

CATEGORY OF STATE EXPENDITURES IN A SYSTEM OF FINANCIAL RELATIONS

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The article makes an attempt at theoretical reasoning of one of the basic categories in the system of financial relations, notably state expenses. The author suggests an interpretation of this category in a broad sense and from a material point of view. The author analyses a wide range of existent in a modern scientific society opinions, concerning this category, and gives his own interpretation of the state spending category.

Theoretical consideration of state expenditures traditionally begins with analysis of the economic category. Before we go into explanation of the theoretical aspects of state expenditure, we would focus on economic meaning of the notion state expenditures.

In a broad sense state expenditures should be explained as a category characterizing certain financial relations. In a narrow sense (from a material-substantial point of view) state expenditures represent definite kinds of expenses fulfilled with a special purpose.

From a material-substantial point of view, state expenditures can be described as expenses of government bodies presumed by their func-

tions and consisted of budget expenses and expenses covered a budget deficit (expenses for account of borrowed funds).

State expenditures is a system of financial relationships among government bodies on the one hand and physical and legal bodies on the other hand in the course of financing expenses and funds spending from all levels of budget by government bodies while fulfilling their functional duties. Subjects of the given relations are authorities of various levels, top managers, managers and addressees of the budgetary funds, the economic entity, participating in the process of manufacture and distribution of public services, and also consumers of public services (physical and

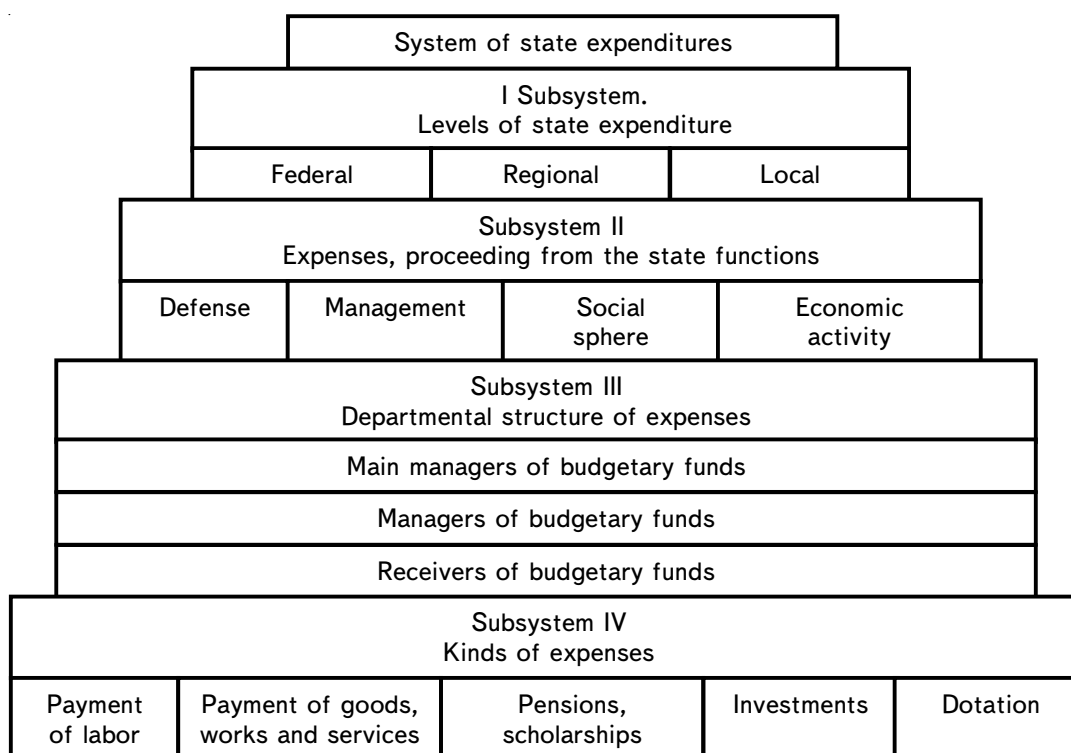


Fig. 1. Hierarchical structure of state expenditures system

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legal bodies). The major component of the state expenditure is budget expenses. A specificity of this category consists of a specific of one of the subjects - state - and a specific of production and allocation of services, what money is spent on.

The object of relations is budgetary funds spent from the budget of a country on manufacture and granting of the public benefits.

Analyzing the state expenditures as a financial system component, we share a point of view of Simon G. and represent them as a set of the elements being in interrelation with each other and forming a certain integrity, that is a system, constructed by a hierarchical principle.

The hierarchical system is understood "as the system consisting of interconnected subsystems, each of which, in turn, is hierarchical on the structure". An element of the given system is concrete kinds of expenses (fig. 1).

Describing the state expenditure as a system, it is possible to distinguish their distinctive features.

1. The state expenditure has an overall aim and is carried out deliberately. The purpose of functioning of the system of the state expenditure is financial bailout of the process of manufacturing and providing social services for the account of distribution and redistribution of a cumulative public product by public power bodies.

2. The system of state expenditures consists of the interconnected and co-operating components and forms a structure reflecting internal organization and special orderliness of all elements of the system. Concrete kinds of expenses compose components of the state expenditure system.

3. The state expenditure has a spatially-temporal structure. Firstly, expenses function in special multilevel budgetary space. Secondly, the expenses represent a certain abstract space in which some components are bigger, the others are smaller, but all make a certain part in whole (specific weight of each kind of the expense in a budget expenditure), and above all, they are structured in an appropriate way (it is a budgetary classification).

4. State expenses are interconnected with an environment which represents external, in relation to complete system, subjects and phenomena, with which the system co-operates influencing them and changing.

Considering the influence of an environment on a system of the state expenditure, summariz-

ing the most often met points of view, it is possible to distinguish four kinds of restrictions which the environment imposes on state expenses:

◆ resource restrictions. The account share of the budget is limited to a profitable part which is accordingly limited to the gross domestic product and withdrawal possibility;

◆ economic restrictions connected with a price level, established on the basis of market relations. Carrying out expenses in the process of manufacturing and granting of the public benefits, authorities make purchases of all necessary components (a fixed capital, goods, works, services, a workforce) in market sector, therefore price change in the economy as a whole influences state costs;

◆ legal restrictions. State expenditure is carried out on the basis of the established legal acts, and, accordingly, implemented economic policy essentially influences expenses;

◆ political restrictions are connected with existence and activity of various groups of interests, which have a socially-psychological basis.

5. The system of state expenditure is determined by a line character of a cash flow.

The system of the state expenditure, as an open system, exchanges with an environment by means of money movement. Budgetary streams are a way of interaction of authorities with economic subsystems. The entrance to a system is executed by means of adopted budget appropriations, and the exit is carried out through financing of costs. Adhering to this point of view, we have adopted the theory of budgetary streams suggested by L.N.Pavlova.

Monetary streams, appearing as a result of spending of state expenses, are possible to divide on incoming and withdrawing, and on the basis of independence of corresponding level of authorities in distribution of a monetary stream - on internal and external. *The incoming stream of monetary expenditure* represents legislatively confirmed budgetary assignments to concrete department (institution) on a definite program. The approved budgetary assignments mean that financial (resource) support is subject to the fulfillment of certain duties by authorities, department or institution. *Withdrawing monetary expenditure streams* are payments made by authorities, departments, establishments aimed at financing of current spending and investment. Internal monetary streams represent all budget-

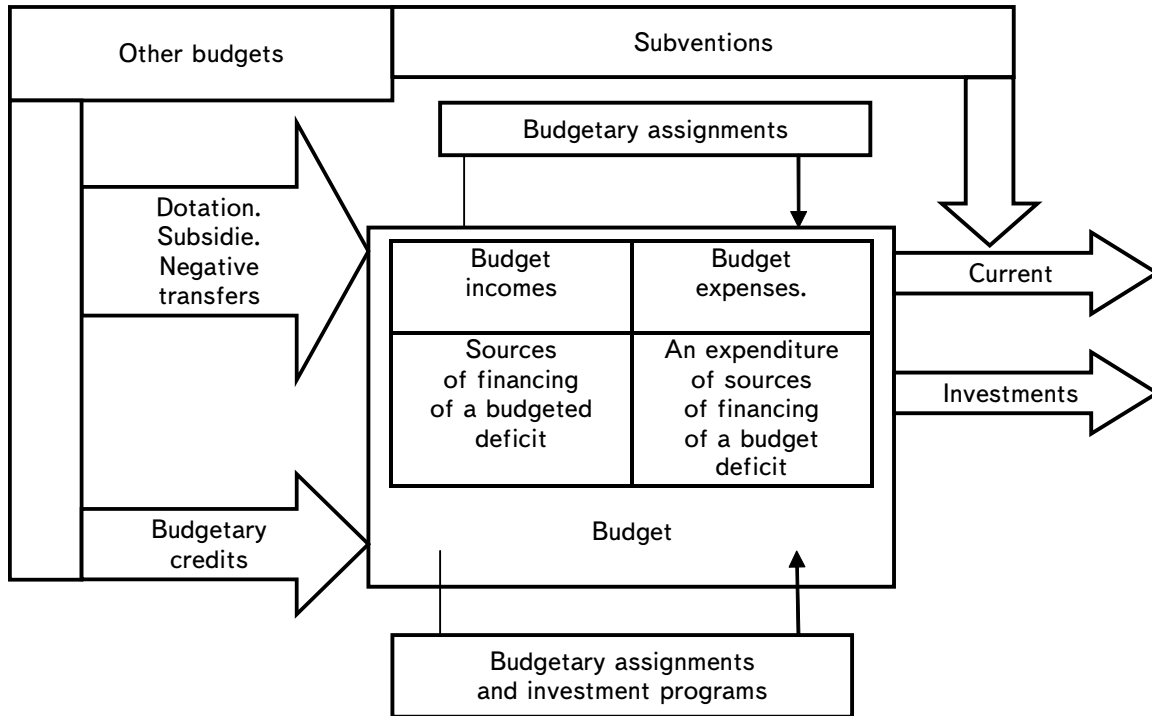


Fig. 2. Monetary streams of the state expenditure system

ary funds which are independently distributed by corresponding level of the power. In the given context, *internal monetary streams* are all money resources accumulated in the budget of corresponding level, for account of taxes and payments from budgets of another level, but distributed independently by corresponding authority level. External monetary streams are transferred subventions and carried out at the expense of their payments (fig. 2).

The essence of public finances and the budget is concretized in functional (public) mission of these categories. We share the point of view of the scientists Kovalyova T.M. and Barulin S.V., that government (municipal) finances perform three functions:

1. formation of the centralized incomes,
2. use of the centralized incomes,
3. controlling function.

Studying the budget functions shows the existence of two basic concepts, which, in conformity with the first function of the budget, repeat functions of the finance in general. Authors of the first concept Aleksandrov A.M. and Sabanti B.M. consider that financial relations include only the system of the nationwide finance⁴.

According to other concept, which is supported, in particular, by Pshennikova E.I., the following state functions, representing a set of fiscal function and integrated budgetary classifica-

tion of budgetary expenses, are listed⁵. Considering the budget as the part of the nationwide finances proves that the essence of the budget, in our opinion, reveals in specific functions:

1. function of providing the public authorities and local government with profitable sources to execute their duties, including allocation of funds;
2. function of financing the manufacturing process and granting the public benefits (perks, services) by public authorities and local government;
3. controlling function;

The first function concerns the formation of a profitable part of the budget, the second - to the use of an account part. Controlling function is immanent both to incomes and expenses. At the same time, controlling function in the system of public revenues and expenses differs essentially in the purposes, objects and subjects of control. Thus, functions of the state expenditure comprise financing the manufacturing process and the process of granting the public benefits and control over this process.

State revenues and expenses are inseparably linked. If necessary quantity of financial resources is not available, the state cannot execute the functions assigned to it, but, nevertheless, the existence of expenses causes the existence of public revenues. Historically, the need of the state, as the machinery of force and man-

agement, in a workforce, material and financial resources has generated the necessity to take into possession a part of a social product.

By paying expenses, the state realizes its functional duties - the satisfaction of public needs. If budgetary incomes are means for renewal of public finances, then budgetary expenses is a cost estimation of produced public benefits (the state services), a main objective and motive of rational use of public finances (excepting a no-purpose use of budgetary funds and an embezzlement of social funds). Article 169 of the Budgetary code of the Russian Federation concretizes the orientation of the budget toward the financing of account obligation execution. Often there is a formulation that "the draft budget is designed ... with a view of financial support of expenditure obligations".

Thus, meeting all expenditure obligations, undertaken by the state for formation of parameters of the budget, is primary.

The economic concept of state expenditure is described in detail in L.Kossa's works, where they are defined as the expenses made by the competent authorities for satisfaction of requirements of the state. He wrote: "Concerning economic results the state expenditure can be divided into productive and unproductive. Productive expenses are those expenses which either increase the property of the state, or strengthen economic basis of a private enterprise. Unproductive costs are those which do not yield results, but are not useless. There are moral values which turn, sooner or later, into material welfare and some wars strengthen people's energy better than any industrial progress".

L.Kossa's conclusions are of great importance for working out an effective budgetary policy in modern Russia, they deny Sabanti B.M.'s thesis that "in the bulk, the state expenditures are unproductive as they are a part of the national income excluded from production process.

The state expenditure is extremely various according to economic content, a source and a way of financing and constitutes a complex system of the state expenditure. In the state budgetary policy the expenses and control over their efficiency (instead of incomes) make the major priority that supposes the excess of state expenses over the planned public revenues. However, in recent years budget incomes exceed budget expenses. It was affected by accumulation of means in reserve fund of the state, absence of standards and norms of budgetary expenses, creation of artificial surplus of the budget. Such state of public finances causes the disturbance of financial balance and characterizes the equilibrium of public finances rested on the basis of steady economic growth that does not make it possible to finance social benefits, provided by authorities, in full and sufficient for economy and social sphere volume. Summing up the aforesaid, we consider that providing and supporting such financial balance should become the main priority of a budgetary policy of the state, realized through a system of budgetary expenses and incomes, the budgetary regulation and the budgetary control.

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