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ACHIEVEMENTS AND OPEN PROBLEMS OF CONTEMPORARY BUDGET POLICY

The budget policy is comparatively the strongest form of economic influence of the state over socioeconomic development. An attempt is made to distinguish between the major theoretic achievements and open problems of the influence as a basis first for the vindication of some already rejected ideas by the theoretic community; second to mark the lines for a more productive methodological approach to clarification of open problems, and further to a more effective state influence on the qualitatively new economic and political realities of the Twenty First Century.

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The rich world economic practice has so far offered an exclusive wide spectrum of concrete forms and instruments of influence by the state on the economic activity, effectiveness and development. The visible and still dominating part of the spectrum belongs to *the direct* forms of influence. Ordinarily they are the most rapidly acting ones. The means and forms with a *more mediated* influence, occupying for this reason the second plan, can be supplemented by the whole variety of prerequisites, conditions and factors of economic activity of economic, political, social, cultural etc. character, created purposefully or involuntarily by the state. Predominantly they correspond to the notions with the same adjectives as "climate", "environment", "rules", "stability". In reality some of the indirect forms influence the economic activity and productivity as actively and rapidly as the direct ones. One of the forms of mixed (direct and indirect) influence represents the instruments of *budgetary policy*.

The theoretical and applied knowledge accumulated so far, servicing *the budgetary policy*, reflect to a great extent the level of development of the economic science *as a whole*. The main reason for this is that in the variety of forms and means for state influence on the economy, the instruments of this policy take the greatest share. It really is *only one of* the many substantial aspects of economic policy and theory, but at the same time it is historically the oldest, the most experimented, the most sensitive and remaining all time the most contradictory. In the different societies and epochs, the budgetary policy was distinguished for not a small number of differences. This was due mainly to the *specific* conditions in every one of them and to the concrete historic, mostly pragmatic, approach to the decision of the respective problems. On its part, of course, it was influenced by the

* On the basis of the approach as outlined in this article the author has attempted to contribute to the further clarification of a part of the formulated open problems in Балабанов, И. Дългосрочните инструменти на бюджетната политика в ЕС, САЩ и Япония. – In: Икономически изследвания, Year X, 2001, N 2, p. 3-45.

established theoretical ideas of the given stage ("Every man of action is a slave of some former economist" - Keynes). But although the budgetary policy has been implemented in a quite peculiar way in the different countries and epochs, the level of the knowledge servicing it is indicative of the state of most fundamental theoretical problems. In particular this applies to the fundamental issue of the role of the state in attaining a better competitiveness and stable economic growth - scale, directions, means, mechanisms.

Consequently the clarification of the theoretical basis of budgetary policy - of the conceptual limitations, forms and means for its effective practical realization, is at the same time clarification to a large extent of the multiaspect principal limitations, forms and means for its effective practical implementation. It is at the same time clarification of polyaspect principal limits, directions, means and mechanisms by which the state can contribute to the development not only of the economy but of the variety of social processes. Correspondingly the balance-sheet of the achievements and the problems of knowledge for the budgetary policy is to a great extent a balance-sheet of the role of the state in the socioeconomic development. It is the central focus, comparatively the most actively explored field of idea-application recipes of the so far dominating theoretical schools of *all* socio-economic functions of the state. This is especially valid about its stabilizing role as regards the deviations in the business cycle, its possibilities in unison with the instruments of monetary-credit policy are among the most-experimented.

That is why the budgetary policy until now remains the most wide-embracing form of state influence on the development of every sphere from the economic and social reality - directly or indirectly, partial or full, stimulating, neutral or restrictive, relatively independently and in functional interaction with the other forms of state interference. This is the reason why most of the existing theoretically-applied problems, referring to state intervention as a whole - "for" and "against" it as well as the separate directions and forms of intervention, in fact are connected with the still finally unclassified potential possibilities and instruments of budgetary policy to influence positively the socioeconomic development. Before all, the different interpretations of the problems connected with this policy are the main dividing line between the different paradigms in social science and even between separate socio-economic conceptions based one and the same philosophy. At the same time every step forward on their part to reveal of a definite objective opportunity for a more productive influence of the state on the economic development through the instruments of the budgetary policy, is also a relevant step to solve the multi-aspect problem of the role of the state. Its leading place in all theoretical schools is due to this reason.

Moreover, as far as the problems of its role are key problems in social science, the vision of one or another role of the state in the different theoretical doctrines in fact is a preliminary draft of a *relevant* conception *model* of economic activity and the society. This is why every advance in the theoretical elucidation of

the budgetary problems is a step forward to the resolution of the permanently opened, throughout the whole socioeconomic history, fundamental problem of the *model* of market economy and democratic society, which at the corresponding stage can ensure their more efficient and sustained development. Consequently, it would not be exaggerated to affirm, that if the social science and mainly the economic theory disposed of sufficiently well elaborated in scope, depth and adequacy system of knowledge clarifying the most important principles and applied aspects of budget policy, it would implicitly contain the solutions of most of the fundamental problems of the industrial, scientific and educational, technological, social and other policies of the state. Therefore it remained one of the most difficult theoretically-applied problem knots, which still keep being united even today.

Knowledge of Budgetary Policy Accumulated Hitherto

Despite the open conception and theoretical debate on budgetary policy and respectively the contradictory messages resulting from it, definite knowledge, rules and instruments have won recognition, by means of which every relevant state administration is to a certain extent able to influence productively on the economic activity and development. They were generated by the basic ideas and applied recipes of the influential theoretical schools so far, as well as by the generalization of the pragmatically evolved *specific* rules and instruments in the budget practices *mainly of the leading market economies*. The ever-growing unification,¹ during the last decade, of the rules and instruments of the budgetary policy precisely in these economies combined with their relatively high level of stability is an indirect evidence that they increasingly attain the quality and importance of *universally valid* instruments of principle. With their aid at present the state institutions even in countries of less developed economies can comparatively and successfully balance the state budget and the current account within the financial year and are in condition to control inflation down to a bearable size. They render possible the neutralization even of the more important *short-term* fluctuations within the framework of the business activity. Furthermore, this is the way to achieve to a certain degree not only financial stability, but as a secondary effect, also a certain political and social stability. Or, in order to transform a similar potential opportunity into a real one today, an availability is necessary *mostly* of sufficient political will, operational knowledge and relevancy on part of the ruling elite.

Which are the major rules and instruments, proved by practice?²

¹ See Балабанов, И. Съвременните стратегически акценти на индустриалната политика. - Икономическа мисъл., 1999, N 3, p. 15.

² Generated as more or less relevant theoretic knowledge and respectively as measures for solving newly emerged crucial problems in the currently circumstantial economic practice in one or more countries, they usually are advanced as knowledge of general theoretic nature. Subsequently, with the

- Let us note in advance, that so far in the budgets of most countries under the pressure of similar necessities, a comparatively sustained revenue-expenditure nucleus contains similar items (allocations) on which the discussions of *principle* have calmed down. Especially in the most developed industrialized countries the relative share (percentage) of these items in the Gross Domestic Product (GDP) has acceleratedly gravitated to equal or similar values. These are the revenue and expenditure items of the normal expenses of state institutions in the legislative, executive and judicial powers in connection with the creation and the observance of the constitutional and justice order, of external and internal state security and reserves, of state and social infrastructure (in the first place communications), of successful struggle with the natural disasters and during the last one or two decades, also of the necessary conditions of preservation and restoration of the natural environment and equilibrium. Naturally, the emergence of a multitude of concrete problems cannot be avoided by the financing of these basic functions of the state, common for each country. But within the limits of certain practical values, formed by experience, which in the respective society are accepted as a matter-of-course, the mentioned budgetary revenue-expenditure items ordinarily do not give rise to problems and controversies. According to the economic schools founded on the classical values and traditions in connection with this part of the budget, no problems should ever arise if it is sufficiently economical (minimal). So that it covers only the relevant objective needs, as and if the respective budgetary revenues and expenditures are neutral, i.e. neither stimulate nor limit the free development of all remaining activities in the society. And in fact the practice shows that obeying these principal rules favors the economic development, all other conditions equal. Certainly, in retrospective historic plan the relative volume and composition of the sustained revenue-expenditure nucleus have inevitably changed with the evolution of the basic functions and services provided by the state. Simultaneously, they have undoubtedly varied, within a certain, range in conformity with the different concrete conditions of the separate economic and political realities. This is the reason why every detailed comparative historic follow-up of the *concrete* changes within the framework parameters of the nucleus during the different stages of development and particularities of the separate countries, could be a source of substantial theoretic generalizations of the fundamental part of the functions of the state in society.

- Although the long-time dispute in the economic theory over the Keynes principle of budgetary influence on effective demand as a means of stimulation and regulation of economic activity, many countries even as of today implement with

changed realities, in fact most frequently they proved to be one sided, occasional and not effective. This is the reason why they are often rejected as entirely erroneous, to be changed for others "more relevant" and of a more generally theoretical nature. In reality, in order to evaluate their real value it is necessary to define more precisely their specific role and identity just in relation to the concrete conditions and realities, which have given rise to them, but in the context of sufficiently developed comprehensive general theory.

success this principle with regard to the needs of *their overall economic situation*. The practice gives evidence that it produces the needed effect by earlier erroneous shrinkage (ordinarily by a total socioeconomic policy of the state) of the internal and/or external demand, as well as by the emerged highly active balances in the current account and in international trade in relation to other countries (like for example, Japan used to have by the middle of the 80-ties with several developed economies and mostly with the USA).

- Apart from the thesis of a growth in consumers demand, including by state investments, Keynes gives reasons also for the necessity of changes in the policy of taxes within a certain margin, which respectively would regulate incomes and from there the aptitude for consumption and investments leading to growth. His prescription not only does not include compulsory balancing of the budget and curbing of inflation, but admits them as a favorable prerequisite of growth. Simultaneously, however, as is well known, the expansion of the state interference that followed "the Keynesian revolution" was accompanied in many countries by a considerable overgrowing with parasite bureaucratic functions and with respective burdening of the state budget with higher expenditures. Although with some shades of difference between them, the schools of "neoclassic renaissance" performed a revision and a theoretical step forward. They stressed the necessity of such decreases in tax levels and respectively in government spending, which *equilibrate the budget* and neutralize the sources of inflation. Thus in combination with a strict monetary and credit policy, taking into account the changes in the production factors the decreases are a favorable precondition for *macro-economic stability and development*. The deregulation that began with the neo-conservative wave and the curtailment of budgetary redistribution of income, (with a view to "the liberation of additional resources for the production factors appropriated by the tentacles-like state", according to the theory of supply) was in practice implemented through radical tax and budget *reforms* carried out on the initiative of the state itself. Consequently the economic practice actually showed that the well-tied state budget the revenues of which do not include foreign financial assistance, does not envisage a deficit of practical importance and its expenditures are not a source of inflation, in its common case is a mirror (and more precisely indicator) of a stable economy. It in itself represents a substantial *prerequisite* for further economic stability, effectiveness and development. Consequently the budget favors, in a relatively highest degree, the economic activity, when, all other conditions equal, it does not rely on a credit resource from the past, or on the account of the future. The implementation of the most important principle of the tax reforms carried out - the substantial reduction of the tax burden and of the parasite budget expenditures rendered more influential the interconnection "tax burden -

budgetary redistribution - private investment, economic revival".³ This principle is widely applied in the economic practice today.

- In accordance with the Keynesian recommendation for a flexible usage of the mechanism for increase or paying off of the state debt in conformity with the circumstances of the economic situation and from there - for expansion or curtailment of effective demand, in the present conditions the state may admit a more substantial state deficit and debt, respectively a source and dynamics of inflation. The existing practice in many countries has proved that in a certain coordination with the specific instruments of monetary, credit and currency policy a similar step *leads to a higher economic revival*. Such a step however does not ordinarily overcome the limit of *middle term* influence and in most cases - the temporal values of the circumstantial effect. Or it could be prompted only to a *limited* degree and period of implementation limited by the potential opportunities of the economic circumstances. But such a policy must bear a mandatory correction, during the financial years to follow, with *compensating* measures for a most rapid possible liquidation of the incurred debt, as the expenses on the servicing start after a defined period begin to exceed the attained effect, as the economic experience convincingly teaches.

- In the expenditure structure of almost every effective state budget today, a voluminous item exists for the financing of *an active state policy on employment* as an instrument of achieving not only of social, but also, simultaneously and constantly more tangibly, of *economic* aims. This takes place even after a decisive rejection of the Keynes philosophy for a policy of "full employment" connected, according to its author, with "the utmost effectiveness of capital", and from there by the best way - with the economic development, as well as after the noticeable withdrawal of the state from the policy of employment, occurred during the neo-conservative period.

- From the middle of the 70-ties of the XX century in most developed countries a policy was started for the restriction of the *direct* subsidies from the state budget in favor of the *indirect* forms and means for stimulation of the economic activity. One of the most influential indirect forms are the built-in mechanisms (accelerated depreciation, tax credit, tax holidays etc.) for automatic direct reinvestment of the tax-exempted profits into the companies, in perspective activities and factors of economic development, which are detached as priority of the state *in advance*. This practice having proved its effectiveness continues to expand and improve.

- In the expenditure structure of the budgets in the advanced countries, a durable tendency is already being confirmed towards an accelerating increase of the relative shares of highly important strategic initiatives, projects and programs at

³ The descriptive data evidence that the reduction of taxes in fact influences the stimuli and leads to an increase of the productive volumes" (*Dornbusch, R., S. Fischer*. Macroeconomics, Fifth edition. New York, MacGraw-Hill Publishing Company Inc., 1990, p. 698).

state and regional levels with particular importance for the overall socioeconomic development, toward creation of institutions and mechanisms, facilitating the social dialogue and economic partnership at home and abroad, in a purposeful *long-term* improvement of the quality of human capital, in an increase of effectiveness of state administrative services etc. All they turn already into first class contemporary factors of economic effectiveness, competitiveness and sustained growth.

- The practical experience, especially during the last decade, showed that carrying out an effective budgetary policy by means of commonly valid principle knowledge and instruments enumerated above, is possible uniquely in a narrow functional coordination and mutual supplementation with implementation of a strict monetary and credit discipline. On this basis today the fluctuations of the business cycle can be neutralized to a satisfactory degree by carrying out a successful stabilizing or anti-cycle policy. However, the combination between the budgetary and monetary-credit policy can bring about the desired result, under the condition that the chief principle of the monetaristic theory is obeyed (the so called "trans-historic" law of Fridman) for regulation within certain limits of the money supply in conformity with the dynamics of prices and income. The comparatively successful implementation of the monetary board in Bulgaria so far is based on the same principle.

The Open Conceptual Problems of the Budgetary Policy

1. And for all that, is this verified knowledge and experience sufficient to carry out an effective budgetary policy in a given country, of course under normal (not extreme) socioeconomic conditions? Do they exhaust the more substantial possibilities of the state for an active influence by means of *budgetary* instruments on the socio-economic development?

From practical point of view an affirmative answer could be given if the measures in the budgetary policy based on this knowledge first ensure sufficiently *foreseeable* short-term and long-term socioeconomic results; second if the results could be evaluated post factum as at least satisfactory if not highly effective. It is well known, however, that for most countries a similar opportunity is still a hardly attainable reality. As the American economists R. Dornbusch and S. Fischer drew the general conclusion in their textbook of macroeconomics, "the influence of fiscal and monetary policy on the economy is not fully forecastable as regards the *timing* of manifestation and the *degree* of their influence on supply and demand".⁴ And the more long-term is the scope of operation, the weaker the forecastability of the consequences of the influence is. The reasons are numerous and of different nature. The most universal reason is that the accumulated knowledge so far is still far away from the needed theoretical system of principles, approaches, rules and instruments for state intervention in scope, integrity, noncontradiction, and

⁴ Dornbusch, R., S. Fischer. Op. cit., p. 27.

relevance. The more immediate reason is that the experiments and respectively the results of the clarification of these problems so far are carried out *predominantly on separated aspects* and for fulfilling of more isolated, practically applied assignments. Although at present the mentioned rules and instruments are applied comparatively successfully in the circumstantial economic practice, in fact they have advanced and developed historically in a gradual way (gradualistics) as *relatively independent* applied ideas of different socioeconomic doctrines of the substance and autoregulating role of the market, of the place and function of the state in the socioeconomic development, of the opportunities for the civil society, the citizens and the civil institutions to influence this development, on the conceptual role of the state budget in the same direction as a specific (budgetary) philosophy, relative volume, basic tasks, structure. Each of these doctrines, usually from its own starting viewpoint, in its own methodological approach and manner, interprets the respective socioeconomic problems which makes the difference between them natural. At the same time each doctrine has encroached upon the theoretic and business territory claiming to be sufficiently encompassing and true universal theory, and its prescriptions and instruments would give the best possible solution to the crucial problems not only of the presently *circumstantial*, but the *long-term* development as well.

In fact the debate in the economic theory until now about the possibilities of effective influence of the state on the economic and social life by means of the potential of the budgetary instruments ordinarily include, and have equally intensively dealt with, *most* of its aspects and horizons - from the most immediate and currently circumstantial, to the more long-term ones with a strategic target. But despite the complexity and the controversy of the short-term aspects and problems (predominantly in a positivistic aspect) especially so also with those connected by long-term potential possibilities of state influence. Ordinarily they are not delimited as problems of different specifics. Even the philosophy and the applied ideas of those schools which admit measures for neutralization only of the deviation of the business cycle in fact defend the conviction that best effect for the economic development will be reached in the *long-term* horizon as well. For example, when the monetary doctrine addresses its applied prescriptions mainly to the attainment of financial discipline and stability, it presuggests the hypothesis of securing *exactly in this way* the desired *economic* stability and development in the long run. Or in the economic theory until presently the short- and long-term development ordinarily were considered the same problem, and because of this their applied prescriptions were presumed measures for decision of *all* their aspects. In result of this, no theoretical school and conception has ever succeeded so far in finding sufficiently comprehensive and satisfying principal resolutions of the *fundamental* short-term and especially *long-term* issues of development. As we have mentioned, the explanation lies also in the specific historic way of their origin and in the specific theoretical and methodological approaches to both groups of aspects of development. Each of these theoretical conceptions in fact has its origin as a more

or less a relevant reaction to the step-by-step crisis situations, the market economy and the society have entered through the different stages and concrete conditions of their development. In practice it has sifted out (with the respective corrections) only separate fragments as relatively appropriate resolutions of one part of the problems. That is why the presently imposed positive knowledge and instruments represent more or less an *eclectic* mosaic of separately applied algorithms of the different schools and conceptions, not rarely excluding each other. In substance they are a sort of enclaves of their own, of diversified multiaspect and heterogeneous instruments for solving predominantly *more private* current practical problems in any economy, but not of its overall effective functioning and development. Both as theoretical achievement and as applied instrumentarium they remain far from the internal mutual, and in this number proactive (causative), interdetermination and subordination of the economic processes as a united organism, without which generating the necessary system of knowledge is impossible. Or the correct answer to the practical needs of the contemporary challenges requires a sufficiently complex and generalized approach by the social science.

Consequently, for both the economic theory and the principal knowledge on budgetary practice, and budgetary policy in particular, we can really advance a generalizing conclusion. They are still more of fragmentary achievements rather than a united well-developed and comprehensive theoretical system, having uncovered *all more substantial* potential possibilities and means of effective interference of the state in the economic life. Mainly by this reason the issue of its principal role in achieving a higher efficiency and socioeconomic progress of a given country in a *long-term* plan keeps on being among the most unclarified and theoretically controversial problems of social science. Of course, one of the most substantial reasons for this is the too long dominating skepticism and nihilism regarding the objective possibilities for state intervention of some of the most influential economic schools till now. That is why at present in the theory and practice of budgetary policy and the whole economic theory a row still stays *open* of substantial problems of conceptual, and of specific for the concrete conditions in each country, character. Comparatively they are the least connected with the *short-term* possibilities and means for positive influence on the economic activity through the state budget *within the framework of the separate financial year*, where the important of principal and applied plan is sufficiently clarified. (Considered as separate is the issue that without satisfactory clarification of the conceptual problems of long-term development, the budgetary decisions taken in short-term plan substantially do not meet in the end with the expected effects in a longer period. Apart from this, as was mentioned, a first-rate operative condition is the presence of a corresponding but not simulating-sinecure political power. The above is topically valid for the *unstable economies in transition* and for their reforming political powers, as is the Bulgarian economy and its reforming political power.) But because of the accelerating global integration the

open problems increasingly refer to *the long-term* active possibilities of the state and especially to those having *strategic* importance for the development. That is why it is necessary to mention especially that further on, we mark only the open problems, connected with the more significant *principal* possibilities and instruments of the state with predominantly *long-term* character and having to a larger degree *strategic* character. The short-term aspects, problems and instruments of the state influence through the budget policy are referred to, *only* as far as they are an *unseparable* functional part of the long-term ones. (Such for example is the first not sufficiently clarified aspect we start the formulation of the problems with.)

2. What are the more important *open* problems of budgetary policy within the frame of the accepted limitation?

- The most substantial *short-term* aspects, *which are unseparable* from the problems of long-term development and which with the globalization will even further complicate, were caused predominantly by foreign political and financial influences. These are hard to foresee and hard to repel shocks, originating in the rapidly changing foreign environment. The satisfactory solution of these problems, however, will come about, *no sooner than after*, having accumulated the necessary knowledge, technological means and political will for supranational effective regulation and adjustment of all trade and economic processes in the global economy, i.e. when the *timely* relevant reaction and forecast of the results from the used instruments in the integrating global environment become possible. In practice this means presence of real opportunities for the construction of a supranational institutional legal and information and operation systems, corresponding to the stage of the globalization. Apart from assisting the relevant reaction from all sides, corporative partners and separate companies, the system must also provide their equal rights in the competition, as well as to limit to the minimum the destructive role of the speculative capital in the global economy.

- With the knowledge and instruments available today in the field of budgetary, monetary and credit policy it is actually possible to reach a satisfactory financial stability, and in certain conditions even an economic revival. The practice until now really shows that the unburdened state budget with no parasite and bureaucratic expenditures and no considerable debt to the past and to the future is a favorable *prerequisite* for financial stability and economic growth. However the world practice also shows that this is a necessary but *not sufficient* condition for reaching sustained economic growth. The main reason for this is that the more substantial possibilities, forms and means of influencing the tax, budgetary-expenditure and monetary-credit on the economic development in a *long-term* plan have not been clarified yet. Among the budgetary prerogatives of the state, the theory has not yet uncovered the more substantial potential possibilities, conditions, factors and means that lead not only to financial stability, but also to satisfactory socioeconomic development in a *long-term* plan. Or the

potential opportunities and principal conditions have not been clarified for ensuring a united interrelation and noncontradictory implementation of the traditional stabilisation policy, and at the same time a policy of a long-term, balanced socioeconomic growth in the concrete conditions of every country; of such tax, budget-expenditure and interest-credit policy which leads to the necessary current and at the same time *perspective* micro- and macroeconomic competitiveness.

- The big open issue connected with the implementation of an effective budgetary policy regarding the economic development is about the relative principal limits, directions and forms of *the budgetary redistribution* of the incomes. From practically-applied viewpoint this problem can be formulated in the following way: are there universal (principal) restrictions for the relative share of the state budget in the GDP, the observance of which leads with sufficient reliability to higher economic activity and development, or groping after and getting hold of such interrelation may take place always only after a lucky pragmatic decision in a separate country? What are the most efficient forms, restrictions and means of *budgetary* influence by the state on the economic activity, thanks to which the economic activity functions without allowing significant fluctuations and levels of inflation without "overheating" and "cooling"? The theory has no answers to these questions so far.

- Even only in short and middle term horizon it is still impossible to forecast *with sufficient exactness* the result of the impact on the economic activity and effectiveness of every substantial decrease (increase) of the *tax burden* and respectively of the *direct income*. Not yet discovered are the conceptual limitations (parameters) where *the interrelation* between the relative level and the structure of the *gross tax burden* constantly manifests itself, changes and becomes sufficiently predictable - respectively relative level of *budgetary expenditures* - respectively relative level of corporate and individual *income*-volume of investments - higher economic dynamics. It is not clear how to achieve the desired relative stability and simultaneously flexibility and predictability by the implementation of budgetary and tax laws, an idea maintained by M. Fridman.

- Even today, the problem of uncovering the relative volume of the accumulated and spent means of the budget, necessary to support such a *policy of employment*, which is not only a direct factor of *economic* effectiveness, *social* stability and development still remains open. More precisely this is the problem of revealing of the optimal limitations and parameters (corridor) of the interrelation between the budgetary expenditure share for the support of such relative levels of employment (resp. unemployment), which lead to higher *economic* dynamics, and from there to *social* peace, *social* stability and development, instead of social tension and conflicts.

- The conceptual problems of the principal directions and the rules for the *structuring* of the state budget, corresponding to its potential objective possibilities for effective influence on the socioeconomic development have not been solved

either. They are: the correlative volume of expenditures and scope of the respective national programs, headed for direct and indirect development of the factors of production, infrastructure, for covering the costs of the political power and administration, for social assistance and development, for protection of environment and upkeep of the equilibrium of Nature.

- Still unclarified are the possibilities and scope of the state initiatives, financed by the budget as *advance* securing of the necessary political, institutional and social prerequisites and conditions for the *development of civil society* as a specific favorable environment for economic activity, as well as for institutional mechanisms for a constructive democratic dialogue between the civil society and the state institutions at the elaboration and control in carrying out important political decisions of the strategic socioeconomic development.

- It is well known that during the last decade *the higher quality of the human capital* began to impose itself as a key factor of socioeconomic development in the industrial countries.⁵ These countries eased in, on a growing scale, the practice of budgetary (in parallel with the corporative one) financing of education and science by means of respective *national* programs for development. From the point of view of the economic experience, however, do the optimal limits exist (and what are they) between the budgetary and the other forms of financing of the *advanced purposeful* development of human capital? Combined with what other initiatives of the state could this capital be perfected best, as a decisive factor of economic development? These issues also remain open.

- The interrelation between the relative magnitude of budgetary expenditures on the implementation of a certain instrument of influence by the state with the effect from this influence not yet being uncovered though it is susceptible to an increasing effective realization. Or the problems of achieving a *higher quality and effectiveness of the state intervention* at a specified level of its budgetary support remain open.

- Still unclear is the potential force (and respectively the difference) of influence between the different kinds of budgetary-financial instruments, as well as budgetary-financial, economic, political, civil, legislative, institutional and executive possibilities and instruments in view of obtaining of a united interrelation, optimal structuring and their most powerful complex influences on the socioeconomic development.

- Still uncovered are the principal limits, models, mechanisms of the proactive interdependence and respectively the *predictable* change between the basic macroeconomic indicators under the influence of one or another *budgetary* impact from the state on the socioeconomic development for the needs of long-term scenario type forecast and programming.

⁵ "As a source of the growth of the American economy... the physical capital plays an important role. But the role of the *human capital* is a key one." (Dornbusch, R., S. Fischer. Op. cit., p. 739.)

- From practico-applied viewpoint the knowledge for the necessary division, functional interaction and the follow-up control between the different institutions on which the state intervention substantially depends is sufficient, as is of the relevant subjects, coordination and optimization of financing and improvement of the information, analytic, organizational and a posteriori control-regulating activities in society as a specific infrastructure of socioeconomic development on the characteristics of which today and accelerating in the future its dynamics will depend.

It is not difficult to note that all these open problems of budgetary practice and policy are indeed only a specific aspect of the broader fundamental issue about the role of the state intervention in the economic life. Together with the already verified possibilities and means for a possible *short-term* influence by the state on the economic process, *should there be or not at all* an intervention on its part through its respective instruments with a long-term aiming? If there really is one, in what direction forms and means is it? In what technological way could the state best exercise an influence on the *long-term* socioeconomic development, without at least allowing significant fluctuations, with no "overheating" and no "cooling"? With the insufficient clarity of these problem the crucial threshold of "overheating" and "cooling" of the economy cannot be authentically forecast in view of undertaking *preventive* measures. Even less possible to perform with sufficient reliability is an *advance programming* of reaching highly effective, balanced and sustained development, wherein no socially unbearable levels of unemployment, poverty, social tensions, conflicts and damage of the environment would be admitted. On the contrary, as still not having been uncovered to a satisfactory degree, the general lines, limitations and means of a *long-term* influence by the state on the economic and social development, correspondingly the specific potential of the *budgetary* policy in solving these problems, has not been clarified in full. Consequently the practically satisfactory clarification of both the general and the specific budgetary problems is not possible out of their narrow mutual commitment and interdependence. It is just this inseparability which suggests, that the main requirement be observed by a more methodically productive approach for clarification of the open problems.

The Methodological Approach in the Qualitatively New Realities

The *basic reasons* for the continuing openness of the problems delineated so far are two.

The first one, as mentioned earlier, derives from the long-dominating - 40 year-old Keynesian intrusion into the practice despite the lasting theoretic polemics - theoretical nihilism of the /neo/classical schools regarding the objective opportunities of an effective state intervention. According to the *extreme* philosophy nourishing this nihilism, the market, coupled with the "laissez-faire" policy must have been the only *objective* regulator of economic activity in micro- and macroscale not only until presently. It is needed to stay on unique into the

future, because the *active* intervention of the state, according to the same philosophy, is more detrimental than useful. Consequently the prejudices of the philosophy have substantially contributed to the similarly insufficient activity of the economic science in uncovering the potential possibilities and the appropriate instruments of a more effective state influence in a long-term perspective.

The other reason is the practically unique, even today, methodological way by which the theoretical knowledge about the national and world economy has been shaped and further on broadened - analysis, inductive summarizing, and theoretical interpretation *mainly* of the separate concrete aspects, processes, and phenomena from the already elapsed development of the economic reality. As a result, the knowledge obtained represents to a greater extent fragmented and concrete rather than sufficiently comprehensive principal truths, more single aspect and a posteriori than complex systematic and *running ahead of* development knowledge, on the basis of which to make reliable authentic forecasts and to react appropriately. Of course this concrete inductive approach will always remain the irreplaceable first phase of knowledge. But the phase is far from being sufficient regarding the accelerated development of the qualitatively new realities during the last one or two decades in the most advanced countries, and further on in the whole world. The knowledge obtained so far within the limits of its possibilities, in this number the respectively formed paradigms on its base, can explain less and less than ever, the newly coming radical changes in the global socioeconomic development and service them still less effectively.

In the new globalizing realities the economic processes become functionally interconnected in a still wider way, more united and more dynamic. In similar environment the achievement by every country of its necessary macroeconomic effectiveness and competitiveness is possible in principle only after meeting two very substantial mutually connected conditions: *timely (i.e. in advance) identification of* and relevant *reaction* to the accelerating and increasingly complicated processes in the new realities. (Because only in this case the respective country would be able to make the necessary preparation *in due time* and to react in a relevant way *at present* to the changes in *the future*.) Meeting the two conditions requires more concretely: first, carrying out of the necessary studies of the condition and the tendencies of the world market by basic profiles and levels of competitiveness - up to the moment and to their more substantial changes expected in the foreseeable future. Second, unveiling of the best long-term possibilities in the dynamic context of this market for development of the respective national economy. Third, selection of the most efficient tactical approaches, continuity and technical instruments for full-value usage of the newly emerging potential possibilities for competitive development of the respective country.

Needless to prove that the leading and decisive role in the relevant response of a given country to the oncoming changes belong to the state institution. As far as it is directed predominantly to achieving and supporting, by its inherent means,

a higher economic competitiveness, this role further on includes fulfillment on the basis of budgetary financing of the following basic assignments:

- Timely unveiling, in the dynamic state and tendencies of the world market, of the most perspective profiles of economic activities containing specific advantages for the country, leads in the foreseeable perspective to a better capital rentability and respectively to a higher macrocompetitiveness. Consequently, exactly their priority development, coupled with the necessary infrastructure will be the central focus, the strategic accent, of the active state influence.

- Elaboration and constant updating of a complex strategy of the national socioeconomic development on the basis of a full-value utilization of the best potential opportunities facing the country, brought forward by the perspective economic profiles.

- Timely preparation of all favorable initiatives, conditions (environment) and factors of the perspective economic profiles and their relevant multilateral infrastructure.

- Active (i.e. creative by innovating decisions) regulation according to the changing new realities of the national socioeconomic development with the appropriate effective instruments and institutional and organizational mechanisms, inherent to the state.

Naturally, the successful implementation of these assignments depends, in the first place, *on the respective organization, financing and execution of a bulk of complex research work. It also depends on the provision of sufficiently reliable algorithms and technical means for a realistic megaprognosis and strategic programming of the national socioeconomic development.* The more the processes of interdependence and integration are intensively deployed, the broader and nearing the full scope of the whole megareality the bulk must be. Consequently, *the state* must organize and finance more purposefully the respective research work to provide the needed knowledge for *advance* forecasting, and after that for reacting to the new challenges.

How can they be provided?

From a formal point of view the most promising approach should be the most comprehensive one. It should include research, clarification, summarizing and principal (theoretic) rationalization of the proactive connection between the implemented economic policy of the state, including the budgetary policy and the development of the economy for a sufficiently long period of time in the possibly largest number of countries. Besides drawing of possible conclusions from the committed mistakes and failures, the approach would permit the selection, generalization, and rationalization of the proved useful practices, in the first place, in countries having solved similar problems with approximately equal approaches and instruments, and particularly those having obtained in result a lasting, dynamic and stable competitive development (like Japan and Germany after the fifties of the XX century). The summarizing and rationalizing become even more imperative, also because of the fact that in the acceleratedly integrating and globalization of

world economic and political environment, where the effectiveness and the competitiveness also globalize themselves, the national economies of a growing number of countries are obliged to cope with the same (common) imperatives, to apply the same useful instruments, already proved in the practice of the leading countries. Such an approach would help find the common characteristics, tendencies and even objective laws of development of the economic activity and the effective forms of state intervention that exercised a catalyzing effect on a planetary scale. More reliable *forecasts* could be made on this basis in the future about the emerging new fundamental changes as a first necessary phase for preparation in due time and the use of the appropriate instruments by the state for a positive influence on the socioeconomic development that will follow.

However, in practice a similar approach would not only be extremely labor-intensive and expensive, but it is unrealistic for the moment. Even if considered as with no alternative it is impossible to implement this approach at this stage on a national scale as well as on supranational scale due to insurmountable issues of informational, coordinational, organizational, institutional, purely scientific and financial nature.

At the present stage the more pragmatic, the much more economical and at the same time not less reliable methodical approach for acquisition of the necessary knowledge for *advance reaction* are the investigation and summary of a sufficiently lasting period of time and theoretical rationalization of the complex economic policy of the state mainly in *the most developed* countries including their budgetary policy. The investigation, summary and relevant theoretical rationalization of the long-term changes (trends) in the complex socioeconomic initiatives of the state assisting their progress can contribute to a great extent to the clarification of *the problem of principle* for the most important directions, limits and instruments for an efficient state influence on *the perspective* development in any other country. *What are the more substantial arguments in favor of a similar approach?*

The economic policy of the state in a given country aimed at reacting in due time to the global challenges is indeed always with a *concrete* character and is carried out in economic and political realities, *specific* for the country. By active state assistance the national economy endeavors before all to develop those *basic* quality-structural and efficient characteristics, which match the global competitive standards and the forward quality-structural tendencies in the world economy. That is why, though concrete for the respective country, the perspective directions and instruments of the state initiatives as a possible relevant reaction to the historic challenges cannot afford not to correspond to the dominating quality characteristics and tendencies in the evolution of the world economy.

The *determinative* quality-structural tendencies in the evolution of the world economy and their competitive standards (as a practical expression of the challenges to the development of every country), however, are to a large extent a function of the basic characteristics of the *leading economies*. Precisely they, and,

most of all, their *dominating* economic activities, play a *decisive* role in the basic directions of development and competitive effectiveness in the world economic processes of liberalization. Consequently, the basic quality-structural characteristics, competitive standards and tendencies in the economies of the most advanced countries possess a substantial indicative potential for unveiling the main line structural tendencies, the competitive levels and the decisive factors of the effectiveness in the world economy. The generalized characteristics of the state initiatives and instruments having assisted the advanced economies also possess a similar indicative power. Though always concrete, the generalized characteristics of the initiatives, instruments and results of the economic policy of *the leading* countries are not only organically connected with the basic forward direction of the development of the economic activity in megascope. They can guess to a great extent the evolution of the most important relevant instruments of effective state influence in the qualitatively new realities, which will occur under the globalizing conditions. That is why the investigation and the summary over a prolonged historical period of the role of the state and particularly of its substantial quality changes lately, permits to a great extent to *forecast* the newly occurring changes within the foreseeable horizon both in the economy and in the economic role of the state.

However, the most highly effective economic profiles in the leading economies possess an even greater indicative power. First, because today they predetermine and suggest, on a practically sufficient scale, the main guidelines and characteristics for *the future evolution of the total economic activity* of the leading economies in the new realities, and later in the remaining countries of the world. Second, because predominantly these economies, and of course in the first place the achievements of their best companies, impose and enlarge with *the active partnership of the state*, the competitive standards in the globalizing world economy. Mainly these circumstances impose the necessity that the highly effective economic profiles and quality-structural dimensions of their economy, together with the accompanying etatist experience be incessantly analyzed summarized and rationalized as basic reference points and guidelines of forming a relevant strategy for the perspective development of *every* economy, even an advanced one. As far as all remaining comparatively lagging economies are concerned, the /non/realization of this necessity as a *first substantial step* to the elaboration of a relevant strategy carries the vital significance of the Shakespearean question "to be or not to be"- a real fact in the qualitatively new world.

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