

A NEW ERA IN PUBLIC FINANCE – HOW THE COVID-19 IS RESHAPING THE SCOPE AND FUNCTIONS OF PUBLIC FINANCE IN A TIME OF MIGRANT CRISIS

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Abstract: Throughout time public finance, more exactly the concerns regarding the income and the expenditure of public authorities and their adjustment, has been a key standing point in understanding how public finance can impact the economy. However, the current international COVID-19 crisis is reshaping the scope of public finance, meaning the ways public income, expenditure, debt and the general financial administration is being understood. Also, the main functions of public finance (allocation, distribution and stabilization) are being redesigned in order to adapt to a new era of both health and financial crisis. The purpose of this article is to take a look at the latest developments regarding these main themes, but also to anticipate the evolution of both health and public financial systems around the world.

Keywords: scope, functions, migrant crisis, financial administration, public finance

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1. Introduction

The virus known as COVID-19 (more commonly referred to as the coronavirus) has appeared at the beginning of December 2019 in China and since the beginning of January 2020 has spread around the world, with more than 2.5 million active cases rapidly growing and creating mass panicking.

Faced with this new challenge, governments are forced to recognize that their health systems are completely overloaded and thus there needs to be a new and urgent way public authorities understand spending their resources. The ones in need in these times are mostly the ones infected with the virus, however the spread of the virus has brought along mass shutdown of businesses, with governments forcing people to stay in their homes and promising them to do everything to keep the economies floating and financially backing companies to survive. All these financial efforts of the governments lead to the idea that the current volatile situation may be the beginning of a new era in public finance, where the scope and the functions of public finances are being adapted to say the least.

In order to understand how the pandemic crisis is affecting public finances we must first acknowledge their importance in the functioning of central or local public authorities.

2. Acknowledging the role of public finances

The study of public finances is manifested in financial, economic, and social terms. On the occasion of the collection of financial resources through taxes, fees and contributions collected and the financing of public expenditures on various destinations, there is an extensive process of redistribution of income and wealth of individuals and legal entities. Precisely, this redistribution assumes various forms, such as:

- granting aids, allowances, pensions, scholarships for persons belonging to a certain social category;
- subsidizing from the budget the production or sale of certain goods and services (e.g. heating);
- free supply of public goods (public order, social protection, national defense, education up to certain degrees, health care, etc.).

Through the transfer of purchasing power by public finances there is a change in social relations, affecting: the process of social reproduction, the economic potential of enterprises, incomes and wealth of citizens, the standard of living of the population, and in

general, the quality of life. Public finances are additionally implemented to ensure the economic and social development of the country in a balanced environment.

Through fiscal and budgetary instruments, public authorities influence economic processes and eliminate economic imbalances that occur, as follows:

- reduction of taxes to prevent inflationary phenomena or stimulate economic activity; raising taxes to reduce certain consumption or activities;
- financing certain activities for the creation of new jobs, retraining, and reorientation of the unemployed;
- contracting external loans by the state to supplement internal resources or guaranteed by State to loans contracted by private enterprises to achieve national interest objectives.

The involvement of the State in the economy is achieved by the adoption by the public authorities of regulations necessary for the proper functioning of the national economy: laws, government ordinances, government decisions, methodological norms, etc. in different fields of activity, such as social insurance, environmental protection, sanctioning unfair competition, etc.

Professor Hugh Dalton, in his paper "*Principles of Public Finance*", identifies four main directions in the study of public finance, namely (Figure 1):



Figure 1. The scope of public finance

Source: own editing after the 4 main directions in Dalton, H. (1923), *Principle of Public Finance*, The Economic Journal, Volume 33, Issue 129, 1 March 1923, Pages 94–95

2.1. The study of public revenues - involves comprehending how governments manage to collect budget revenues, namely by classifying them as:

a) tax revenue - this means defined ways for central and local authorities to collect taxes and duties. The specialized literature in Romania addresses three main categories of government tax revenue, as they are recognized by the Fiscal Council of Romania, namely:

- a1) VAT and excise duties;
- a2) Direct taxes;
- a3) Social security contributions.

b) non-tax income - these involve government activities to increase the profitability of budgetary activity, by lending capital to other countries, renting and revenue generated by government goods, donations from international organizations, etc.

The main criterion of distinction identified by the author is represented by the human factor, as it can contribute to the formation of budget revenues. The study itself involves research in the field of taxation, revenue classification, methods of increasing government revenue, etc. (Dalton, 1923).

Needless to say, when we're talking about establishing public revenues at the level of local authorities, we're talking about:

- a) income of its own: taxes, fees, contributions, other payments, other income and allowances deducted from income tax;
- b) amounts deducted from some income from the State budget;
- c) subsidies received from the state budget and other budgets;
- d) contributions and sponsorship

2.2. The study of public expenditures - involves an understanding of the spending of public money by central and local authorities. Primarily, they'll spend significant amounts on infrastructure, defense, education, health, etc., but also in general to increase the living standards of the population. The study involves classifying and understanding the objectives of public spending, the effects on budget allocations on different branches of the economy, unemployment, production, etc.

A significant benchmark in this regard is the classification used by UN bodies (methods adapted by Romania, since 1991) which is based on the concomitant use of two main criteria: functional and economic.

The functional classification of the UN includes public expenditures for public services, defense, education, health, social security, housing and communal services, culture, religion, sports, economic actions, and other purposes. (Cioponea, 2014)

The UN economic classification aims to group public spending into:

- Expenditures representing final consumption;
- Interest on public debt;
- Operating subsidies and other current transfers;
- Gross capital formation;
- Land acquisitions and intangible assets;
- Capital transfers.

2.3. The study of public debt - involves an understanding of the concept of public debt, more precisely the case where public expenditures exceed public revenues. The difference is borne by state loans from other people, entities, countries, or international organizations such as the World Bank. The study of public debt involves its management and, first, understanding of its effects on the economy, the burden it represents for a particular country.

The public debt law in Romania (no.273/2006) distinguishes public debt as:

- *governmental public debt* – being defined as the total amount of financial obligations internal and external of the State, at some point, coming from loans contracted directly or guaranteed by the Government, through the Ministry of Public Finance, on behalf of Romania, on the financial markets;
- *local public debt* - the totality of the internal and external financial obligations, of the local public administration authorities, at a given moment, coming from loans contracted directly or guaranteed by them on the financial markets;

2.4. The study of financial administration- this includes the preparation, transmission, and implementation of budget execution projects and the implementation of various government policies. The approach also includes the study of the impact of such policies, whether economic or social, as well as the intergovernmental relations arising from them, international relations, diplomacy, etc.

3. Functions of public finances

There are three main functions of the public finances (Khan, 2019):

3.1. Allocation – this function allows central and local authorities to invest in public goods that everyone can benefit from in various field such as: healthcare system, justice system, education, infrastructure etc.

3.2. Distribution – this function deals with social inequalities and the redistribution of public wealth (ex. progressive taxing, throughout which can be charged a higher tax percentage from the rich)

3.3. Stabilization – this function deals with policies referring to deficit budgeting during times of depressions or surplus budgeting during times of economic boom, in order to reduce the fluctuations that can impact the economy during a time of crisis.

4. The response of central and local authorities to the pandemic crisis

With most of the countries trying to battle the economic impact of the pandemic crisis we can adapt the general measures taken by each country in order to stabilize its economy and to avoid mass panic:

4.1. Regarding the public income: mostly all of the public taxes have been delayed from payment, whether we refer to VAT and excise duties, direct taxes or social security contributions. Instead most of the countries have resorted to their reserve funds or have taken loans from the IMF.

4.2. Regarding the public expenditure: many countries (Romania included) have made budget amendments, taking away funds from the defense, infrastructure projects or social, cultural. It is however not enough since:

- expenditures representing final consumption have grown;
- interest on public debt will be higher than ever;
- operating subsidies and other current transfers will be either delayed or not unpaid;
- gross capital formation will encounter difficulties;
- land acquisitions and intangible assets haven't got any clear value at the moment;
- capital transfers will need to continue to be paid

There is also a volatile new public expenditure in most countries as in unemployment benefits ranging from 80 %-85% in UK, to 75% in Romania, to somewhere between 50% and 100% in the US. (Campbell 2020)

4.3. Regarding public debt – as explained previously due to the increase of public expenditures we can expect a huge increase in the public debt of most of the countries trying to compensate the deficit budgeting. The international organizations such as the IMF, or the World Bank must carefully revise the request of countries so that we won't have inflation.

4.4. Regarding the study of financial administration- in the current crisis there is a need to understand how exactly can governments implement policies that will allow economies to breathe, stop migration flows and won't encourage unemployment.

In order to achieve stabilization in this time of both pandemic and financial crisis, countries must obtain stabilization by taking three immediate actions:

a) reallocating their resources from the extremely high defense expenditures towards crisis management programs and dealing with the pandemic crisis. Local authorities should also allocate their expenditures on social activities towards building local health infrastructures to deal with the current crisis. The public expenditures should have three main objectives:

- a1) increase the capacity of health systems to deal with the current crisis*
- a2) encourage businesses to continue their businesses as much as possible, without encouraging at the same time the increase of the unemployment rate, by giving away to easily unemployment benefits for both employees and employers;*
- a3) develop movement patterns so that people can leave their homes in order to safely travel to/and work*

b) redistribution of wealth throughout progressive taxing for the rich

c) develop an action plan for stopping migrant flows from leaving/entering countries – even though it might seem hard to realize since the receiving country cannot restrict a foreign citizen from leaving its border, and the country of origin cannot prohibit its citizens to return home, there needs to be a more restrictive process in doing it so; otherwise, these huge migrant flows moving from west to east, not only help spread the virus itself, but

create a burden for the home country in terms of both health system and social benefits, and leaves western European countries without labour force in certain areas.

5. Conclusions

Migrant flows are one of the main source of spreading the COVID-19 virus and are at the base of the economic crisis that is starting to show its signs. Public authorities should cooperate in order to both stop migrant flow for traveling and also should redesign their way of spending. In 2019 the world spend almost 2000 billions of dollars on Military Expenditures, while only a fraction of that was spend on medical research and development.

The COVID-19 pandemic crisis will have a major impact on the global economy, with some reports suggesting that China might suffer the most from an economic point at least. (Erken, 2020)

There is a need of medical equipment yet somehow countries instead of producing it fly over the world to buy it, sometimes even bidding against each other.

Humanity must once and for all stop auctioning for ventilators and start producing them, since this is the era of high-tech modern equipment, it is unimaginable that humans fail into producing basic medical equipment that was needed and produce a century ago, and in order to do that it must rearrange its priorities in terms of public spending.

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