the 1980s much of the developed countries, especially European ones, have operated reductions in GDP share of public expenditure, public expenditure as a dynamic have maintained normal growth. The explanation is that these reductions in weight were made against a background of continuing growth of GDP. The most telling example is the one of Great Britain, whose measures were treated as true victories of neoliberal doctrine.

These actions were not long lasting, and the population was willing to choose raising taxes to increase public spending and the various programs provided by them. Thus, governments have returned to welfare programs that (in Britain since Tony Blair's government) have not only

financed public expenditure growth based on increases in tax revenue, but also by accepting shortages of almost 3 % in public construction budgets. Increase public spending in these countries was directed primarily to education and health. Estimates have shown that, in Britain until 2007, nearly a quarter of employed people work at the state and more than 30% of households depended on (over half) of revenues from the state.
Experience in Hong Kong and Singapore, where the public expenditure is usually less than 20% of GDP, confirmed the approach regarding that a low level of public expenditure in GDP, can be a variant of the long term.
We believe that the ability to maintain or decrease the level of public spending as a share of GDP should be correlated with both increased public sector efficiency and greater efficiency with the private sector, able in future to cover part of the economic risks (but not only), facing the citizen.
In this context, Vito Tanzi even identify two pillars on which the reduction of public spending budget. The first pillar would require people to be more aware of certain unforeseen events of life and to do so. Obvious examples are considered private insurance for accident and health, along with a package of restrictive measures of social protection offered by the state.
The second pillar would be for government to seize the opportunities offered by globalization and the world market to purchase services not available on the market or are available at a higher cost (Tanzi 2009: 32). These services must be provided even for a small group of citizens, for then they become public. Such services may be the latest medical procedures, training for advanced techniques, etc..

IV.2.Public spending policy in the context of economic crisis in Romania

Deep economic crisis faced by the global economy and, implicitly, the Romanian economy and recent developments that have taken place including Greece, have taken promptly imposed austerity measures. These measures concern in particular the relocation of public expenditure analysis and a new structure to allow a mix of budgetary policies, fiscal and monetary, short stop economic decline, and in perspective on a healthy economic recovery.
In this context, one of the main tools the government has at hand is the public investment program which, through judicious allocation of available resources and spending can correct some imbalances emerged, particularly in construction, or compensate for potential lower instantaneous availability of private sector funding in this area.
In this year, fot the public investment expenditure financed from general government budget were allocated resources representing approximately 6.5% of GDP, respectively 16.7% of general government expenditure. In Table no. 3 are presented in the consolidated general government public expenditure and investment expenditure in the period 2008 to 2013 and their share in GDP.

Table no. 3 Total public expenditures and investment expenditures as a share of GDP and percentage from 2008

	Public expenditures in percentage from 2008	Public expenditures % GDP	Public investment expenditures from 2008	Public investment expenditures % GDP
2008		37,0		6,3
2009	101,75	39,4	108,73	7,2
2010p	105,11	39,1	102,47	6,5
2011p	105,24	36,8	104,94	6,3
2012p	112,55	35,8	129,20	7,0
2013p	120,50	34,8	147,00	7,3

Source: own processing after Fiscal Budget strategy from 2011-2013, http://codfiscal.money.ro/strategia-fiscal-bugetara-pe-anii-2011-2013

The data presented in Table no.3 shows that, in nominal terms, investment costs of the consolidated budget increase each year between 2010 to 2013, are expected in 2011 as the growth of investment expenditure to exceed the the total public expenditure. It is also noted an increasing every year share of investment expenditure in total general government expenditure.
But there are enough doubts of specialists on the rationality of government expectations, based if we consider the realities we face. Thus, for example, is hard to believe that in the current conditions in Romania where the courts reinstate previously earned retirement funds or state employees, counteracting the reduction in public expenditure, there will be enough resources for investment and GDP growth will be most anticipated.

V. Conclusion

Currently increasingly emphasis is put more on exit strategies, and thus the role of the state, involving public expenditure budget, you may have. In the past, these strategies which involved increasing public debt has been passed on increases in inflation, and, on occasion, high economic growth. As it stands, the high economic growth is not feasible in the next few years because of major distortions caused by the crisis, which caused large reductions in output. Moreover, growth rates in recent years, several major countries like the United States, Britain, Spain, etc.., but also countries such as Romania, have been somewhat artificially generated massive construction of houses / homes / buildings and their unrealistic prices, excessive profits and which entered the financial market. They maintained artificially increases the rate of economic growth and the tax revenues. In these circumstances, we assume that inflation can not be a solution but, rather, the solution may be to rethink the role in the economy and, implicitly, the judicious use of public expenditure budget. Thus, contrary to many who support the idea of "more public spending and a smaller market" we can analyze the situation in which public expenditure is lower, but more effective and more regulated markets.
Before the crisis, there were views that the changes in dynamics, especially in the structure due to the aging population will create serious problems in terms of sustainability of the state, the current optics. Full effects of these demographic changes will start to be felt fully in the coming years. At present, the crisis will deepen the sustainability of this problem increased public spending states. The idea of giving an economic role in the increasingly important state, in our opinion should not necessarily signify the growth of public spending budget, which in turn would mean higher taxes. Obviously, this perspective should not be understood as a unit, but only applicable to a wider group of countries.
For a number of developed countries including the U.S., supports the idea that the current level of public expenditure may remain constant at this level as long as the state has been able to satisfactorily meet its obligations. Moreover, it focuses particularly on those strategies that will be effective and will streamline public spending as well. We believe that the issue of increasing allocative efficiency of resources is vital to counter the current crisis, but also to maximize the positive effects of public interventions in general.
From another perspective, consider that the claim that state and, consequently, public expenditure budget would be used to replace the market can not be regarded as some founded. The market operates outside the moments of crisis, much better than any government action that you take. In this way, a first possible position adopted for the group of developed countries would be not to intervene in the market, but to print a temporary stimulus to aggregate demand while preparing for post-crisis periods without, usually increases public debt.

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