THE ANALYSYS OF ROMANIAN GOVERNMENT INVESTMENT EXPENDITURE IN 2008 – 2017 INTERVAL

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Abstract: *First, I introduce the concept of government investment expenditure in the context of macroeconomic evolution of last decade (2008 – 2017). We had a terrible crisis in the beginning of analysed period of time prolonged into stagnation and a solid economic growth in last years. Based on Eurostat statistics database I will aggregate the data into eloquent charts to explain the evolution of the government investment expenditure between 2008 and 2017. Beyond those charts we can draw pertinent conclusions related to the synergic role of government investment expenditure in establishing a sustainable economic growth we all benefit from.*

Keywords: Government investment expenditure, Macroeconomic context, Growth, Future, Data analysis.

JEL Classification Codes: H50, H54.

1. INTRODUCTION

In the last decades, many studies have been carried out, both quantitative and qualitative aspects have been dealt with, differential statistical analyzes have been made, government public spending patterns have been built, especially for investment expenditure. However, the field is sufficiently complex and dynamic that the conclusions drawn from these studies are often contradictory, subjective, interchangeable or too abstract. This does not prevent us from making an accurate radiography on the implementation of the national budget in the period 2008-2017 and from exposing the public investment expenditure so that the conclusions will naturally translate.

We will consider the dominant fiscal policy during the analyzed period and treat it as a decisive factor for the evolution of public investment expenditures. To reduce the complexity of the analysis without losing sight of the essential elements, we will consider all governmental production factors as a unitary one (public capital).

A central role in our analysis is the structure of public expenditures because it partly reflects the sum of the fiscal-budgetary policies at a certain moment and, on the other hand, enhances the future evolutions of the national economy. Complementary, we will also notice the importance of the elasticity of state intervention in the economy because it depends on the balancing of medium and long-term resources flows. An inertia of the state to reduce participation in economic life is sometimes unfavorable to sustainable development and the lack of large public investment projects can also strike the chances of sustainable economic growth.

The assumption that this study is about is that sustained economic growth should be generated by the implementation of public programs to support investment spending, even in non-productive areas (social and public health expenditure). Recent studies revealed the concept of causal relationship GDP -> public expenditure which will be quite difficult to highlight over a period of just ten years. However, at least at the conceptual level, it will be possible to highlight the way in which the two quantitative landmarks that describe the state at the macroeconomic level are mutually reinforcing.

The importance of public spending on investment stems from the fact that they bring added value in all areas of activity, being the support for the efficient consumption of future generations. The increase in global competition over the past few years is a fact that can raise the awareness of policy makers about the role of investments in creating a consistent strategic advantage in the global economy.

2. STATE OF KNOWLEDGE ON GOVERNMENT INVESTMENT EXPENDITURE

Public investment spending has been analyzed by many specialists in all aspects of this vast field of research. It is very important to conceptually anchor this economic category of public spending on investment in extensive research. Analysis of recent studies shows that this spending chapter could not be considered exhaustive due to the multitude of implications and variables that make any holistic approach doomed to failure.

However, it is sufficient to review some punctual approaches, involving not more than two exogenic variables, one or two determinant factors analyzed in a direct or indirect correlation, in order to evaluate the specialized knowledge base that we will serve in making its own assessments of the public investment expenditures in Romania during 2007-2017.

Thus, I extracted from the many approaches that seem appropriate to our study, presenting the ideas and conclusions of consecrated authors.

A common approach is the one related to the cyclicality of economic processes, so arising the concept of pro-cyclical government spending. In coexistence with it, it is stated that applying the theory of public choice makes it possible to introduce new tests of relevance for the effects of voracity (Abbott-Jones, 2013).

Another useful approach is the simultaneous analysis of government expenditures and economic growth in the neoclassical model. The long-term economy is in a stable state and growth depends exclusively on exogenous factors. Tax policy has a considerable influence on capital and output, says the authors of a recent study (Carboni and Medda, 2011).

Measuring the performance of socio-economic impact of public spending on research and development is another concern for researchers. Their conclusion: technological programs can have a very high socio-economic impact, and the magnitude of this impact, although difficult to quantify, is easily visible in everyday life (Cozzarin, 2006).

Economic growth, public investment and corruption have also been analyzed in their interdependence by projecting a very clear and current picture of the dependence of economic growth on a society lacking endemic corruption that paralyzes its development. Generalized corruption affects economic growth through many channels, one of which is modifying the structure of public spending in favor of a certain type of expenditure, without taking into account the macroeconomic efficiency requirements (Croix and Delavallade, 2008).

Political institutions and how the government spends money – another analysis revealing how the political regime in a country can determine how money is allocated to the military area or, on the contrary, assets that increase productivity. Thus, an authoritarian regime spends more and more inefficiently on military procurement, and a democratic, authentic regime is inclined to favor overall productivity growth (Dizaji, 2016).

Other issues highlighted by specialists refer to payments made by diaspora residents in conjunction with the political regime and government priorities.

In autocracy, money received from those in the diaspora leads to a decrease in health and social care spending, and in democracies the money received complements and determines the increased interest of the government in the protection of health and social peace (Easton and Montinola, 2017).

Does the influence of the re-election of a political force influence public investment? This is a question that Jon H. Fiva and Gisle James Natvik are trying to answer in their analysis. The outcome of the study highlights the fact that politicians tend to take into account their chances of being re-elected when determining the level of public spending on investment (Fiva and Natvik, 2013).

Globalization and public spending in the world - another modern approach to a current topic (globalization). The dominant conclusion is that globalization imposes very many restrictions on national policies, which makes it difficult to allocate resources, including investment costs (Garrett, 2001).

Mobility, government debt, and decline in public investment are other facets of the global economy. The growing public debt of the world's governments is a serious obstacle to raising the level of public investment spending. Mobility of production factors is also a brake on capital formation (Heinemann, 2006).

Tax policies are extremely important for our field of analysis - public investment spending. The extent to which these policies are optimal in an economy with externalities depends on the speed of capital accumulation. Under ideal conditions, labor taxation should be lower with counterbalance by additional capital charge to determine a spiral of medium- and long-term economic growth (Lu, 2015).

Changes in the tax structure and composition of government spending are also analyzed to determine the causal links between them and to try a more robust tax model. Both cyclically-induced changes and structural changes in the fiscal policy of the state directly affect the composition of public inquiries. Thus, a more rigid, more rigid fiscal policy leads to an increase in the share of investment spending and a more lax fiscal policy directly influences consumption growth (Stančík and Välilä, 2012).

The relative efficiency of public spending and its determinants are a subject of great interest in a globalized, deeply interconnected world dominated by fierce competition. Public expenditure inefficiency decreases when there is an increase in private economic activities (consumption, investment, export). According to Wang and Alvi's views, governments are more effective in times of recession (Wang and Alvi, 2011).

3. EVOLUTION OF THE GOVERNMENT INVESTMENT EXPENDITURE IN 2008-2017 PERIOD

In order to have a fair overview, we have studied the aggregate statistical data provided by the European Commission through the EUROSTAT service. Thus, we have below the dynamics of public investment expenditures as a share of GDP in Romania between 2008 -2017 in a European context.

Chart no. 1 clearly illustrates the downward trend of investment spending allocations in Romania during the analyzed period.

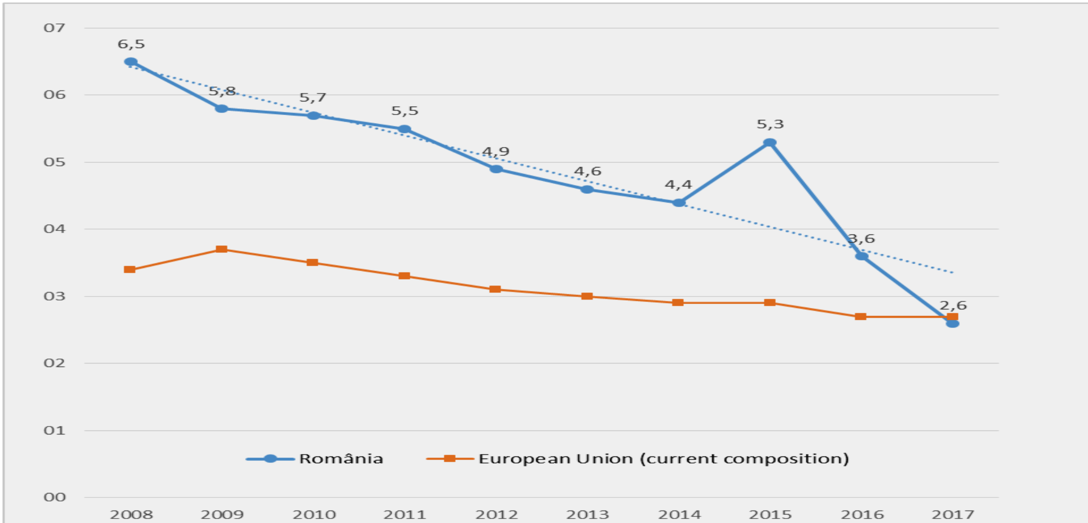

Figure 1 The evolution of public spending on investment as a share of GDP at national and European level in the period 2008-2017

If, in 2008, 6.5% of Romania's GDP was public investments in 2017, their level dropped dramatically to 2.6%.

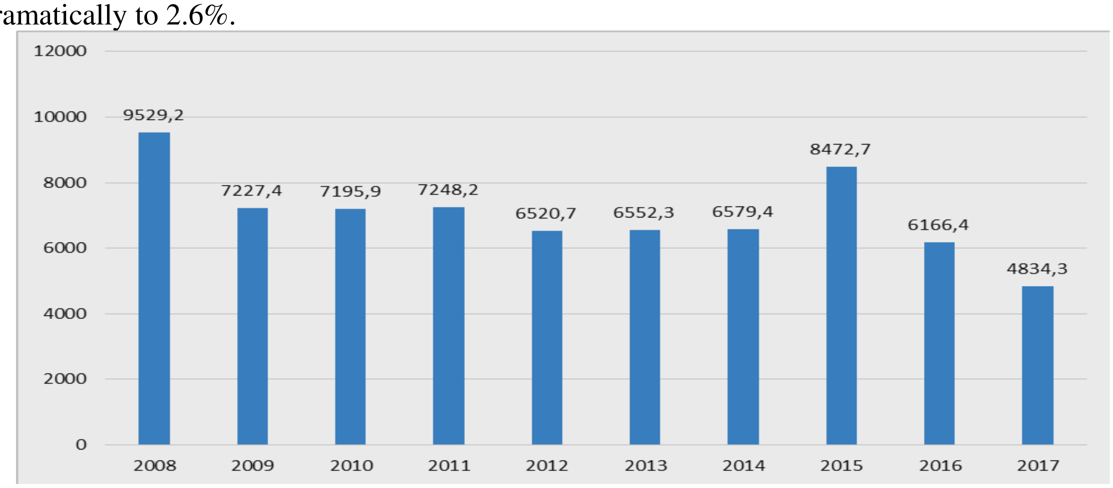

Figure 2 Gross capital formation over the period 2008-2017

The graph above represents the evolution of gross capital formation in absolute value. Although not so obvious, the trend is declining, with only one notable exception, 2015.

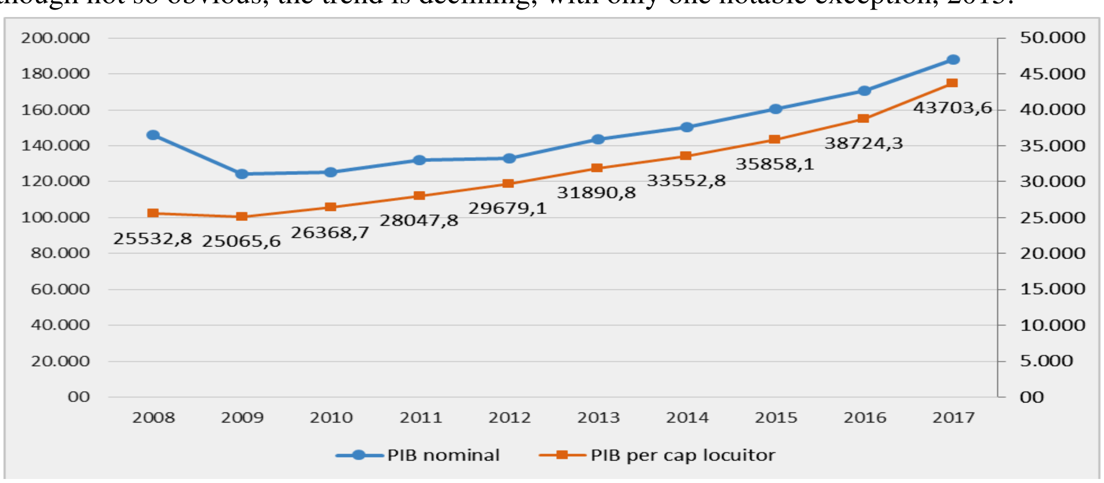

Figure 3 Evolution of GDP per capita and nominal GDP over 2008 - 2017

As can be seen from the above graph, the per capita GDP dynamics, which is a relevant indicator for highlighting the evolution of the national economy together with the human capital, is on the rise as a result of both the nominal GDP growth and the demographic decline.

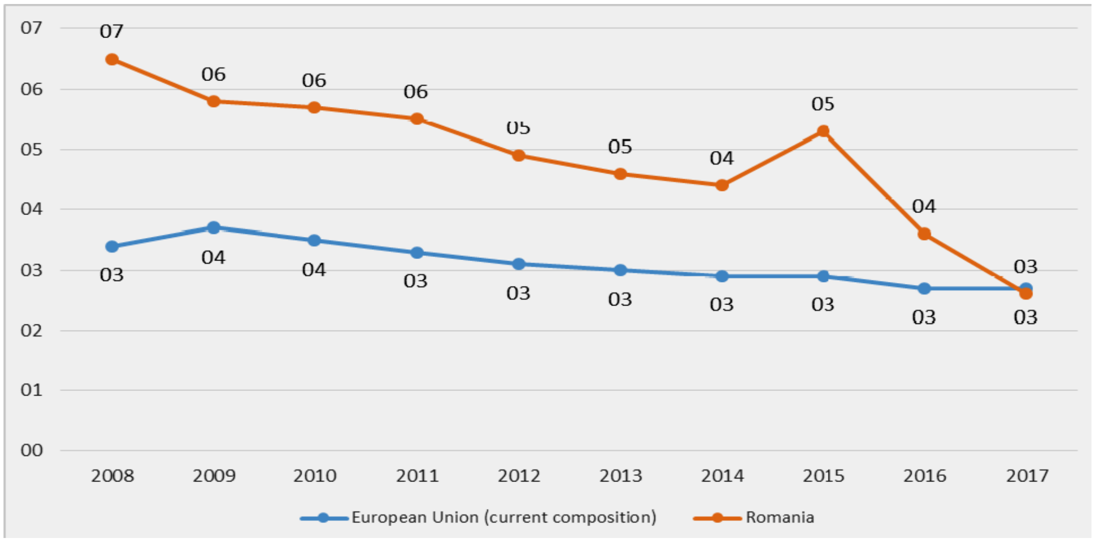

Figure 4 Percentage of GDP allocated for investments in Romania and the European Union in 2008-2017

In order to bring the Romanian investment decline in the context of developments in the European Union, we can see that although a decreasing trend is high, the magnitude of the decline is very low, Europe as a whole is more stable in terms of public investment spending.

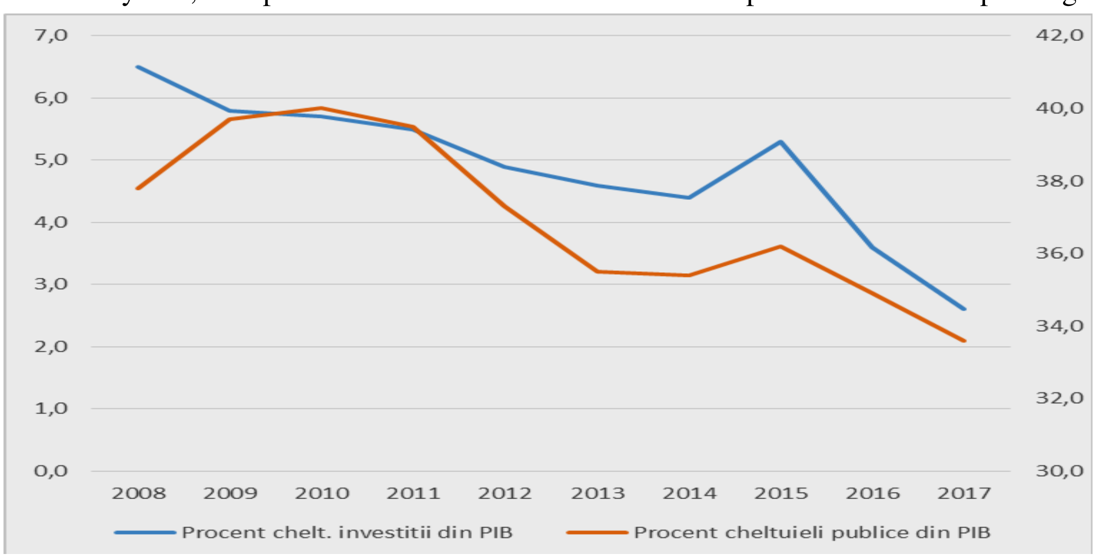

Figure 5 The comparative evolution of the percentage of investment expenditure in GDP and the percentage of total GDP expenditure

As can be easily seen from the above graph, the trend of the two analyzed economic units is downward, during the first part of the interval between 2008 and 2010, the total government expenditures are increasing and the investment allocation decreases in a period still dominated by recession.

4. CONCLUSIONS

Following the quantitative and qualitative analysis of nominal values, their tendency and correlations between public investment expenditure, GDP, gross capital formation, total government expenditure, several conclusions can be drawn. Between 2008 and 2017, the trend of investment allocations is downward in the wake of general government spending growth, nominal GDP growth and stagnation in gross capital formation.

Tax policies during the analyzed period were mainly focused on stimulating consumption at the expense of capital accumulation. There was neglected areas such as infrastructure, cutting-edge technology, the energy sector. The surplus of economic resources generated by the sustained economic growth during the analyzed period was not directed to the accumulation of capital to ensure the premises of a sustainable development. Although we are above the average of investment allocations in the European Union, the gap in growth with strong economies in other European countries is still high. It is well known from the literature that the trend of investment spending is hard to change, as after many years of continuous decline it is very difficult to identify additional resources to increase the level of gross capital formation.

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