

SYSTEMIC APPROACH TO THE FUNCTIONS OF PUBLIC FINANCES - A NECESSITY FOR THE ROMANIAN ECONOMY

Professor PhD. Carmen COMANICIU

"Lucian Blaga" University of Sibiu, Faculty of Economic Sciences
Sibiu, Romania

carmen.comanicu@yahoo.com

Junior Teaching Assistant PhD. Student Liliana BUNESCU

"Lucian Blaga" University of Sibiu, Faculty of Economic Sciences
Sibiu, Romania

liliana_sibiu@yahoo.com

Abstract:

Normal development of social and economic activity requires overall management of the economy, coordination and synchronization of social and economic processes, under deepening complexity and diversity of these processes and the multiplication of the interdependencies between them. This article, emphasize the need for a systemic approach to public finance functions of Romania, having regard, on the one hand, action, relationship and mutual influence they have with economic and social phenomena and processes, and secondly, changes that may occur in relation to economic and social tasks of each stage. By adopting programs, governments want to achieve macroeconomic objectives relating to: economic development, the use of labor, labor productivity growth, price stability, increased purchasing power of currency, ensure budget balance, training and optimal allocation of public financial resources. Achieving these goals can be achieved only through proper use of tools, the public finance are considered most important. From general to particular, from theoretical to pragmatic issues, through this article, we try to emphasize, that only a pragmatic approach in systemic effect for functions of public finances will lead to remove negative effects arising from the sequential approach. Public finances are presented as a set of mechanisms for mobilization and allocation of resources, depending on objectives, considered of general interest. An appropriate action of the function of public finances, will cause an essential component of socio-economic life of any nation, respectively public finances.

Keywords: functions of public finances, allocation, distribution, stabilization, public revenue, public expenditure

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INTRODUCTION

The purpose of this paper is to highlight the need that all actions taken in fiscal and budgetary policy in Romania must be based on a systemic approach to public finance functions. The theme chosen for discussion envisage some negative effects of fiscal-budgetary measures taken by public authorities in Romania during post-communist period, even if at the initiation of these measures, effects are outlined as beneficial.

To achieve the goal of this paper: will be presented some theoretical aspects of public finance functions; will identify some negative aspects of the fiscal-budgetary practice in Romania due to the sequential approach to public finance functions; will identify opportunities to eliminate negative effects through a systemic approach to public finance functions; will be presented the scheme of systemic approach of public finance functions.

SOME THEORETICAL ASPECTS OF PUBLIC FINANCE FUNCTIONS

In a classical sense, public finances can be defined as a science of means by which the State shall procure the necessary resources to cover its expenses, as well as, redistribution among citizens of the tasks deriving of how to acquire resources.

A fundamental objective, a scope, the main functions, fundamental values, essential characteristics, principles and laws are part of coordinates of public finances, properly called a science (Plehn, 1900), because: "it deals with a definite and limited field of human knowledge; it admits of an orderly arrangement of its facts and principles, and contains many laws of general

progress belonging exclusively to its own field; it admits of the application of scientific methods of investigation; it foresees as well as explains a certain class of phenomena; it is generally, if not universally, so regarded." [8]

The three major functions of public finance identified in 1959 by Musgrave, recognized in economic studies of public finance as a "trinity" (Bennett, 1983) are: allocation function, distribution function and stabilization function. These functions are related to the interdependence of the price mechanism, the social policy and the economic policy, being considered issues of efficiency and effectiveness in formation and use of public financial resources, because the four major divisions of modern public finance are public revenues, public expenditure, public debt and fiscal system. [1] Public finances treated as economic relations occurred in the distribution of gross domestic product, fulfill their social mission by the functions they perform (V c rel et al., 2002): distribution function (with two distinct phases: establishment of public funds and distribution of public funds) and control function. [10]

If the distribution function is to mobilize a portion of gross domestic product to the state, especially of net domestic product, and its distribution to accomplishing tasks and duties, and the control function equivalent with controls on the distribution and redistribution of gross and net domestic product and on processes of mobilization and economic management of financial resources, can say that these two functions of public finance covering all processes assigned to seven functions (Talpo , 1997), namely: function of attracting resources; function of resource allocation; redistributive function of net domestic product; function of stabilizing the national economy; function of stimulating the national economy; coordination function of demand and establishing social and economic priorities; control function. [9]

Public finances are often the subject of debate (Brezeanu and Marinescu, 1998) on the role of public authorities in a market economy, on the effectiveness of their multiple interventions, and on the level of compulsory levies. [2]

In this respect, specialized authority of central government, with legal personality, subordinated to the Romanian Government, applying strategy and program of governance in public finance is the Ministry of Finance. Having synthetic role, the Ministry of Finance contributes to exercise general management of public finances through many functions (Government Decision 34/22.01.2009): strategy function; regulatory and synthesis function; representation function; forecasting function; budget and fiscal outlook function; administration state revenue function; administration resource performed by the Treasury function; public debt management function; coordination of financial assistance grants function; financial management function; function of coordinating relations with the European Union budget; function of authority for coordination of structural instruments; function of public internal financial control; function of organization and performance of internal audit public entities; function of property record that is State public sector; function to combat tax evasion; function of uniform control and legal compliance of public finances; function of authority with skills in policy and customs legislation; support function. [12] To achieve its functions, Ministry of Finance duties are based on "keywords", such as: achievement, administration, analysis, application, appointment, approval, centralization, collection, contraction, coordination, debate, development, distribution, elaboration, establishment, evaluation, exercise, forecasting, formulation, guarantee, implementation, initiation, insurance, management, monitoring, negotiation, notice, notification, ongoing, participation, promotion, proposal, prosecution, regulation, representation, resolution, reunification, running, support, training, transfer. We specified a panel of functions and keywords related to the Ministry of Public Finance tasks, with the purpose to highlight the link with the main functions of public finance, because the implementation of fiscal-budgetary policy measures in Romania generated a series of negative effects.

When the interdependence between fiscal policy and budget policy is approached, also is taken into account their functions.

Thus, the construction of any tax system (Brezeanu, 1999) must ensure proper action of the three functions: function of financing public expenditure - which pursues the objective of budget

performance; function of redistributing income and wealth - which pursues the objective of equity; function of stabilizing economic activity or the correction of imbalances - which pursues the objective of efficiency. [3]

Appropriate action benefits of the three functions of public finance (allocation function, distribution function, stabilization function) for budget policy (Latigo, 2001) are reflected in public budget sustainability, composition of public revenues and public expenditures and effectiveness in delivering public services. [6]

SOME NEGATIVE ASPECTS OF THE FISCAL-BUDGETARY PRACTICE IN ROMANIA, DUE TO THE SEQUENTIAL APPROACH OF FUNCTIONS OF PUBLIC FINANCES

The role of public finances is inextricably linked to the maintenance of the financial mechanism. Taking into account the complex structure of the financial mechanism, public finances have influence in: ensure the functioning of the financial system; establishment and use of financial levers to influence economic activities; use modern methods of administrative management; establish the institutional framework to act, on the one hand, as public authority, and secondly, as producer and consumer of goods and services; establish the legal framework through laws, rulings and other regulations; exactly compliance of legal provisions.

In Romania, sequential approach of the functions of public finances determined fiscal-budgetary measures with negative effect, even if they target one or more functions of public finance. We try to identify such measures, specifying the measure, the corresponding function and performance:

a) By Government Emergency Ordinance no. 163/13.10.2000 to reduce arrears to state budget, legal persons have benefited from the cancellation or reduction for penalties related outstanding tax obligations. Full payment of outstanding debts until october 31, 2000 entailed a full cancellation of delay increases. If the outstanding debts have been paid until november 30, 2000, delay increases were reduced by 60%, and if they were paid until december 15, 2000, the reduction was 45%. [11]

Public finance functions in correspondence with this ordinance were the function of attracting resources and the function of stimulating the national economy. Application of this ordinance led to violation of one of the principles of taxation, respectively nondiscrimination principle, because tax incentives were granted only taxpayers that are part of bad payers, which subsequently led a change adversely in the behavior of taxpayers regarding tax obligations.

b) Law no. 72/1996 on public finances submits a separate chapter on development, approval, execution and completion execution of state budget. According to this law "creation and use of funds belonging to state, outside the budget are prohibited". [15] Although this law endorsed in full the functions of public finances, it shows that during 1997-2000 certain tax liabilities occurring after Budget Law that year. Thus, the State Budget Law for 1997 have not included the following taxes: health insurance fund; national film fund; stamp duty for appeals and complaints; fees for issuing documents under the ship. In 1998, the taxes perceived in violation of Law of public finances was: taxation of foreign persons in Romania; special fund for civil aviation; authorization fee for sale of alcohol, tobacco and coffee; rates for services provided by the National Office for Cadastre, Geodesy and Cartography. Number of tax obligations without being included in the State Budget Law for 1999 has increased by: maintenance contribution; national solidarity fund; national solidarity fund in metallurgy; special fund for technology risk reduction in industrial machinery and equipment; fund reform; rates for services provided by the Romanian Railway Authority; rates for specific services rendered by Civil Navigation Inspectorate; extrajudicial stamp fee. For 2000 State Budget Law has not included: rates for access to the National Register of legal persons without patrimonial purpose; environment fund.

c) Under Law no. 42/18.12.1990 is achieved honor and memory perpetuation to those who have sacrificed their lives for the revolution, appreciation and gratitude for those who were

wounded in fighting, appreciation to the direct participants in actions for the revolution, appreciation to the descendants of the heroes of the revolution. In terms of financial and fiscal, descendants of the heroes-martyrs of the revolution, wounded, and disability pensioners who have lost all or part of work capacity in the fight for revolution, has a series of compensation and tax incentives.[14] The provisions of this law are considered two of the functions of public finances, respectively function of stimulating the national economy and function of socio-economic prioritization. Inappropriate action of the control function of public finance, determined that is not accurately known the real number of beneficiaries of tax incentives under this law, after 20 years. According to data presented, there are a total of 10 lists of persons eligible for Law 42/1990. Each list has a different number of persons, namely: List of official monitors – 51.576 persons; Presidential List – 25.449 persons; List of files from State Secretariat for Revolutionaries' Problems of December 1989 (SSPR) – 66.566 persons; List of files submitted for approval from SSPR to the Parliamentary Commission for Revolutionaries in December 1989 (CPRD) – 14.935 persons; List of approved files of CPDR – 14.017 persons; List of certified law 341 – 25.069 persons; List with the same number of certificates issued by many names - 761 persons; List the various court processes – 1.206 persons; List of acquired rights – 5.454 persons; Various lists – 3.124 persons.[16]

d) In terms of social considerations, peoples with disability have many tax incentives. According to statistics, the number of disabled persons increased in Romania, from 74.000 persons in 1992 to 437.024 persons in 2002, which is an increase of almost six times.[17] On September 30, 2009, according to data from the National Authority for Disabled Persons, the number of disabled persons was 669.523 persons, which represented 3,11% of the population. [18] Same functions of public finance have been considered for this measure, function of socio-economic prioritization and function of stimulating the national economy. But the data presented, leads us to ask questions such as: Criteria for inclusion in the category of persons with disabilities are well established or are very "elastic"? Independence of expert committees operating in the county level favoring or not favoring the inclusion in the category of person with disabilities? The case assessment process is conducted properly? What is the action of control function?

e) The process for declaring some romanian areas as disadvantaged areas was seen as a source of economic recovery and source of jobs. Attracting investors to these areas could be achieved only through tax incentives, such reduction in tax obligations. Many investors have shown interest in the facility for disadvantaged areas, but it appears that the impact on infrastructure and living standards in these areas not increased as expected. Why? Because the ability of certain entrepreneurs for obtaining the LFA investor certificate has not led to investment in that area, but generated circumvent tax. What is the explanation for those companies that have benefited from facilities three or four times times their investments made? According to data from the Ministry of Development and Prognosis, in late 2000, in three of the seven regions that were deprived areas, share facilities far exceeded the value of investments. Facilities volume in relation to capital invested, represent 140% in the South East Zone, 120% in South Zone and 104% in Center Zone. Once again, it can be argued that control function of public finance not exercised properly. [19]

f) Micro or macro fiscal decisions are closely related to the function of attracting resources. Their action should take into account the structure of taxpayers, because it is possible that a measure of fiscal policy which aimed to increase tax revenues, leading to their reduction. An example for this is the introduction in Romania, since may 1, 2009 of minimum tax, according to the portion of total income corresponding previous fiscal year.[10] In 2009, the introduction of this form of taxation led to significant changes in the structure of taxpayers. "Following the introduction of the minimum tax, the number of authorized individuals registered to National Trade Register in the first five months of year 2009 was 26.254, up 32,6% over the same period last year ... Number of firms that entered into insolvency in the first five months of year 2009 increased by 60.5% from 6.035 to 9.687". [20]

Negative aspects could go on ... We will try to present schematically the systemic approach of public finance functions, to eliminate these negative effects.

THE SCHEME OF SYSTEMIC APPROACH OF PUBLIC FINANCE FUNCTIONS

Any company can be likened to a small forest.(Inamori, 1998) If those who "live" in this forest are happy, little forest will thrive. Society can be considered the big forest, surrounding businesses, a kind of cycle that is based on the industry. In the natural rhythm of the cycle of this great forest, employees, investors and consumers should be happy, to "live together", to coexist in a global society.[4]

The scope and role of public finances is understandable only to the extent that ensure a real partnership between the state and taxpayers. In relation to corporate taxpayers, must be provided the link between governance, taxation and investment climate, (Phillips and Sandall, 2009), based on three directions: (a) Good governance provides a good tax system - an efficient administration, trust in government and political stability are key elements for creating an equitable and efficient tax system, which is capable to generate economic development; (b) An optimal tax system generates good governance - state capacity to collect and manage taxes effectively, promote the general economic prosperity; (c) Governance and tax system constitute investment climate - disproportionate distribution of tax burdens, inefficient and unfair tax reforms, tax reductions and exemptions granted by political criteria, are just some of the elements that may discourage investment and participation in the formal economy.[7]

The action of resource allocation function, leads us into the sphere of public expenditure.

Between state expenditure and individuals expenditure are both similarities and differences. (Hunter, 1921) The public expenditures are similar to the private ones, both have to do with the giving up of money. Major differences between state expenditure and individual expenditure refer to the following: state expenditures cover a greater range; for expenditure, the state can not compare the cost of service with the value of service; state expenditure measure its needs and not be limited to income levels. [5]

Presentation of these issues, and identify adverse effects of sequential approach to public finances functions requires scrolling through eight steps that can be represented schematically as:

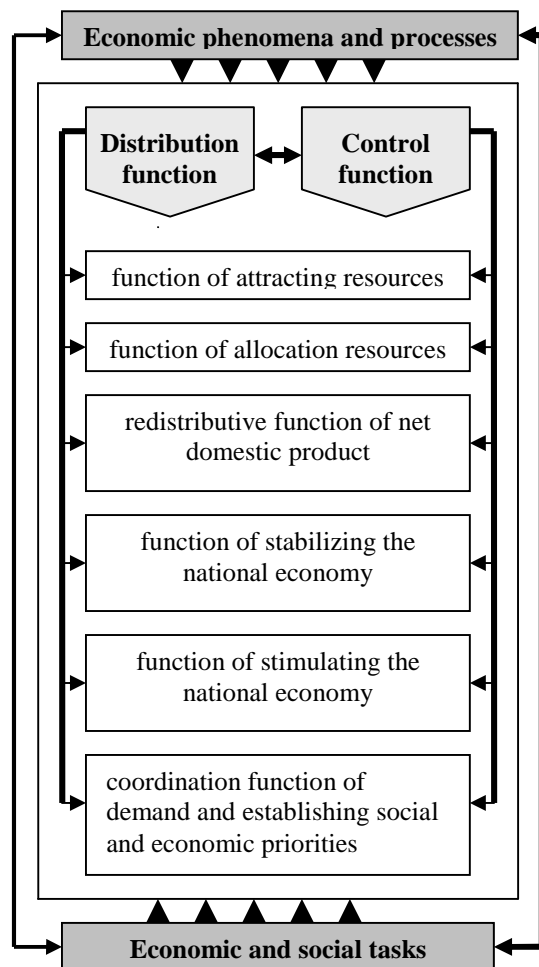


Figure no. 1. A systemic approach to public finance functions

The eight steps leading to a systemic approach to public finance functions are: (1) identification of economic phenomena according by society development level; (2) establishing social and economic tasks resulting from the manifestations of these phenomena or processes; (3) finding fiscal-budgetary solutions to achieve tasks; (4) establishing correspondences between tasks and solutions; (5) identify the functions of public finances in direct and benefit correlation with the chosen solution; (6) analyze the impact of solutions chosen over the other functions of public finance under indirect correspondence; (7) waiver of those solutions which have been identified in the previous step with possible negative effects and can not be avoided; (8) implementing solutions and start action of control function.

The key feature of this approach to public finance functions is that, between distribution function and control function do not exist relationship of subordination, but there is cross compliance, each function offering to other function an field for manifestation.

CONCLUSIONS

Without claiming a comprehensive approach, through this article, we wanted to emphasize the very important role of public finance functions in socio-economic life of a nation. Since, mobilization of monetary resources generated by the distribution process of gross domestic product is completed by creating funds for economic and social macrosystem, we considered appropriate to identify the best approach of public finances functions, which in our opinion is the systemic approach.

Using traditional instruments of scientific research, based on analysis and synthesis, induction and deduction, general and particular, we tried to achieve relevant analysis on these complex phenomena in the sphere of public finances.

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