

# THE BUDGET - A PARTICULAR APPROACH FOR THE PUBLIC SECTOR INSIDE THE EMERGING ECONOMY OF ROMANIA

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## **Abstract:**

*Although considered to be unproductive in comparison with the business environment (due to the lack of competition between the structures which are activating in this domain), the public sector presents a particular importance for the economy of any country, the aspects bounded of its approach, from organizational and functional point of view, and the particular structure which budget presents in relation to the financing of the authorities and institutions of the public sector being the main issues discussed inside our article. From the global approach to public sector, through the budget, the research is focused on the emerging economy of Romania.*

**Key words:** budget, public sector, emerging economy

**JEL classification:** H10, H20, H27

## INTRODUCTION

Identified with a set of organized structures whose purpose is the management of public funds, meet amid increasing number and complexity of the challenges of modern society, public sector, through the public authorities and institutions which represents its component, have the task of an increasing tasks management and the quantification, in terms of budgetary revenues and expenses, of the resources and their destinations, in the context of the legal framework which govern its activity. The importance of public sector consists from the analysis of two-way expression, organizational one (seen as administrative structure) and, respectively, functional one (as authority, public power or provider of public goods and services) through which it makes its presence felt in everyday life.

## PUBLIC SECTOR IN DOUBLE SENSE: ORGANIZATIONAL AND FUNCTIONAL

From organizational point of view, focus is on the state image as a set of institutions with regulatory role whose reason for existence is represented by production rules or conducting control activities, guidance or control. Organizational putting the problem, the public sector image is gave by the existence of the central public administration, regional, local and of a sequences of subordinated structures [1][2]. For Romania's case, at central level, the administration is composed by: the President and the Government, as the supreme organ of government; ministries, other government bodies subordinate to ministries and autonomous administrative authorities invested with the title of central bodies of specialty; a plurality of economic entities such as public institutions under the ministries authority, autonomous administrations of national interest, companies and national societies and companies where the state holds majority stake; public institutions whose subordinate regime is applying in relation to autonomous administrative authorities[15]. Territorial level of public administration is reserved to prefects and decentralized public services of ministries and of some other central organs and, at the local level, administrative organization assumes the existence

of local councils and mayors, county councils and chairmen, institutions and public services of local or county interest, autonomous administration under the authority of local or county council and commercial societies to which an administrative territorial unit has a majority capital[3].

Looking the state functionality (activity), that is identified, for the beginning, with a set of institutions whose purpose is to perform state functions and then, with the purpose or role of the mentioned institutions. So, known as legislative function, the achieving of legal rules is the prerogative of representative assemblies (Parliament-Romania, Saeima-Latvia, Lithuania; Sejm-Poland etc.). Function of implementing such rules or executive function falls under the responsibility of the President, the Government or, in other countries, to the Council of Ministers (Bulgaria and Poland). Function of settlement of disputes arising in society or judicial function is the prerogative of judicial bodies that can take various names (Supreme Court of Cassation -Bulgaria, Supreme Administrative Court -Bulgaria and Poland, Courts of Appeal -Lithuania, Courts, the Public Ministry, the Superior Council of Magistracy -Romania etc.). For a better understanding of the notion of public sector we present below, a number of approaches regarding its definition, as shown in Table 1.

Table 1 Defining elements and characteristics of public sector

| <b>Public sector definitions</b>   | <b>Comments</b>  |
|--|--|
| Include national governments, regional governments (for example the ones at the level of province or territory), local administrations (with examples at the level of city, town, village, sector etc.) and the corresponding government entities (agencies, boards, commissions etc.)[9].   | According to this definition, focus is on the organizational structure of the State which, most times is oversized, without this state of facts to represent a guarantee of efficiency and effectiveness of its actions.   |
| Ensemble of organizations where is prevailing the mode of political or collective decision, whatever the political regime in that country is (dictatorship, monarchy, direct democracy and representative democracy).  | Definition highlights how the State adopts the decisions aimed at state and citizen welfare.   |
| Serves to the public through a set of hierarchical structures sensitive to politicians. The latter are those who are considering the legislative side of things following the public interests, because they depend on public voter, and administrative services are those that must provide, effectively, the goals to be achieved (the traditional model of state)[5]. | But the model can easily be put into question regarding truthfulness, effectiveness and applicability because, in our opinion, it is unrealistic (unfortunately, especially in recent years, there is a movement of interests satisfying from the public to the private area or to certain groups or persons)[10].   |
| Is part of the superstructure, is placed entirely at the service of the ruling class and represents an unproductive sector, parasitic (Marxist model).   | This conception, in fact, reject the structure and pluralist democratic processes.   |
| The public sector is placed in relation to competition with the private sector [4]. Borders between the two sectors, although are not well defined, is in constant movement, their variation is determined by the society itself, following the victory in election of different political currents (liberal model).   | Increasing the size of the public sector involves increasing the amount of public expenses and, by that, an increased state involvement in economic and social life that benefit, finally, also the private sector [11]. The decreasing of public expenses can have as effect the public service sector contracting, with negative effect on the economic and social environment |

| Public sector definitions  | Comments   |
|--|--|
|  | from which, the private sector is part. In terms of public revenues, its reduction has the effect of lowering the number or degree of public satisfaction and its increasing, to which also contribute the private sector, is a source of wealth for all (for citizens of both sectors, through the realization of health, culture, recreation actions etc.). As consequence, tilting the balance, according to the ideologies of parties in power, in favor of one or other of the two sectors seems not well in sense that, between them, should be a balanced relationship. |
| From juridical point of view, the public sector includes state and public bodies.  | This approach is founded on the influence that public law exerts on state structures.  |
| In financial terms, besides the above organizations, public sector includes private institutions largely publicly funded, and non-profit organizations from health and education domains[12].  | Performs an extension of the legal definition by including in the state structures of the private organizations which are performing activities of public interest.  |
| Functional putting the problem, public sector includes all organizations of public administration, social security, law and order, education, health, social and cultural services, regardless of funding source and type of organization. | One possible definition of the state in terms of destinations that are allocated public funds or in relation to the functional classification of expenses.   |
| Set of public enterprises and public administrations or, a narrower sense, ensemble of companies in which the state exercises a preponderant influence.  | The public sector definition according to the property criterion (the public sector participation in the equity of private economic entities that are carrying out public services)[14].   |
| The sector which, calling for a series of specific tools such as means and politic instruments exercise the control of the society in areas such as production, prices and tariffs system, finance and public administration.              | In relation to the role of state looking the regulatory aspects, adjustment and correction of economy (aims in this way to preserve the legal limits set by the legal frame).  |

Although constantly challenged in terms of size and efficiency which gave and gives evidence, public sector's role in the economy is a necessary one and manifests itself in ways that aim: eliminating or removing imbalances such as inflation or unemployment by adopting macroeconomic politics in tax domain, public expenses, monetary, budgetary etc.; regulatory measures of economic activity with reference to setting prices (for the situation when market, by the law of demand and supply proves unable to provide a satisfactory price, both for producer and consumer); determining the minimum wage, management and administration of public property, subsidies payments, mediation of labor disputes (if by extension they affect a particular industry or economic sector), granting of aid etc.[13]. Referring on the two facets of public sector, we ask ourselves: Where state's organizational valence ends and where it begins the functional one? The answer is, in our opinion, the one that is not possible to separate clearly the two attributes because the biunique relationship between them (we can not talk about functional structure without authority because, in this case, the state's actions

efficiency is not justified – a good governance of the economic life's aspects is impossible with no authoritative introduction and implementation of rules and regulations, as there is no organizational capacity, without the existence of an adequate infrastructure be exercised through which).

### **PRINCIPLES AND RULES AT THE BASIS OF THE BUDGET DRAWING UP**

Perceived, generally, as document in which are sign up the probable revenues and expenses of the public sector, but also of the private one, the budget occurs as a result of two vectors: the establishment, in advance, of a list of revenues and expenses (translated by identifying certain income likely to be received and expenses possible to made, of the many elements of this kind generated by the conduct of economic life); the compliance during execution, of the once established options. At the public sector level, the budget valences are manifesting in terms of: juridical (achieving of financial management by resorting to tools such rules and regulations of regulatory character), accounting (all accounts in use to manage the financial resources of the state and their distribution by destination), *economic* (the mode of GDP distribution under the expenses aspect) and *political* (image of Government options translated in financial terms).

Whatever the nature of the work of the public institution is, the public budget presents the following characteristics:

- budget preparation and approval processes prove meaningless if are not followed by its execution;

- the aims which necessitate budgeting generates, as rule, results that can not be accurately quantified;

- the content of public budget differs radically of the one of private entities because of the fact that the public entities have total different objectives (are producing public goods and services) in comparison with the one followed through the activities of the economic agents of the private sector;

- the impossibility of a perfect correlation of the budgeted expenditure with the probable income to be received (as rule, the former are superior to the latter in size).

The limited resources that a country has and almost unlimited needs of individuals which must satisfy make, on the one hand, difficult the budgeting on the grounds that may occur, on this occasion, the need for options which can give to this forecast document a guidance or in the consumption direction (salaries, goods and services etc.), or in the investment direction. And the problems do not stop here because, after that, can lead to the need to opt between different categories of investments or between different categories of consumptions. All these aspects are translating in practice, by subjecting the revenues to finance the expenses of the same nature.

A realistic budgeting suppose so the establishment of certain actions, the options establishment means to do politic thus, by translation along this axis, we can say without fear of making mistakes, that budget confirms its political character, regardless the one at the basis of its development (a person, an economic entity, a city or a state)[6]. Once constructed, the budget, as the cash expression of state activities which are necessary to perform its objectives (through programs and reflecting the funding possibilities of the latter ones), is followed in execution (expression of the supervision of public authorities such as: by legislative authority to the executive authority – the legal obligation of the Government to submit to Parliament the annual general account of the public budget execution and the annual account of the social insurance budget execution; by executive authority over administrative authority – the obligation to submit to this authority (Ministry of Public Finance) of the execution annual account of

the main credit officers budgets; at internal level, inside any structure which compose the administrative authorities)[20]. The need to monitoring the implementation of the budget lies in the importance of surprising, on one side, of the financial resources utilization efficiency (resources which are necessary to realize the public activities) and, on the other side, in the expenses control. These aspects (functions) can be completed with the indications that the budget serve as information source for the interested one, whether it is in draft or approved phase, and that it constitute an coordination instrument which integrates the government activities, through the information related to the revenues and expenses, offering a complete image of the politics, objectives and activities developed by the state[21]. In another train of thoughts, by trying to allocate scarce resources in order to obtain the highest possible economic satisfactionă, the budget proves its economic character. Lastly, but not the latter, should be noted the fact that the budget releases technical elements expressed its ability to predict the likely levels of revenues and expenses. Thus, the financial resources due to the budgets are known under the name of budgetary revenues, and the amounts approved by the respective budgets are budgetary expenditure. The total budgetary revenues and incomes, as an expression of revenues and expenses of the same nature, aggregate at national level are consolidated and become, after this procedure, expression of public financial effort size in term of one year[16]. The comparative approach of the two budgeting, can reflect, according to the relationship between these, the balance, surplus or deficit state, after case. In relation to the above aspects, the budgeting should be a responsible act designed to meet, in the highest possible degree, the expectations of budgetary resources consumers, motive for which must be built on a clear principles basis, of the kind specified in Table 2.

Table 2 Compulsory budgetary principles and rules

| <b>Principle</b>                | <b>Description</b>  |
|---------------------------------|---|
| <b>Universality</b>             | Assume the budgeting of revenues and expenses with their total amounts on the grounds that revenues can not be directly affected to a certain budgetary expense, excepting donations and sponsorships (which have established distinct destinations); the application of this principle make possible to know the total revenues the public sector is to collect in a determined period of time and also, the destination that will be distributed[19]. |
| <b>Publicity</b>                | Requires that budgets and their annual execution accounts be made known to the public through mass media.   |
| <b>Unity</b>                    | States that in order to enter all budgetary revenues and expenses to be used a singular document, in order to efficiently use and monitoring of public funds. In this way also provides easier access to clear knowledge of revenues sources, expenses destinations and to the balance or imbalance nature of the budget.   |
| <b>Annuality</b>                | The approval of budget revenues and expenses shall be made by law, for a period of one year (budgetary year) and at the latter end, the budget functions cease to accommodate the application of the next year budget.  |
| <b>Budgetary specialization</b> | According to this, the criteria considered in the budgeting of the revenues and respectively for the approval through budget of the budgetary expenses are, for the first case, the provenience source and, for the second case, the destination and economic nature.   |
| <b>Currency unit</b>            | Expressed in national currency requires all budget operations.  |
| <b>Budgetary balance</b>        | Suppose that all budget's expenses must be covered from the revenues of the same budget.  |

## THE BUDGET STRUCTURE - IMAGE OF THE FUNDING SOURCE IN THE PUBLIC SECTOR

The forecasting character of the budget, related on one way by the accumulated resources and, on the other way, by the mode in which these will be consumed is completed by the attribute of „instrument of the financing mode knowledge” for the entities which are composing the public sector [18]. Thus, a budget composition in which we retrieve elements of revenues, subsidies and expenses denotes funding from own revenues and grants (the source through which the allocation of subsidies is realized being represented by the superior officer of credits and their destination being represented by the covering of the difference between the revenues received and the expenses to be made)[17]. The absence from the budget of the subsidies but the existence of revenues component denotes completely funding from own revenues (the case of the entities from the public sector which provides financial support for their activities or are self financed). A particular case of such institution is represented by the autonomous public institutions which, in addition to the payment of expenses from own revenues, have the attribute to not be subordinated to other public institutions (unlike the other public institutions financed entirely from own revenues but which have subordinated regime). For the last case, drawing a budget strictly only on the expenditure side is the sign of full funding from the budget, under the form of budgetary allocations. For a better understanding of the aspects related to the characterization of the public sector funding source, in accordance with the components of the associated budget and taking account about the case of the Romania's emerging economy we present the elements from Table 3.

Table 3 Characterization of the public sector source of funding through the budget structure

| Budget structure                           | Type of funding associated with the public sector  | Authorities and public institutions associated to the funding source  |
|--|--|---|
| <b>Revenues<br/>Subsidies<br/>Expenses</b> | Financed from own revenues and subsidies   | Municipalities, autonomous, national companies and societies of public interest whose activity is related to strategic sectors of the economy (National Society „CFR Travel” S.A., National Company „Maritime Ports Administration” - S.A. Constantza, RATB etc.)   |
| <b>Revenues<br/>Expenses</b>               | Full funding of own revenue (case of public institutions under the authorizing of superior officers) | Public institutions of higher education (public universities), Public health institutions (public hospitals) etc.   |
|  | Full funding of own revenue (case of public-autonomous institutions without subordination regime)    | They are very few and have the characteristic the fact that represents authorities in collaboration relations with Government (Romanian Academy, Ombudsman, National Securities Commission, Constitutional Court, National Council for the Study of Security Archives, Court of Auditors, Romanian Intelligence Service, Competition Council etc.). |
| <b>Expenses</b>                            | Full financing from the budget under the form of budgetary allocations                               | Public institutions of undergraduate (schools, colleges, etc.).   |

## CONCLUSIONS

From the analysis of issues systematized in Table 3 we can say that the different funding of institutions called to perform state functions and provide goods and services public performed, through the prism of the budget structure, a particular approach of public sector, generating different forms of this forecast document, whose drawing on realistic basis is underlying to a good functioning and, finally, to the efficiency with which state's resources are spent. And when it comes to drawing realistic should be considered the fact that this document must provide a real image of the probable revenues and possible expenses because the distortion in any sense of the two size does nothing that hinder the operativity and effectiveness of public sector institutions. Thus, one oversize of the revenues may represent a temptation in the waste of public money direction through the budgeting of certain expenses without any justification in terms of their necessity (in detriment of others of real interest through the social and economic impact they have) or by affecting, on different destinations, of completely inadequate amounts of money. At the opposite pole, a low level of the budgetary revenues can be translated as an impediment to the proper functioning of state institutions by under funding them and, therefore, through the impossibility to conduct of business in terms of activity's efficiency. For the expenses part, their over sizing may result, by the desire to achieve revenues able to finance it, or into a increased tax as a source of budgetary revenues, or into the resorting to loans whose effect is to increase leverage. As consequence, the importance of a realistic budgeting is, as we said, crucial given the fact that any of the earlier situations the public sector will be (in terms of revenues or expenses distortion), the effect will be that of the production of goods and public services which, either in quantitative or in qualitative terms, will not live up to the citizens expectations translating it finally, through an erosion of it trust in the necessity and effectiveness of state institutions.

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