THEORETICAL ASPECTS REGARDING PUBLIC EXPENDITURES

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ABSTRACT: *The first part of this work will treat the theoretical aspects of public expenditures. Taking the state as primary supplier of public goods, we have presented the concepts revolving around public and private goods, the theory of pure public goods, the four categories of goods and services, "club theory"etc. In the second part we analyse different concepts regarding public expenditures from an economic point of view, the subsystems of public expenditures, public versus budgetary expenditures, respectively public versus private expenditures.*

KEY WORDS: *public goods, private goods, public expenditures, private expenditures.*

JEL CLASSIFICATION: *E60, H50.*

State implication in the economic and social life is present permanently in two ways: on the one hand by supplying quintessential services for the society related to national security, defence, health, education, social security, research, environmental protection, and on the other hand, by exercising its attributions as market regulator. In a market economy the state can be considered an economic entity supplying *public* goods in order to ensure a healthy functioning of the economy, and this intervention is focused on public resources being transformed into public goods of undeniable and undividable access, free of charge to the beneficiary.

I the modern age it was Adam Smith, the father of modern liberalism, who first observed the distinction between private and public goods. He demonstrated that there are "goods which even though can be of high advantage for society, they are of such nature that the profits resulted from them could never exceed the expenses of an

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individual or a group of individuals, thus making them impossible to accomplish" (Smith, 1994, p.779).

Nevertheless it was the economist Paul Samuelson who synthesized the public goods theory (Samuelson, 1954, p.387) in the fifties. Intrigued by the issue of "optimal public expenditures", he drew the line between two main goods categories: normal private consumption goods which can be shared between individuals and collective consumption goods of which every individual profits with the only condition that their individual consumption does not diminish other individual`s. Pure public goods, as defined by Samuelson are non-exclusive and non-rivalling, meaning that they are in contrast to private goods which can be purchased only if the buyer can afford to pay the market price of the respective good (McNutt, 2000, p.927). A private good is of high exclusivity because it can be used solely by the person who owns it and who paid for the value of the profits resulted from its use and rivalling characteristic consists of the fact that an extra unit of a private good will always have a supplementary marginal cost borne by the buys of the respective unit. Public goods are those goods and services for which there is no rivalry on the consumption market and which would be impossible to exclude (Stiglitz, 2000). If non-exclusiveness refers to the impossibility of excluding a consumer from the benefit right after the good is produced, its non-rivalling condition alludes to the fact that after the good is produced, an increase in the number of beneficiaries would not diminish the profit volume of those who already benefit from the goods (Moşteanu & Boloş, 2006, p.71).

Table 1. Goods and services categories

Characte-ristics	**Possibility of exclusion (division possible)**	**Impossibility of exclusion (division impossible)**
Rivalry (advised division rate CM>0)	**A –** ***Pure private goods*** • low exclusion costs • private companies products • distribution as per market • financed by selling them on the market Ex. Food, clothing.	**D –** ***Mixt collective services*** • consumed collectively but with risk of sunt supuse aglomerării • produced by companies or the public sector • distribution as per market or free of charge • financed by their market price or by taxes Ex. Human resources
Non-rivalling (division not advised: CM = 0)	**C –** ***Mixt collective services*** • external private goods and services • distribution as per market with tax deductions and coercive taxes • financed through selling Ex. Transport systems, tunnels, bridges, training fields	**B –** ***Pure collective services*** • high exclusion costs • produced by the public sector or by private companies assigned by the government • distributed freely • financed from taxation Ex. National defence, public lighting

Source: Profiroiu Alina, Hogye Mihaly, Moldovan Bogdan Andrei, Economie şi finanţe publice. Financial management, UBB Cluj-Napoca, 2011

In economy literature we find many attempts of defining a classification of goods based on economic criteria. In the table below (Table 1) we can find a classification divided in four categories of goods and services for which consumption is rivalling or non-rivalling, and exclusion possible or impossible (Profiroiu, et al., 2011):

- *Private goods and services* share the two characteristics, that of rivalry and the possibility of exclusion. Their accomplishment is not only possible but desirable from a resource allocation point of view, as the cost of production is usually greater than zero;
- *Pure public goods and services* are defined by parameters completely opposed to the above category as their consumption is non-rivalling and non-exclusive;
- *A first mixt collective services category* is emblematic of non-rivalry and the possibility of exclusion: up until the available capacity, their consumption is does not influence other individuals` but the owner can always reserve the service for those who pay the exclusion price;
- *The second mixt collective services category* has the exact opposite characteristics: those of rivalry and impossibility of exclusion.

There are few pure public goods that offer non-rivalling and non-exclusive benefits to community members and they often set aside of mixt goods, also known as impure public goods, having only one of the two properties (Cornes & Sandler, 1996). As a consequence, in certain situations, public goods can be substituted with private goods. Moreover, there are numerous authors who claim that is advised that only goods of national importance should be provided by the state, and that the rest of the goods be provided by the private sector. Private economic agents can be united and organized so that they can increase their efficiency and productivity, this being the reason why that theory is also named "the club theory" (Cismaş, 2004). This theory, initially developed by James Buchanan, one of the most prestigious theorists of modern liberalism, can be applied from supplying regional and local decentralized public goods to community projects and neighbourhood schemes (McNutt, 2000). Buchanan considered that along with private goods, you must have certain public goods and services that satisfy simultaneously all the members of a society, stressing the fact that in this public goods "business" all members of the consumer group need to take part at the contract negotiations regarding service provisioning. This clearly distinguishes public goods commerce from private goods commerce in which is involved more than one person (Popa, 2013).

The public sector contains those institutions and organizations which produce public goods and services, but is encompasses also more than that, as shown below (Miroiu, 2002):

- Institutions and organizations which are in charge of state level decision-making and its consequences;
- Consumption, investments and transfers made by the government. Consumption and investments regard resource allocation and is closely related to consumer preferences; transfers regard resource distribution mechanisms and depend on societal dominant conceptions about equity and social fairness;

- State goods production: the state owns production means and directly produces some of the goods; the state supplies certain goods (not necessarily produced by itself; this can be done via the state order mechanism); the state hires labour force and is in modern societies the largest employer.

Public expenditures concept is tightly related to that of public goods and public sector. Financing by the state of different domains, objectives and actions, which result in public goods and services satisfying public needs and serving general society interests, generates public expenditures which in fact are the consequence of the state putting in practice its functions and attributions.

The term public expenditure is used in two contexts: judicial and economic. In judicial terms, public expenditure incorporates the whole of the financial resources needed to run the public institutions. It is thus shown that public expenditures are carried out through a complex group of institutions and public entities authorised to perform payment operations in respect to public financial resources, as per legislation in force. In economic context, the term public expenditure refers to all the economic processes that ensure the distribution of the gross domestic product or financial resources so that actions and objectives of public interest at a national level can be performed.

Public expenses occur as a result of the state exercising its role of public authority and economic agent. Therefore they can be analysed starting from the two visions of public finances, the classic one of the "police state" era, meaning a state protecting its assets and its citizens against neighbour aggression, based on the „laissez-faire, laissez-passer" principle (Gherghina & Crețan, 2012) and the modern vision of the "welfare state" era, ensuring welfare for everyone, with the intervention of the state through economic procedures, especially financial-monetary, capable of influencing in a favourable manner the economic and social activities.

In the traditional public finance vision, public expenses represent the starting point of the entire economic life. These are granted much importance as the general view is that the state first spends its budget and afterwards determines the necessary income to cover the expenses. On the other hand, there is a lack of attention regarding the nature of these public expenditures and the manner in which they influence the social and economic life. The classical opinion is that establishing a structure for public expenditures is not a financial issue, but one of political choice, with an emphasis on expenditure volume and not content. The state is thus left with handling limited traditional assignments as internal order, national defence, diplomatic relationships or education. Along with these limited assignments, the state is considered a police state, and its institutions' functioning expenses are reduced to a minimum considered necessary in order to achieve a low budget government.

The determining objective in the public finance domain was limiting expenses to the minimum necessary for a normal state functioning, which should cover only the costs of services, institutions and public ventures strictly necessary to society and which cannot be supplied by the market in optimal price and quality conditions, based on the amount of the general contributions. The classical vision was that public expenditures were to be financed from income taxes and other taxes supported by the members of the community only if they are carried out in the general interest of society (Văcărel, 2007).

The idea of a government that does not interfere with economic activities is attributed mainly to Adam Smith, but also to other thinkers who have analyzed the nature of government. Without admitting the state`s involvement in any particular interests, Smith suggests that the state needs to intervene in the economy in series of circumstances: fixing legal interest rates, post offices administration, primary compulsory instruction, organizing examinations for any liberal profession or power seat (Profiroiu, 2011). Smith considered that less a government is involved in the economic life the more it is efficient, even though he was not completely opposed to any action of the government; he advocated that the state should intervene only when "its scope is to promote general welfare". From Smith`s point of view, the state should not interfere with its citizen`s economic endeavours even though this does not mean that everything should be left to self-regulate on the market: competition loyalty should be ensured by the state (Maftei, 2006).

Highly relevant for the classic finance conception is the famous adage from Gaston Jèze, considered the father of finance studies: "There are public expenditures; the need to be covered" (Filip, 2006). He emphasized that "to set up a budget is to evaluate, enumerate and compare on a regular basis with foresight and for a future period the expenses and the incomes" (Lazăr, 2004). Therefore, the essential problem of public finance studies was finding ways to cover state expenditures which also meant ensuring a perfect functioning of public institutions.

Another advocate of the classical conception, French economist Paul Leroy Beaulieu made reference to the importance of matching public expenditures with the procurement of resources to cover them, stating that "public finance studies are in fact studies of public incomes and their usage for covering public expenditures" (Anghelache, et al., 2007).

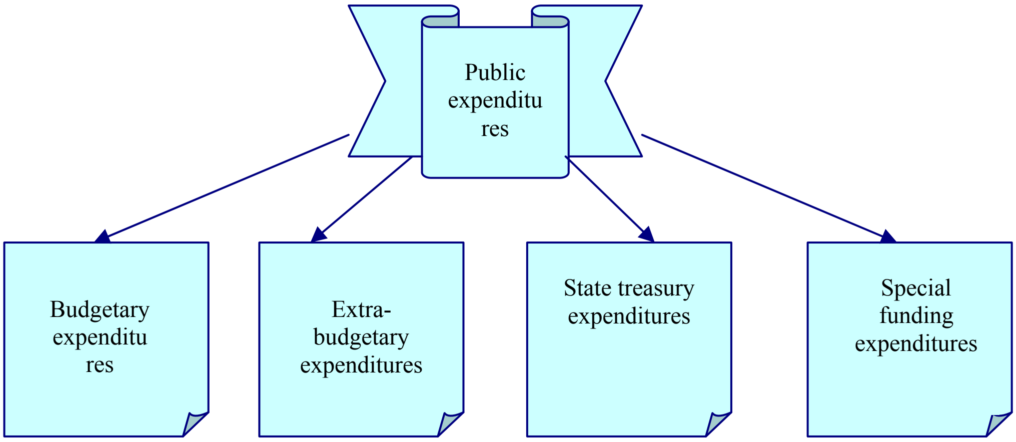
Adolph Wagner opposed the laissez-faire doctrine, offering the state an active role in the economy. He conducted a comprehensive analysis of the public expenditures polemic, based on which he enunciated the law of public or national activities gradual increase in developed countries. Wagner`s law is based on a particular theory regarding the roles of the state, that of producer of certain goods and services and that of regulating authority for social and economic activities (Moșteanu, 2001). Wagner`s theory demonstrates that as the population density grows in urban areas, more social dimensions appear. These dimensions can be improved by adjusting social differences, determining governments to spend more per capita in urban environments. At the same time, industrialization lead to an economic boom, which in turn lead to a rise in urban population`s income and in goods and services offers, determining a diversification of public services (Inceu & Lazăr, 2000).

In the modern vision of public finances, the main focus of specialists becomes the study of those particular instruments using which the state can intervene in the economy, influencing economic mechanisms and social relations (Stănescu & Nedelescu, 2012). The nature of these expenses is therefore of greater importance. The state must first determine the income it can displace and then calculate its expenses in keeping with the economic and social effects that it can generate. For the modern state, public finances are no longer a means of covering up its expenditures, but most of all a system for economic interventions. The research object is thus transferred from the study of mechanisms for covering public expenditures to the analysis of state intervention means through expenditures and income. Classic economists had a rather quantitative conception of public expenditures while modern economists are more focus on the qualitative approach (Drăcea, et al., 1999).

In public expenditure analysis, the main factor is the effect that a legislative decision has on social and economic life. Of the authors who have contributed significantly to creating the modern concept of public finances we can mention:

- John Maynard Keynes, who through his works addresses financial and monetary issues in the context of a demand for general economic balance, implicitly setting the basis of modern public finance concept. The Keynesistic doctrine gives much importance to the state and its financial mechanisms for influencing the evolution of society and the economy (Filip, 2006). In his view, governments should play a decisive role in establishing proper economic policies, and a decrease in demand would automatically be countered with a government intervention. In this way the government could intervene through fiscal policies, income tax mechanism, increasing public expenditures or decreasing income taxes, or through monetary policies, lowering interest rates or increasing the money supply (Maftei, 2005);
- Maurice Duverger, who pinpointed the differences between the classical and the modern public finance concepts and defined afterwards their research area as being "the science that studies the state`s activity when utilising financial mechanisms as expenditures, taxes, income taxes, budgets and monetary schemes etc.".
- James Buchanan, who also concluded that public finances study the economic activity of the government as an entity (socially-economic). He advocates that the science of public finances must contain two stages: the first stage defines what the government`s goals are and how efficient are its efforts in achieving them; the second stage defined behavioural changes of individuals in private or market economy.
- William Shultz and Lowell Harris stressing on the technical side of financial mechanisms, conclude that "the science of public finances handles the study of actions, principles, techniques and effects of establishing and spending funds by government institutions and public administrations" (Văcărel, et al., 2007). They consider public expenditures as purchasing power injections into income flows and recommend orientating and structuring public expenditures in such a way that they favour economic growth even by subsidizing private companies.

Public expenditures reflect socially-politic relations under a monetary form, between the state on the one hand and natural or legal persons on the other hand, upon distribution and usage of the state`s financial resources for accomplishing its functions. Public expenditures comprise all the expenses made through public institutions and which are covered from the state budget, the local budgets or from special funding and funding from institutions` budgets accumulated from their own incomes.



Source: Văcărel Iulian şi colaboratorii - Finanţe publice, Ediţia a VI-a, Editura Didactică şi Pedagogică, Bucureşti, 2007

Figure 1. Public expenditure subsystems

Budgetary expenditures represent the main subsystem of public expenditures. They comprise only expenditures financed from the state budget, local budgets and state social security budget, by this meaning monetary resources managed by central or local authorities within the national public budget, but on a reduced scale. Budgetary expenses system is of greater importance as with these budgetary expenses, the Romanian state puts in practice its social and economic-financial politic. When discussing expenditures, we need to clearly distinguish the two notions of public and budgetary expenditures (table 2).

It can be said that all budgetary expenditures are public expenditures, though not all public expenses are budgetary expenditures. The great importance of public and budgetary expenditures, and the implications these have on macro-economic regulations are justified by the correlations between them. An analysis is thus imposed on a regular basis on the way these expenditures are carried out in order to emphasize the efficiency of resources allocated to certain projects, and also to identify actions to be taken so that the state budget contributes to macro-economic regulation.

These gains are justified as the budgetary practice in Romania is based on budgetary projections and restoration methods for budgetary procedures, achieved through budgetary corrections, with a reduced stress on methodology analysis in the way state`s budgetary expenditures are made, even though improving their efficiency would have a significant role in macro-economic regulation.

Extra-budgetary expenditures are those expenses financed from the resources accumulated and used directly by public institutions from their own activity, without being registered in the state budget. Expenditures made from special destination funds are destined for certain objectives or actions of public interest. They are financed from public resources accumulated as special separate funds, managed by certain ministries or state organizations. As an example, in order to complete objectives in the field of social insurances, agriculture, infrastructure management, funds are being raised for social insurance, agriculture or infrastructure management and are being managed by their respective ministries for each specific domain needs.

Table 2. Public versus Budgetary Expenditures

Public expenditures	Budgetary expenditures
Comprising area	
- expenses financed from the state`s central administration budget; - expenses financed from the state`s local administration budget; - expenses financed from the state`s social insurance budget; - expenses financed from special destination funds; - expenses financed from extra-budgetary funds; - expenses financed from state`s treasury budget; - expenses financed from other sources than budgetary ones;	- financed from the state`s central administration budget; - financed from the state`s local administrations budget; - financed from the state`s social insurance budget; - financed from funds established by public autonomous institutions;
Payment methods	
- public expenses are carried out conditioned by available resources established outside the budget;	- budgetary expenses are conditioned by the provisions and approval of public finances law and the annual state budget law;
Approval process	
- approved by credit release authorities;	- approved by Parliament or local counsels;

Source: Moşteanu Tatiana şi colaboratorii - Finanţe publice, Editura Universitară, Bucureşti, 2008

All expenses that the state makes as a state-authority are public expenditures. All other expenditures made on basis of a contract are private expenditures of the state. In table 3 we find the distinction between public and private expenditures.

According to some economists, laws and regulations imposed by the state give way to expenditures in the private sector of the economy, these expenses being considered also public expenditures, fact which demonstrates the same faulty legislation.

The concept of public expenditures is closely linked to that of public sector, which can be regarded as a reflection of budgetary transactions, public ventures, public regulations etc. All of these components or politics are essential for issuing payments meant to cover general interest expenditures as education, health, defence, public order and national security.

Public expenditures can be defined also by their nature:

- state budget expenses distributed for central and local public administrations;
- payments made from the state social security budget for social security matters as unemployment compensation or other indemnities etc.;

- total public expenditures to which accumulate public companies expenditures.

Table 3. Public versus Private expenditures

Public expenditures	Private expenditures
- are concentrated on satisfying collective preferences (given that these preferences are common throughout the community) established upon collective options; - finance production of public goods and services while also handling transfers for income redistribution in society; - are made by an intermediate (state) as the beneficiaries of these public goods and services cannot create a direct link between their contribution to these expenditures (income taxes) and the profits obtained from using (consuming) these public goods and services; in other words the beneficiaries are unaware of the price paid by each one of them for having access to the use of certain public goods or services; - their amount depends on many factors of which we mention: • population incline towards public goods and services consumption; • economic potential of the respective country; • ideology of parties at power; • population incline towards fiscal civism.	- are concentrated on satisfying individual preferences established upon individual options; - finance exclusively payments made in exchange for goods and services (transfers outside this area of scope are rarely encountered); - made directly by the beneficiary of the respective goods and services, who is aware of the price paid, being able to balance occasional expenditures with the profits gained from using the respective good or service; - amount depends on each society individual's incline towards consumption.

Source: Văcărel Iulian şi colaboratorii - Finanțe publice, Ediția a VI-a, Editura Didactică şi Pedagogică, Bucureşti, 2007

In the case of some analysis which compared the evolution of public expenditures in multiple states, on a certain length of time, one must keep in mind the definition of public expenditures adopted by each state. As an example, if in a country public expenditures are defined in relation to central and local authorities' spendings, and if in another country public companies' expenditures are added to form a total, the results of the comparison would be different and thus inaccurate or false.

CONCLUSION

Public goods have the property of non-exclusiveness and are non-rivalling through consumption, which means they are in opposition with private goods that can be acquired only by those who afford to pay the market price for them.

Budgetary expenses comprise only expenditures financed from the state budget, local budgets and state social insurance budget, meaning financial resources managed by central or local public administrations within the national public budget but with on a more restrained area. Ultimately it can be stated that all budgetary expenditures are public expenditures, on the contrast not all public expenditures are budgetary expenditures.

All spending done by the state as a state-authority are considered public expenditures. All other spending done as a result of a contract are considered state private expenditures.

... „there are public expenditures; they need to be covered”.

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