DIFFICULTIES IN LIMITING THE EXPANSION OF THE ROMANIAN PUBLIC SECTOR

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Abstract: *Taking into consideration the dimension of economic public sector it can be considered as part of the economic system. One of the major and current problems is precisely the need to put a limit to the expansion of the budgetary sector, because in the last years we witness the progressive public sector expansion in the economy. In Romania the economic growth has been reflected more in public sector development at the expense of the undevelopment of the private sector. For that, there are difficulties in financing and supporting this oversized sector, based on income from household. We consider that appropriate measures must be taken in order to correct financial statemants for public sector by optimizing expenses for missions and programs. Financial statements of public sector as essential tool in the programming, budgeting, management and reporting must support economic and financial objectives set by European institutions in order to maintain financial stability and administrative responsibility in EU.*

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JEL Classification: *M48, M41.*

1. Public sector experience

The system of public institutions, which includes all entities belonging to the central and local Governmental administration, is designed to provide public goods in order to satisfy collective needs (Bostan, 2016).

After examining the functions of public sector economy, we need to take into consideration the dimension of this particular sector in the entire economic system environment.

In the last century, after World War II, and in Romania after the rise in to power of the communist party, we have witnessed the heavy growth of the public sector in the economy even in an overall frame of strengthening the competition, especially on the international markets.

Overgrowth of the public sector in the post-World War II period was due to the socialist centralized planned economy, which was characterized by the exercise by the public sector of an absolute monopoly over all economic activities: production, distribution of resources, movement of goods and services, employment and income redistribution, imports and exports.

A major contemporary problem concerns precisely into the need to limit the over sizing expansion of the public sector.

The German economist Adolf Wagner elaborated in the 19th century the law on increasing state activity. According to Wagner, when the economy of one country grows, the expansion of the public sector grows as well, but at a higher rate of that of the private sector.

The German economist and socialist theory highlights the need to limit the expansion of public finances of the local and central administration as well as the expansion of public economic entities due to the difficult growth of financing this sector, given that tax revenue comes from households budgets, and consequently, limiting the consumption and savings of the private sector.

In our contemporaneous economy the challenge is establishing the limit of this growth.

In the late nineteenth century and early twentieth century, the general thought was that an empirical limit may very wheel been considered as a reference to the tax burden expressed as the percentage ratio with private income.

With the spread of John Maynard Keynes theory regarding fiscal policy as an instrument of support and development for the economy, failed to fulfil the balanced budget rule, the empirical limit of public sector activity growth and placed it progressively at a superior level. Keynes believed that proactive public sector and government actions are an important tool to determine the economic growth.

According to the British economist, public sector strategy must include the rise in the aggregate demand, but the oversized contemporary public sector limits the job creation process and limits the development of household's prosperity.

The British and Australian economist Colin Clark, precursor of the national accounting surveys stated in the mid 50s that the limit of the public sector was at 25 percent.

In the 90s the relation between public and private sector was situated at 50 percent for the most industrialized European countries, and at 35 percent for Japan and United States of America. It has been claimed the process of growth of public spending reached the level which was difficult to overcome.

In our days, taking into account the European countries, United States of America, Canada and Japan, the modern economic theories focuses mostly on an percentage of 40-45.

2. The financial management of the Regions

2.1.The budget of the regions

The methodological norms provide that the Regional Council approved by law each year, in the condition provided from the state in its own terms, the annual budget and the multi-annual budget.

Figure no. 1: Public sector in Romania

The provisory financial exercise can be authorized, in specific format, in terms specified by the state and with the effects foreseen by the regional legislators in their official status, and it cannot continue, however, more than one trimester.

The settings of the estimates of income and expenditure of the budget of the region can be inspired by the methods used by financial planning.

For this purpose the region adopts each year, along with the annual budget, a long term budget, in which provisions taken into account referenced in those of regional programming and in any case no longer than five years.

Every region can adopt, in connection with the needs arising from the development of regional taxation, its own financial law which contains the legal framework for the reporting period contained in the long term budget planning. This consist of extended standards and norms meant to support financial impact with effects from the first year taken into account by the long term financial planning and regulated by regional and national laws and application norms.

Long term financial planning indicates, for each allocation of revenue and expenditure, over the relative share of the initial financial exercise, that concerning the next financial year.

The process of adoption of the multi annual budget or long term budget does not imply authorization to collect revenue, or implementing expenditure covered by it.

All the sums assigned to any given titles from the national to the regional which converge in the regional budget, without constrains regarding destination of the funds, except the case they correspond to the following allocations of administrative functions delegated.

2.2. The structure of regional budget

The yearly budget estimates of the region are prepared in terms of expertise and home and are divided into units of basic budget planning. The budget is decisive with regard to similar areas of activity, which make up the expertise of the regions.

Each unit of basic budget is explained in the following figure:

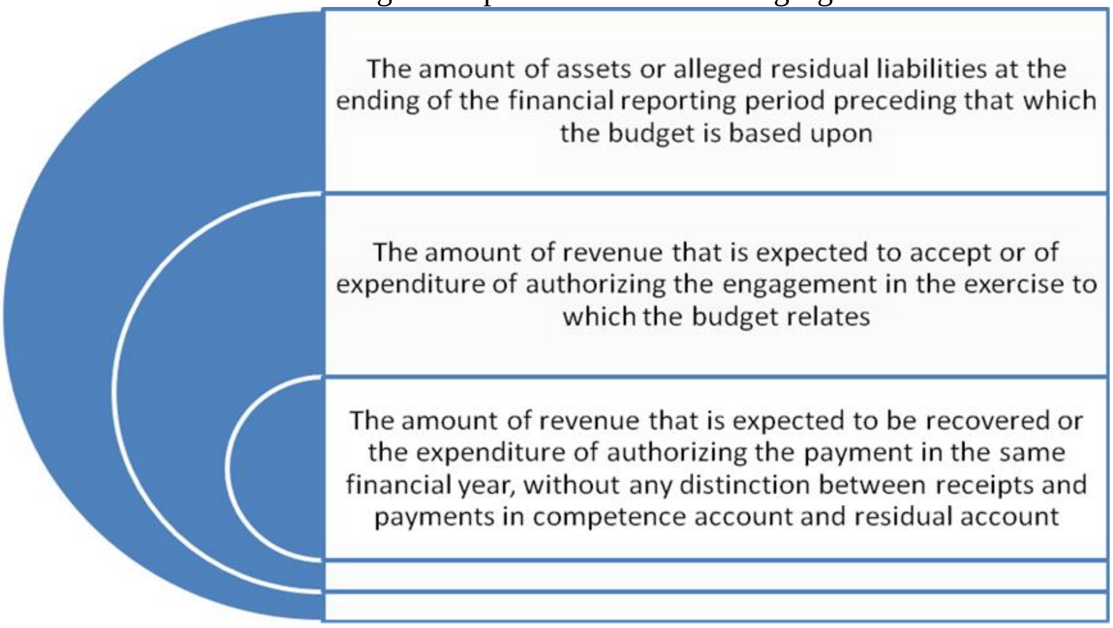

Figure no. 2: The structure of regional budget

Special accounting are divided into chapters is as all incoming and spending. For every region there is a analytic budget divided into chapters.

The competence expenditure appropriations are calculated only with respect to functional requirements and the objectives actually pursued over the period covered by the financial statements, to the exclusion of any quantification based on historical incremental expenditure.

2.3. The financial statements of local authorities

According to its definition, the balance sheet is an informative instrument but, in order to list such significant information related to the economic activity, the capital and financial position of a company, the data presented in the balance sheet must be thoroughly analysed (Grosu, 2014).

Regional law decide the terms and determine its responsibilities for the management of expenditure, in order to ensure appropriate controls of economic and financial nature in the context of each of combined operation of a service, of a sector as well as a programme or project of the region.

The regional regulations and norms standardizes the procedures of managing long term financial planning for the region, with those described by the norms and regulations applied by the national system as it regards the entry procedures and expenditure.

Regions, based on the rules of their respective statutes, ensure the autonomy of the regional accounting council, stops the internal regulatory powers attributed to the same board.

The long term financial planning is an essential tool for the planning, forecasting, management and reporting process of regional authorities.

Regional authorities decide the annual financial budget.

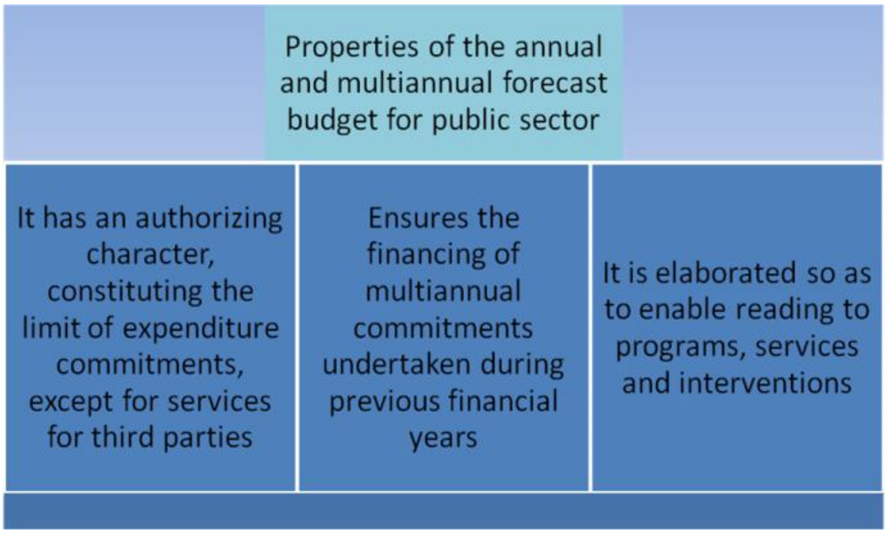

Figure no. 3. Properties of the annual and multiannual forecast budget

Capital expenditures may find their funding in the contraction of loans and the expenses with which finances the current expenditure.

3. Conclusions

Public and private domain and the administrative regional establishments were not always used in the public interest. The bugetary sector expansion was made without having any relevant cost-benefit studies. In Romania the economic growth has been reflected more in public sector development at the expense of the undevelopment of the private sector. For that, there are difficulties in financing and supporting this oversized sector, based on income from household. We consider that appropriate measures must be taken in order to correct financial statemants for public sector by optimizing expenses for missions and programs. Financial statements of public sector as essential tool in the programming, budgeting, management and reporting must support economic and financial objectives set by European institutions in order to maintain financial stability and administrative responsibility in EU.

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