THE EFFICIENCY OF PUBLIC SPENDING

Clipici Emilia
University of Pitesti The Faculty of Economics Sciences Adress: Pitesti, str. Fratii Catina, Bl. C3, Sc. E, Ap. 6, cod 110324, Arges, Romania Email: emilia_clipici@yahoo.com Tel. 0740254576
Hagiu Alina
University of Pitesti The Faculty of Economic Sciences Adress: Pitesti, str. Constantin Moisil, Sl.C3, Sc. B, Ap.13, cod. 110260, Romania. Email: alinahagiu@yahoo.com Tel. 0727790099

The correlation between the level of public spending and its efficiency can be made by means of a range of indicators expressing the positive impact on the economy and the society. The resources – outcomes - income - impact mechanism is the strength of the budget. Therefore, the budgetary activities should result in a definite impact through the added value, due to the fact that the quantifiable objectives may be achieved. In order to prove the degree of the efficiency of public spending, we believe that there should be a correlation between the quality approach of the budgetary expenditure and the performance indicators.

From the analysis of the budgetary expenditure corresponding to the year 2008, it follows that Romania has an economy within which the mechanisms of the market are still trying to define themselves and therefore need significant support from the state. Consequently, we believe that the following are necessary:
- The public services of general interest must be harmonized with the economic and social policies, with special attention paid to solidarity and correctness;
- The excessively liberalized public services should be controlled in a more severe manner, according to the European requirements.
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So, in order to carry out a credible estimation, a trustworthy quantification, the following steps are required:
- To define the quantified objective in an accurate manner
- To quantify the object
- In case of deviations, to estimate the consequences.
These steps in the public sector are difficult to perform, and the rules should be adjusted, in order to include behavioural changes.
In order to prove the degree of the efficiency of public spending, we believe that there should be a correlation between the quality approach of the budgetary expenditure and the performance indicators. These indicators are the following:
- For the administrative sector: corruption, bureaucracy, the quality of the legal system, the black economy
- In the sector of education: the quality of mathematics and science
- In the healthcare sector: the child mortality, the life expectancy.
The correlation between the level of public spending and its efficiency can be made by means of a range of indicators expressing the positive impact on the economy and the society.
Although in the Government Budget for 2008, the expenses concerning the general services account for 1.5%, which is a significant value, the actual situation is different because the population is distrustful due to bureaucracy and corruption. The population's view is that the

bureaucratic apparatus is highly overloaded (3 out of 10 employees work in administration), and the value of the Corruption Perceptions Index (CPI) is 3[107], as compared to the Scandinavian countries, the values of which are over 9.

The education and healthcare fields are public spending on human capital, able to lead to the increase in the productivity and welfare. Due to the fact that the local authorities have better knowledge concerning the situation in the areas where they fulfil their attributions and as a result of financial decentralization, the spending on healthcare and education have been taken over by them. But due to the absence of reliable programmes, the amounts allocated to education and healthcare do not have positive outcomes, do not lead to an improvement in conditions and to an increase in the standard of life.

This inefficient finalization of the financial resources may originate in intentions such as: renouncing the profession, emigration, abandoning school, reduced productivity and low income, excluding young people over 15 years old.

The healthcare system also presents such obvious inconsistencies concerning the allocation of resources for expenses and their finalization: lower life expectancy than the national average – 71.9 years, high child mortality of 16.5 per 1,000 live births, 6.6 hospital beds per 1,000 inhabitants, acute lack of medical personnel, (20 doctors at 10,000 inhabitants), high mortality rate - 11.9%, few compensated and free prescription drugs.

From the budget figures it follows that a significant percentage of spending is allocated to social insurance and welfare, in statistical conditions of economic growth. In our opinion, the amounts allocated to this field represent the corollary of the inefficiency of the rest of the budgetary expenditure. The significant poverty rate of good part of the population, the fact that half of the population of the country benefits by some form of social support raises the problem of the finalization in the expenses in the other financed areas. In our opinion, the manner in which the amounts are allocated to this area cannot help but stimulate the beneficiaries' reticence in getting involvement in a remunerated activity that generated added value, thus increasing, in fact, poverty. The usage of the values in the field of social insurance and welfare should be oriented towards programmes of economic and social inclusion with long-term support and effects.

From the point of view of the economic consequences of public spending, after a quite significant period of time during which the inflation rate was kept under control, and the target set by the National Bank of Romania was observed, at the end of 2007, and from the perspective of 2008, sudden rises in the inflation are noticed again under the pressure of factors including that of inefficient public spending, the corridor decided for the inflation rate being jeopardized, with all its potential the negative consequences.

Statistically, the unemployment rate is low in the western areas of the country and in Bucharest, nearing zero. But this seemingly positive situation is not due to the absorption of the labour force through economic programmes, but rather to emigration, which affects the development prospects.

In what the efficiency of public spending is concerned, a survey[108] reports the latest update of the worldwide governance indicators (Worldwide Governance Indicators – a research project) that covers 212 countries and measures six government indicators between 1996 and 2007: Voice and Accountability, Political Stability and Absence of Violence/terrorism, Government Effectiveness, Regulatory Quality, Rule of Law and Control of Corruption. The most recent aggregated

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107 The values of CPI can be estimated at values ranging from 0 to 10, where 0 is attributed to the highest level of corruption, while 10 is viewed as the lowest level of corruption.

108 Daniel Kaufmann,Aart Kraay, Massimo Mastruzzi – Governance Matters VII: Aggregate and Individual Governance Indicators 1996-2007, The World Bank, Development Research Group Macroeconomics and Growth Team & World Bank Institute Global Governance Program, Policy Research Working Paper 4654, June 2008, http://www.wds.worldbank.org/servlet/WDSContentServer/WDSP/IB/2008/06/24/000158349_20080624113458/Rend ered/PDF/wps4654.pdf.

indicators are based on hundreds of specific individual and disaggregated measurement variables, and on various dimensions of governance, taken from 35 data sources supplied by 32 different organizations. The data reflect opinions concerning the governance in the public sector, in the private sector, NGO and experts, and thousands of responding citizens and companies worldwide. The authors also explicitly calculate the margins of error afferent to each estimated country. The governance indicators are defined bellow:

Voice and Accountability (VA) – measures the perceptions concerning the extent to which the citizens of a country are able to participate in selecting their government, as well as freedom of speech and mass-media free.

Political Stability and Absence of Violence (PV) - measures the likelihood that the government will be destabilized or overthrown by unconstitutional or violent means, including political violence and terrorism.

Government Effectiveness (GE) (the quality of public services) – measures the perception concerning quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, the management of the budgetary policy, and the credibility of the government's commitment to such policies.

Regulatory Quality (RQ) - measures the perception related to the ability of the government to formulate and implement sound policies and regulations that allow for and promote private sector development.

Rule of Law (RL) – measures the perception related to the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, the observance of the ownership, the police, and the courts, as well as the likelihood of crime (violence).

Control of Corruption (CC) – presents the perception concerning extent to which certain rights are obtained by paying a gain, including both petty and grand forms of corruption, as well as the cases already "captured" by the state.

At the level of our country, these indicators are presented in Annex no. 8. After analysing the charts generated by the model referred to by the authors as "the comparison machine", our observations are as follows:

- The *Voice and Accountability* indicator is situated around the average value of 60 (on a scale of 0 to 100), with small increase or decrease variations; the conclusion is that in Romania there is freedom of speech, free mass-media and the citizens' freedom of choosing their representatives in administrative functions.

- The *Political Stability and Absence of Violence* indicator presents an average of 55 (on a scale of 0 to 10) and has a downward trend until 2000, and then rises until the middle of the mandate of the next government (2002), and then it decreases towards the end of the mandate of the same government (2004), and then it remains under the calculated average without significant variations.

- The value of the *Government Effectiveness* indicator reflects an average level of 48 (on a scale of 0 to 100) and increases by the middle of each mandate of the period 1996-2007;

- The *Regulatory Quality indicator* is situated around the average value of 55 (on a scale of 0 to 100), and is characterised by a significant increase in the period 1996-1998 (de la 34 la 58), as well as in the period 2003-2004;

- The *Rule of Law* indicator has an average value of 48 (on a scale of 0 to 100), during the analysed period, the last trend being an upward trend;

- The *Control of Corruption* indicator has an upward trend, its average value being around 47 (on a scale of 0 to 100).

The conclusion drawn from the interpretation of the results is that the objectives of the Romanian Government should be the following:

- improving the decision-making process at the political and administrative level, by increasing the capacity of those present on the interface between the administrate level and the political one, i.e. those in charge with the substantiation of decisions, by improving their training in areas such as the collection of data, methods of analysis and research, elaborating public policies and being capable of transposing public policies into normative acts. This objective can be materialized by the implementation of initiatives concerning the improvement of regulations, supporting the implementation of reforms related to the creation of public policies by training the various categories of employees involved in this process or by reviewing the current working procedures, as well as by organising consultations concerning the reform process.

- increasing the degree of accountability of the administration, in two main sub-sectors, the first being the improvement of the performance reporting systems, and the second being the development of a culture of evaluation at the central and local level, by treating an expanded range of identified problems, such as the problem of corruption, or that of the capacity to implement normative acts. This objective can be materialized through the increase in the capacity to implement new normative acts by the development of the method of elaboration of systems, practices and procedures necessary for the implementation of the primary and secondary laws; the improvement of the performance reporting, for example by training the personnel in areas such as the performance indicators or the creation of a system of internal reporting, as well as granting support for the implementation of a method of evaluation programmes/projects at the central and local levels of the public administration.

- *improving the organizational effectiveness* by endorsing a package of public management reforms at the central and local level. This package aims at continuing the activities already started concerning the strategic planning in key areas such as financial management, human resources management, usage of the information technology and other general management techniques (management programs specific to various sectors, as well as granting support in necessary areas of the public administration, such as the legal area, the human resources area, the audit and accounting area, as well as supporting the training supply management). This objective can be materialized through supporting the modernization of structures both at the central as well as the local level; developing a methodology of evaluating administrative costs; preparing training modules in areas such as public acquisitions, ECDL (**the** European Computer Driving License – it is the most widely spread programme of certification of the computer operation skills, internationally recognized in over 148 countries), foreign languages and support granted to the training management function, including the capacity to certify the supplied training.

These three objectives should result in the improvement of management in public administration.

- *supporting the decentralization process,* within which three programmes of utmost priority are identified - health, (secondary) education and social welfare, but other sectors can be supported as well. This objective implies supporting the mechanisms of coordinating sectorial decentralization; supporting management in the new structures and/or reviewing it in current institutions, as well as developing projects of disseminating good service provision practices.

- *The improvement in the quality of services and the efficiency of the service provision* by financing preparatory studies and activities for the implementation of service provision quality standards and quality management systems (the development and implementation of service quality standards; the implementation of a more efficient service provision process through the usage of the information technology and the improvement of the service performance evaluation competence).

- *the improvement of the fund absorption capacity* especially in the case of the local public authorities by increasing in the level of knowledge within public institutions, but also by granting the necessary support to potential beneficiaries in order that they should be able to use these funds. This objective can be materialized by supporting the local public administration services in charge with the promotion of development funds, as well as those aiming at increasing the

absorption of funds and supplying training the employees who assist the possible eligible beneficiaries.

These objectives should result in the improvement of the quality and efficiency of public services at least by decentralization.

A credible Government is a government based on the efficiency of spending public money, which implies corporate governance, transparency, budgets based on performance. A government that aims to obtain performance takes into account the manner in which resources are allocated, the cooperation and coordination, creates a culture of results, emplaces *system* of *sanctions and rewards*.

In order to obtain performance, it is necessary to take into account:

- The manner in which resources are allocated
- Cooperation and coordination
- *Systems* of *sanctions and rewards*.

Consequently, for a good governance in the public sector, (a strategic approach, not a segmented one) cooperation is necessary among all the ministries, trade unions, taxpayers, beneficiaries of public funds, such cooperation ultimately resulting in an increase in welfare.

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