

THE CURRENT BUDGET DEFICIT

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Abstract:

As a result of the more rapid growth of the public expenses compared to the public income, in many countries, either developed or undergoing development, the budgets are more frequently drafted and closed with a deficit. The budget deficit is considered as a chronic phenomenon of the contemporary finance. The causes of the budget deficit are multiple and they vary within the domestic economy, as well as in the international environment. The budget deficit is caused by the accelerate growth of the public expenditure, with supporting the growth rate, the public resources or the environment phenomena which influence by means of the exchange rate and the interest rate.

Key words: budget, environment, deficit

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1. INTRODUCTION

We begin our attempt to explain the economic resource signification of the budget deficit by questioning whether the budget (the public asset) of a state can be identified with a system of organizing the human activities¹. We believe that the answer is affirmative, as the state budget is the synthesis of such an organization, with the following mentions:

- a) the budget is the form of organizing human activities at the society level, devolving the responsibility upon a representative executive;
- b) the budget combines a series of human and material resources, structured with the view of defining and accomplishing the objectives that a society sets and assumes by the representative executive.

Here is how the praxeology of the organized human activity, from the exercise of power point of view – the executive – gives us the possibility of regarding the budget as the effect of a more complex action than a simple table of income and expenses.

It is fascinating that this approach was inspired by Thierry de Montbrial who, dealing with the praxeology issues, did not exactly reach the idea of a national budget. However, based on the theoretical analysis of the basic components named by him “active units”², as study object of the praxeology, one may suggest that not only is the national budget a form of organizing human activity, but also a means of power exercising (the social – the subjective) over certain resources.

If a state can be identified with an “organization” (defined as a sum of norms and procedures), then **the power** is exactly the capacity of “the organization” to activate the resources and shape a direction with the view of objectives accomplishing. It is easy to perceive the state budget as such an instrument by which the power (the executive) implements **the power concept** under its double aspect, namely **the proper activation capacity** (conscriptio) of the resources and **the leading capacity** as such.

¹ Thierry de Montbrial, *Acțiunea și sistemul lumii* (Action and System of the World), Expert Publishing House, Bucharest, 2003.

² Thierry de Montbrial, *Acțiunea și sistemul lumii* (Action and System of the World), Expert Publishing House, Bucharest, 2003, p. 3-76.

One more observation must be made, namely that, within the state budget, the power is exercised over things (a technical dominant aspect), the human aspect not being absent or neglected (with it, as a resource, for it, as an objective).

2. THE ECONOMIC RESOURCE SIGNIFICATION OF THE BUDGET DEFICIT

Incursion into Praxeology

We must also remind that an essential aspect of the power is the capacity of **setting** objectives and **strategies for** a society (a group of citizens – **an active unit**), which is inseparable from **the responsibility towards the public asset**.

The public asset is mainly the result of repeating the successive execution of the budget, of collecting public income and of spending such income on public assets and services; it is where the state – by its power – has been better placed in producing them than the individual by his initiative.

By dealing with the issues of the budget in relation to the social, we reach the most delicate issue, namely that the budget is also **an instrument part of the decisional systems** and, as a consequence, it cannot be isolated from the specific interests of the power, interests which are first potentially and afterwards effectively promoted by the legitimacy of the power itself (free and fair elections).

We consider it absolutely necessary, as to the purpose of this chapter, namely to identify the deficit as an economic resource, to place the budget of a state in the much wider area of praxeology.

Moreover, the budget deficit plus the budget expenses, generative of public assets and services, need a deeper analysis than their pecuniary value, thus becoming clear that the constitutional procedures (formal), even in a democracy regarded as a norm and not as an ideology, are not sufficient to explain the significance we are searching for.

If we try to conclude this incursion, then the budget deficit, as a value with a negative sign or as percentage from GDP, must be correlated with several aspects:

- a) the budget deficit is an integrant part of the activated resources (human and material) for the accomplishment of certain objectives;
- b) the activation of the resources is an obligation of the power/executive, legitimated by the acceptance of the objectives by the society through the democracy exercise;
- c) the power cannot be isolated from the specific interests of the leaders, interests which became significant by their legitimacy;
- d) **the option of a budget deficit is part of the decisional system** in which the power is involved, more than its ascension through the constitutional procedures;
- e) the responsibility of the public asset assumed by a state, temporary managed by a certain legitimate power (the executive), does not mean an automatic accomplishment of the objectives within the limits where the resources have been activated;
- f) as a consequence, **the budget deficit may be considered a policy of supplementing the resources at a given moment**, an option of the power, which cannot be alien from its interests and from certain legal, and also conventional constraints;
- g) the budget deficit, although expressing an action of the power over things (public assets), is an action which must eventually concern the human factor, its spiritual and material necessities in the area of substituting the state in

- accomplishing those objectives which the individual alone cannot reach;
- h) moreover, **the budget deficit must be identified with a public asset**, not out of simple morality, but out of reasons of state existence and action of the power.

3. ACCEPTABILITY AND POLITICAL LIMITATIONS OF THE BUDGET DEFICIT

If the **potential** can be identified with a **portfolio of permanently amendable resources** according to certain “restrictions” (concerning objectives, quantity, standards etc.), then the budget deficit is an amendment of potential by the power in relation to certain objectives.

Is this amendment of potential by means of the budget deficit acceptable, understanding that this is, in fact, a resource? Is this at the same time moral, considering that the present budget deficit becomes a debt which shall eventually be paid by the citizens?

The answer must be regarded through the responsibility of the power, the political one first, as the citizen expects results, he wants quality tangible assets and services and he is interested less in the value of the deficit as a sum registered with the minus sign or as percentage from GDP.

The budget deficit as an economic resource must be first analyzed according to its counterbalance into public assets, and its morality and acceptability must be first related to the effective quality and quantity of this counterbalance. The budget deficit – according to mathematics or accounting – as a sum of impersonal value differences in different expense chapters is less relevant for our purpose.

Whether we like it or not, it is more correct that the budget deficit is identifiable as a counterbalance within precise public assets, its destination being certain, tangible and material, so that the citizen can see it and feel it. This can be considered the only morality of the budget deficit, political, economical and financial, subsequent to accepting its occurrence, as a political decision.

- Such an approach imposes that **the budget deficit**, similar to public expenditure, **has a precise destination at the level of the budget project**. Engaging the supplementary economic resource as budget deficit, politically justifiable, must serve a very well defined objective, as accomplishment, but especially as political effects.
- The predominance of such an approach is imposed from the point of view the transparency, the visibility, the credibility of the public expenses and the engagement of the public.

At the same time, the budget deficit confirms its quality as an economic resource when it fulfills the condition of identifying it within the public assets whose consumption facilitates the conditions for covering the part of the generated public debt.

The predominance of placing the budget deficit on “black holes” is the result of regarding it with suspicion and fear, in the context in which the execution of the budget “melts” the expenditure destinations for public assets, as characteristic of the currency itself, appropriate for any kind of payment and, as a consequence, for a flux of depersonalized expenditure.

We anticipate, by this approach, not only a possible, but also the necessary thoroughness of drafting the budget project **based on programs and projects**, the current presentation form being ranked second, namely the pure technical execution, the accounting analysis, the registration with the national accounts, the routine control by the Court of Accounts etc.

In other words, the opportunity of the budget deficit (which can be zero) must be connected more to the objectives and less to accepting an algebraic sum, which would mean, among other things, that all the fields contribute with a certain percentage to the budget deficit, a dispersed responsibility of the credit accounts and, not last, the acceptance of the deficit as a necessary harm, without positive consequences.

4. CONSTRAINTS OF THE BUDGET DEFICIT

From the same perspective we are trying to consolidate, that of the budget deficit as an economic resource, and discussing about constraints, we must go back to the definitions of the economic science. Among these, we prefer that of Raymond Barre, prior to those of P. Samuelson and E. Malinvaud.

“The economic science is the science of managing rare resources. It studies the forms which the human behavior undertakes in amending these resources, it analyzes and explains the methods in which an individual or a society affect limited means for satisfying numerous and unlimited needs”³.

From this definition, *the human behavior appears as dominant* in amending the rare resources, and this must lead to the economic resource signification of the budget deficit.

Firstly, the budget deficit must be interpreted as a rare economic resource, with several acceptations:

- literally rare, including the fundamental characteristic of all the resources;
- rare, in the meaning of its responsible engagement;
- rare, in the meaning of the acceptable percentage.

Secondly, the budget deficit is decided by the human behavior, an assumed responsibility which can only be political, with the view of accomplishing certain objectives.

Thirdly, the reasoning of a budget deficit, as a rare economic resource, necessarily imposes a cost-benefit ratio: **affecting limited means for numerous needs.**

In other words, the effect of the budget deficit must have a meaning perceivable at the society level (and not at the individual level), apart from that of the specialists.

A rare resource is always used with restrictions or is subject to certain constraints. As to how lax these constraints can be, this could be a rhetoric question after the experience gained during a century of economic management and after a few decades of the IMF and the World Bank Group operation.

These constraints are no longer conventional, but they became a science themselves. The economic convergence indicators at the euro area level are exactly the expression of such a science, all the more as it is not about a country, but a group of states, which place in a functional interaction, towards the same objectives, as many national economies, each one with its rare resources.

If the budget deficit, as a rare resource, is the focus of the economic science from the human behavior point of view, then the decision regarding the budget deficit can be suspected of voluntarism. At present, this is no longer possible, generally because of the risks that a rare resource is found in “a black hole” and especially because of a discipline set up or imposed due to the affiliation to willingly chosen clubs.

This discipline, along with the science, comes to confirm the economic resource signification of the budget deficit, its “amendment” inviting to reason the use of a rare resource.

³ Raymond Barre, *Economie politique*, PUF, vol. 1, ediția a 10-a, 1975, introducere generală, cap. I, paragraful 2. (Raymond Barre, *Political Economy*, PUF, vol. 1, 10th edition, 1975, general introduction, ch. I, paragraph 2)

We may conclude that namely the constraints which the budget deficit is subject to, which refer to its use as a rare resource, the impact of the human behavior, its dimension admitted as standard or as discipline eventually complete and strengthen its economic resource signification.

This resource does not exist “per se”, but only in relation to a very well determined and defined objective, by which the power can prove its capacity of activating it, inclusively from the point of view of recovering, but especially of managing it, that is the objective taking place for the community sake.

5. MANAGING THE BUDGET DEFICIT AS AN ECONOMIC RESOURCE

In terms of the budget deficit being considered, to a certain degree, a supplementary resource, its management must observe strict regulations.

The first regulation, in relation to the demonstration we tried to develop, is the necessity of precisely determining the destination of this deficit. Its impersonal use as a sum representing the public expenses non-hedging, within various areas, does not reveal its positive potential, but emphasizes its negative connotation and even its hermetic quality, decipherable only for specialists.

As the budget deficit is first of all a political deed of the power, it necessitates a plausible explanation, namely what it turns into as a public asset. The purpose of the political decision is the credibility of the objective financed by means of the budget deficit, and not the dimension of the deficit within the constraints. Consequently, the ability of setting it up as a resource relies upon the confidence regarding its finality and upon the proper management of this finality.

The second regulation refers to the fact that a budget deficit assumed as an economic resource for an objective is consumed at the entire level, estimating that the objective can be achieved within the parameters which sustained its necessity, by using in totality the assigned finance. It is incorrect how a controlled budget deficit is improved, by reporting its reduction by means of budget execution. The improvement is an accounting result, reflecting most various situations:

- unexpected growth of the budget income, by directly supplementing the resources;
- savings with the expenditure, reflecting the total expense capacity for certain destinations, in the absence of the technical projects, or lower expenses by unobserving the initial parameters of certain projects;
- the dilemma or paradox of the expenditure transfer from one destination to another, with the obvious significance of not accomplishing certain objectives – public assets etc.

Consequently, the improvement (decrease) of the budget deficit with a mathematical and accounting relevance does not represent the guarantee for its efficient use as an economic guarantee. This consolidates the idea that the “en gross” management of the budget deficit, as a political decision of the power, is different from the simple technical budget execution we are accustomed to and by which we are tempted to enjoy interest savings, without the certainty of achieving the physical objectives and of such objectives being tangible. The society is interested in accomplishing, on time and within the expected parameters, the promised public asset, and not in reporting savings which, for a budget set up with a deficit, are usually virtual.

The third regulation – and here we notice the convergence towards the technical management of the budget deficit – is that its finance as an economic resource must be non inflationary. If not, we do nothing but reduce the real value of the economic resource controlled by the budget deficit, with the same negative

consequences on the objective achievement – the quantity and/but especially the quality of the public asset.

The plea for these regulations is meant to demonstrate the necessity of completing the analysis of the budget execution from the expenses point of view, including the deficit, by executing the objectives, not limited to what is happening at present (based on notices or *ex officio*).

The execution of the budget objectives must be performed in terms of the consumer's perception of the public asset, not only as "a watch dog" of the public money, for which purpose a specific methodology will have to be drafted. After all, we can accept the necessity of adopting the same concept of "consumer protection" in case of a budget execution as well. This will help making the major distinction between the process of the public money expenditure and the social impact of this expenditure according to the real offer of public goods and services.

At this point, we reach the morality of the budget and implicitly that of the budget deficit as an economic resource, closely connected to the responsibility of the power towards the public asset expected by the citizens, most of them contributors to the public income.

The expenditure of the public money is a face of the principle of subsidiarity. What the citizen cannot efficiently spend on certain needed goods and services is supposed to be spent by the state, towards which the citizen has transferred the prerogatives of ensuring public assets and services. Therefore, it is moral that the state is responsible in front of the citizen for the attributions constitutionally deputized.

Good faith and the presumption of innocence oblige us to trust the morality of the budget organization and, implicitly, the controlled deficit assumed by the power. In terms of this morality, the budget deficit is not mainly a loss or a cause for public debt growth (bringing upon bad connotations), but an attempt of perpetual amendment of the (rare) economic resources in view of satisfying numerous (even unlimited) needs. This engagement is absolutely moral, being dominated by the society needs, the budget deficit being the instrument.

There is also another way of justifying the morality of a budget deficit as an economic resource. Here we must recall again the definition of the economic science and its character, by reviewing the object and the nature of the economic science.

In a letter dated 1938, Keynes wrote to Ray Harrod, with reference to the logic coherence of the economy, by modeling, and to the art of choosing pertinent models, that the economy is a moral science and not a natural science, as it relies upon introspection and valuable judgments.

The affirmation sets us in difficulty as regarding the answer whether there is objectivity in the economy. We now have the possibility of separating a positive analysis freed of valuable judgments from a normative analysis implying such judgments.

Returning to the postulate enunciated by Max Weber (that, in the social sciences, there exists the possibility of objectivity) and towards our subject, we must avoid the trap of such a dilemma, also trying to simplify things.

6. CONCLUSION

The budget deficit needs a positive analysis doubled by the analysis of the internal coherence and of the valuable judgments. We refer to the valuable judgments *a priori* to the option of a budget deficit, which try to fundament it in order to be acceptable for the citizen from the pursued (controlled) objective point of view and the valuable judgments *a posteriori*, by which to rationally notice the objective achievement.

This moral approach is imposed by the economic science not only by custom, but also by the ethics which must characterize it, especially when it comes to the impact of the public policies on the community. The budget deficit is, after all, a form of implementing the power, where “the power is not justified but by actions concerning the humankind welfare”.⁴

Good faith tells us that it is moral to make politics for the sake of humankind.

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⁴ Thierry de Montbrial, Acțiunea și sistemul lumii (Action and System of the World), Expert Publishing House, Bucharest, 2003, ch. XI: Morals and Politics, p. 358.