Poslovne studije/ Business Studies, 2016, 15-16
Časopis za poslovnu teoriju i praksu UDK 336.273:338.12.017
The paper submitted: 16.05.2016. DOI: 10.7251/POS1616241B
The paper accepted: 08.06.2016. Review

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ROLE OF THE STATE IN FINANCING FOR DEVELOPMENT

Summary: *The goal of the research is to demonstrate that the tasks of the fiscal policy in transition countries can be summarized in: the transfer of funds from the private to the public sector, activity on the amount and structure of investments, the amount and structure of consumption, the structure of imports and exports, the rate of savings, income distribution, employment structure, allocation of resources and inflationary trends.*
The methods of research are: general methodological principles adapted to the specific case studies, methods of induction and deduction, descriptive method, method of analysis and synthesis, method of classification and description, with particular emphasis on their objectivity, reliability, precision, systematic and generality.
The result of research indicates that a modified system of state intervention in the management of public finance director.
The paper ends with concluding remarks in the context of which the necessity for reforms in the fiscal sector as well as the application of the monetarist approach to long-term rate of growth in the monetary system of deficit financing.

Key word: *fiscal sustainability, public debt, public spending, deficit financing.*

JEL Classification: *H62, H63, H69.*

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INTRODUCTION

Today, fiscal policies of all countries in transition and instruments of these policies and their implementation are directed in order to stabilize, reducing spending and balancing the budget, the whole burden falls on the side of revenues. Of course, the burden of earning income must be based on an efficient and equitable payment.

It is indicative that now fiscal policy from the previously mentioned fact is not able to achieve most of the accumulation, especially when the countries in transition feel the lack of accumulation of private and foreign investments. Increasing accumulation is possible by increasing the tax burden, but the question is where is the extent to which it is possible to increase taxes and to limit the share of taxes in GDP. Data on the share of taxes to GDP vary considerably in countries in transition and developed countries, at first this share to 20%, and in others of 40-50%.

These data suggest a few things; first developed countries have a much greater capacity to generate such high tax revenues and significantly higher needs for public expenditure, which alleged that there is a significant measure of causality between a higher level of development and higher levels of taxation.

From the way in which resources are wasted, causality can go in another direction. Many economists are tending to claim that the main weakness of the fiscal systems in countries in transition is relationship between direct and indirect taxes. On the other hand, it is necessary to examine the structure of indirect taxes, and the possibilities of implementing reforms to the tax burden of taxpayers.

I. MAINTAINING FISCAL SUSTAINABILITY - CURRENT PERSPECTIVES

The diversity of fiscal policy orientations leads to a different orientation to direct or indirect taxes as a share of GDP. While this ratio is much higher in the United States in favor of direct taxes, 17% compared to 3.7%, the ratio is almost equal in Europe, 14.2% contrasted with 13.7%, for the transition countries the ratio is much higher in favor of indirect taxes. From the operation point on economic development, it is unclear the role of both, but one can say with certainty that it is not reasonable over-reliance on any form. Resource mobilization as an objective of taxation in the countries in transition is largely used to finance the budget deficit, reducing expenditures on health, education, infrastructure and other components of economic infrastructure, not forgetting that the state largely financed their public enterprises and their costs, of which almost all operate at a loss. It is particularly prominent a period from 2000 to nowdays, where all countries in transition have constant problems of growing fiscal deficit largely caused by insufficient development projects and external factors. IMF data show that the developed countries face a fiscal deficit and budget deficit.

Table 1. Fiscal Balance, 2008-2015. (International Monetary Fund- IMF 2014, 10)

	2008	2009	2010	2011	2012	2013	2014
France	-3,3	-7,6	-7,1	-5,3	-4,8	-4,2	-3,7
Germany	-0,1	-3,1	-4,2	-0,8	-0,1	0	0
Greece	-9,9	-15,6	-10,8	-9,6	-6,3	-2,6	-2,7
Italy	-2,7	-5,4	-4,4	-3,7	-2,9	-3,0	-2,7
UK	-5,0	-11,3	-10,0	-7,8	-8,0	-5,8	-5,3
USA	-7,8	-14,7	-12,5	-11,0	-9,7	-7,3	-6,4
Japan	-4,1	-10,4	-9,3	-9,8	-8,7	-8,4	-7,2

Table 2. Government debt as a percentage of GDP, 2008–2015. (IMF 2014, 14)

	2008-2015
France	68,2-95,6
Germany	66,8-95,8
Greece	112,9-174,7
Italy	106,1-134,5
UK	51,9-91,5
USA	72,8-105,7
Japan	191,8-243,5

In the analysis of debt level, a particularly significant is the indicator of low inflation in the Eurozone since 2013, the core inflation rates are lower than 1 percent. Research shows that the risk of slowed deflation is widespread.

However, if low inflation persists, it may complicate efforts to reduce debt. In theory, low inflation increases the ratio of public debt through three main channels.

- First, the government should reduce less real resources through the money creation base (monetary system).
- Second, low inflation can increase the ratio of debt to GDP through the worsening of debt dynamics. The impact of this channel depends on the currency maturity structure and debt denomination, as well as the response of interest rates to lower inflation. The impact of low inflation on debt is the lowest in short-term and floating rates. Foreign denominated exchange rate will not affect coefficients of debt if the exchange rate fully reflects the difference in inflation.
- Third, the low inflation may affect the primary balance both on the revenue side and the expenditure side. The direction and extent of these effects depends on institutional framework. For example, collection of tax arrears may increase the tax on the level of GDP in short term, because the tax is based on income earned in the previous year. Thus, the nominal value of revenue from tax collection may temporarily grow faster at current prices. By contrast, in countries with an imperfect indexation, reduction of inflation reduces the indicators of income.

Table 3. Selected advanced economies: gross financing needs, as a percentage of GDP in 2014. (IMF;17)

2014	The debt that is due	Budget deficit	Gross financing needs
France	13,2	3,7	16,9
Germany	6,9	0	6,8
Greece	13,8	1,9	15,7
Italy	25,7	2,7	28,4
UK	6,3	5,3	11,6
USA	18,0	6,4	24,4
Japan	50,7	7,2	57,9

Debt increasing, inflow of foreign private and state investments reducing, a growing trade imbalance before transition countries imposes the need for significant fiscal realignment and understanding their own real tax potential which must be established taking into account the following factors:

- determining the real income of the population;
- level of inequality in income distribution;
- taking into account the structure of economy and some of its segments;
- political, institutional and social postulates of different groups (farmers, industry, trade unions and others);
- administration competence, moral values of the same and their integrity.

In addition to determining the optimal tax potential for countries in transition the most important task is the efficiency and integrity of tax administration and its functions to generate sufficient public revenues from which should be funded development programs in expansion and performs the transfer of income from those with higher incomes to those with lower in order to reduce poverty and income inequality, but the whole process is completely dependent on political will of application and enforcement of progressive tax programs. (Mookherjee 1997 108 to 225).

In the last six months, low interest rates and volatility in bond markets led to a drop in pressure on public finances in most countries. However, the underlying fiscal vulnerabilities still exist, and new risks appear. In developed economies, the projected slowdown in the reduction of structural deficit will support the renewal of economic activity. Fiscal efforts undertaken in the past five years have stabilized the average debt in GDP. However, it is still expected to exceed 100 percent of GDP at the end of the decade. It is important to continue to reduce debt to a safer level, and restoring of fiscal reserves. Hesitant recovery and persistent risks of deflation and fatigue reforms are all a call for fiscal policy to carefully balance support for growth and employment.

In middle-income economies, debt and deficit ratios are generally moderate, although, on average, above the level before the crisis. Prospects for taking stronger financing conditions and possibly lower growth potential, open space for a fiscal policy. In addition, countries need to take measures to strengthen the fiscal framework for risk management of government activities that are not currently covered by national budgets, and the complex conditions of financing would benefit from taking fiscal measures.

High and persistent levels of unemployment call for a broad response of economic policy, which should include market reform and other policies. However, the situation in countries in transition is unfavorable, if as a starting point adjustment prolonged recession is taken, when it is known that higher expenses have short-term negative impact on employment. For countries in transition, the adjustments tend to have a negative impact on employment, due to the reduction of low levels of public investment. Finally, what is perhaps most important is the nature of specific revenues or measures for reducing expenditures.

Well-designed tax reform may provide growth and employment, but countries with little fiscal space should be aware of their budgetary constraints. Larger public investments can provide positive spillovers, while taking measures to avoid a negative reaction in the market. Structural reforms can imply lower fiscal costs, but regardless of whether or not these costs should be absorbed through consolidation by slower pace depending on the existing fiscal space, potential vulnerabilities, as well as the commitment to reforms. As a general rule, the fiscal costs should be included, both in size and duration. In the case of negative growth, countries can activate the automatic stabilizers, unless they face binding financing constraints. A credible medium-term fiscal plans are necessary as part of a framework of sound fiscal policy. This is particularly important for countries with high debt in which the observed large projected growth in health care and pension expenditure. In other countries, the restraint of private consumption can reduce the long-term fiscal risks.

2. PUBLIC SPENDING

With the spread of anti-cyclical and anti-crisis Keynesian understanding activities of the state is increasingly coming to the fore a state interventionism and in almost all countries has led to the growth of public expenditure. With putting under government control of all segments of the economy, social system and redistribution of income, public spending in all developed countries increased significantly and in early 90s already had a share of around 50% of GDP. It is particularly significant that the growth of public expenditure in countries in transition in those years had a higher growth than the growth of GDP, and that these countries because of this

trend increased the level of taxation. An increasing income redistribution through the budget, significant non-market investments had many effects on market relations.
The constant increase of public spending, and thus increasing of tax collection lead to resistance of structures and criticism of irrational consumption, government regulatory functions to the detriment of efficiency of capital, falling productivity, profit rates and mass income. Irrational consumption grows into the need to restrict public sector. All the most developed countries leave politics of deficit budget financing, which by fiscal incentives, public expenditure and expansionary monetary policy should revive economic activity and prevent the economy entering into a recession phase.
Economics of offers and rational expectations occupies a dominant position in the most developed countries and in the economic strategy makes the shift from public to private sector, the return to market force, private initiative and economic dynamics of producers, but also to the philosophy of rational behavior of individuals and the inherent stability of private sector. (Ristić and Komazec 2009, 649). This position has been adopted by all countries in transition to the new millennium.
The free market doctrine has been in complete out of step with real relations at developed countries, because nowadays is more and more manifested a limited market activity, manipulation of offer and demand by monopolies and developed countries. The doctrine of neoliberalism with the concept of free market access, liberalization of financial markets for free foreign private investment, promotion of private entrepreneurship are solely in the function of economic and financial domination of the most developed countries in relation to everyone else.
The constant growth of public expenditures causes growth of budget deficit, which in recent decades has increased several times. The choice before the countries is to be able to extend borrowing to launch a growth with its own expenditure, which will later be increased by reduced increase in tax revenues in line with the increase of national income or reducing transfer expenditures due to the increase in employment and a significant reduction in expenditures with realistic prospects of phenomena of stagnation in the development and growth of unemployment, all in the spirit of the Keynesian doctrine. The second direction, accepted by almost all countries is con-

tractive budgetary policy that is motivated by the view that the expansion of deficit inevitably leads to higher inflation, although the rate of inflation in all the most developed countries move within acceptable limits. Despite all attempts a fiscal imbalance in almost all developed countries is deepening.

The very current economic reality and economic theory recognize the need for state interventionism, especially in the developmental aspects (social, education and health) as well as a proactive role in promoting the private sector and their profit motive. Modern public sector can play a role of closed and isolated system in relation to the private sector and in the process of a new concept of economic development has a concept of functional finances.

3. PUBLIC DEBT

The effect of public debt in the modern economy and the tendency of all of its faster growth relative to the national income and budgetary funds is increasingly attracting the attention of both countries, and economic theory in order to deeply analyze it. Establishment and management of public debt is a part of a global review of international institutions and its activity within the international framework.

Economic theory today differs quite a number of activities that can be classified into several main directions. (Ristić and Komazec 2009, 698)

– monetary operations;
– development or cyclical activity;
– stabilizing;
– specific (mainly distributive nature) operation.

Depending on the economic, financial and political implications, debt activity today is very diverse, but also significant. The general trend in the increase of public debt to GDP ratio has a negative impact on income and employment, allocation of resources from private to public sector disturbs market mechanism and increase the cost of using capital inefficiencies. Stabilization measures taken today by all countries, the most developed, as well as countries in transition, the budget deficit reducing essentially represents a strategy of inflationary expectations eliminations and reducing of real interest rates in capital markets.

In the analysis of public debt, it is necessary to go back to the past. Given that the accumulation of foreign debt is an enunciated problem of transition countries in the phase of economic development, where the influx of domestic savings is low, the current account deficit is high, it is necessary to import capital to maximize domestic resources. In the early 70's of the last century, public debt of these countries was a powerful means of stabilization and development policy. Most of these loans were on a concession (law interest ratio) basis and were given in order to implement development projects and an increase in imports of capital goods. The economic downturn in 80s and 90s in the international market changed fundamentally policy for funds placement and commercial banks received a large role in international lending, especially known case of OPEC member countries surplus recycling.

Foreign borrowing for countries in transition has profound economic sense and all lead such a policy by financing their own investments, only if the involvement of foreign savings has economic justification if the ultimate goal is economic growth spurring, that in the long run increase their own savings and create the conditions for independent development. Recent years have shown that borrowing cost for countries in transition was far greater than the benefits, especially looking at the process of debt servicing.

Debt service is the payment of accrued interest and amortization, which represents the fixed contract fee for domestic real income and savings. Since the payment of debt service have to be paid out from foreign exchange, and that in many countries in transition thus limiting the existing exports, the impact of external debt on development has become a concern. The process of servicing debt requires a series of coordinated activities, because the basic concept of transfer (net inflow and outflow of foreign exchange for international loans) proved to be very negative for the countries in transition, in 80s and 90s (Stewart 1985, 141-204).

Hiring of foreign funds should be in the function of economic growth intensification rates, increased production should provide the funds received to finance obligations. The least favorable forms of foreign funds involvement, the development of those branches that should provide the domestic market, and the works of public character for the construction of public facilities, which at a number of countries in transition was an absolute case

(BiH, Serbia). Repayment of such loan funds is always accompanied by an increase in taxes from the inability of debt servicing, the engagement of these assets had no impact on the export sector. During the last decade has been changed the official fiscal stance, according to which no longer was valid the assertion that the country fiscal deficit is funded solely by the resources of that country (Ristić I Ristić 2015, 17). For successful debt servicing a key issue is to increase efficiency in the use of foreign funds. Primarily, countries in transition must seek methods of efficient use of these funds primarily through higher grace period, reducing the amount of interest or greater profit depatriation of foreign corporations.
Overall, developing countries have an increase in foreign borrowing. There are several reasons for this: first, generally, developing countries due to the extremely low coefficient of technical equipment of labor have low production per employee. Second, due to the increase of personal consumption and investment, the tendency of these countries to import is increasing. Significant investment in infrastructure as a development priority is mostly characterized by high capital intensity due to which import dependence of these countries is growing. At the same time these investments are characterized by a very long activation period, and those are effected only after a longer time interval. Large external debt of developing countries falls into one of the more pronounced economic problems of the contemporary world. A number of economic theorist sees in it the greatest danger for the entire international and financial system. (Babić, 1993, 335). Balance and debt structure are best seen from the following table.

Table 4. Foreign debt (World Bank 2014)

	BiH	Croatia	Montenegro	Hungary	Serbia
Current account balance (BoP, valid US$)-	1.1 bill.	715 mil	-649 mil	5.5 bill.	-2.7 bill.
External debt, private, non-guaranteed (PNG) (DOD, valid US$)	4.1 bill.		76 mil	106 bill.	17 bill.
External debt, public and private, guaranteed (PPG) (DOD, valid US$)	4.7 bill.		2.4 bill.	65 bill.	16.7 bill.
External debt, shot term (DOD, valid US$)	1.3 bill.		467 mil.	22 bill.	571 mil.

External debt, total (DOD, valid US$)	11 bill.		3 bill.	196 bill.	36.4 bill..
FDI, net inflow (BoP, valid US$)	315 mil.				
IBRD and IDA loans (DOD, valid US$)	1.6 bill.		407 mil.	3.7 bill.	2.6 bill.
Net flows of external debt, long term (NFL, valid US$)	58 mil.		101 mil.	15 bill.	2.6 bill.
Net flows of foreign debt, total (NFL, valid US$)	64 mil.		30 mil.	8.9 bill.	1.5 bill.
Net funds received ODA (% of GNI)	3,0		2.8		1.8
Net funds received, ODA per capita (valid US$)	144		205		109
Net official development assistance received (valid US$)	550 mil		127 mil.		783 mil.
Total debt service (% of exports of goods, services and income)	17,8		17.2	95.5	43.6
Loans of IMF (DOD, valid US$)	848 mil.		39 mil.	1.5 bill.	1.6 bill.

4. DEFICIT FINANCING GROWTH

Deficit financing development is more and more subject to interest or controversy in economic theory. One group advocates such method of financing in combination with a healthy forms of financing, while advocates of Keynesian doctrine advocate methods of stimulating investment spending, growth rates and employment, using clean emission of money that corresponds to excess of savings in refers to real investments. Additional money in circulation only fills the surplus savings that cannot invest.
Global investment spending increases to a level which will ensure achievement of full employment policies.
In economic theory and today there are a large number of authors who do not accept this type of financing for generating inflation, arguing that developed economies have sufficient capital but for transition countries that have a dearth of capital this way is an important alternative method of creating accumulation. Although a good share of these countries have different opinions, from support to rejection.

All topical problem of deficit financing imposes certain dilemmas in terms of model, limits and its activity. Inflationary creation of money in certain conditions can stimulate the accumulation, but according to many, inflation as a general method of development financing is unacceptable. However, some economists have taken the approach that moderate inflation is historically necessary form of forced savings to create additional accumulations in modern development conditions of developing countries. (Hansen 1960: 174). The dilemma remains which are the limits to the possibility of establishing them. With all the contradictions in terms of deficit financing it has been implemented in almost all countries either through the system's budget deficit, either through expansion of credit.

Certain considerations have shown that deficit financing is not sufficiently effective as a means of increasing economic growth, but significantly effective in supporting overall demand and can be included in the long-term economic programs in which the deficit financing and public debt are important factors.

The system of deficit financing recommended by Keynesian concept of the long-term driven policy of cheap money is not applicable today in conditions of completely changed structure of developed economies, one of the answers is a monetarist approach to the long-term rate of monetary growth. Extremely high levels of consumption in developed countries negate the Keynesian theory constructed on a crisis-deflation situation of economy, implying that demand and offer aggregates ceased to exist as the main factors in price modeling (transfer payments, monopolistic pricing and international influence) (Ristić and Komazec 2009, 571).

CONCLUSION

The countries in transition and middle-income economies need to take measures to strengthen the fiscal framework for risk management of government activities that are not currently covered by national budgets, and the complex conditions of financing would benefit from taking fiscal measures.

High and persistent levels of unemployment call for a broad response of economic policy, which should include market reform and other policies. However, the situation in countries in transition is unfavorable, if as a starting point adjustment prolonged recession is taken, when it is known that higher expenses have short-term negative impact on employment. For countries in transition, the adjustments tend to have a negative impact on employment, due to the reduction of low levels of public investment. Finally, what is perhaps most important is the nature of specific revenues or measures for reducing expenditures.

There is needs to provide a well-designed tax reform may provide growth and employment, but countries with little fiscal space should be aware of their budgetary constraints. Larger public investments can provide positive spillovers, while taking measures to avoid a negative reaction in the market. Structural reforms can imply lower fiscal costs, but regardless of whether or not these costs should be absorbed through consolidation by slower pace depending on the existing fiscal space, potential vulnerabilities, as well as the commitment to reforms. As a general rule, the fiscal costs should be included, both in size and duration. In the case of negative growth, countries can activate the automatic stabilizers, unless they face binding financing constraints. A credible medium-term fiscal plans are necessary as part of a framework of sound fiscal policy. This is particularly important for countries with high debt in which the observed large projected growth in health care and pension expenditure. In other countries, the restraint of private consumption can reduce the long-term fiscal risks.

For successful debt servicing a key issue is to increase efficiency in the use of foreign funds. Primarily, countries in transition must seek methods of efficient use of these funds primarily through higher grace period, reducing the amount of interest or greater profit depatriation of foreign corporations. In developing countries, the system of deficit financing recommended by Keynesian concept of the long-term driven policy of cheap money is not applicable today in conditions of completely changed structure of developed economies, one of the answers is a monetarist approach to the long-term rate of monetary growth.

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