

Topic 4: The System of the public expenditures.

1. Contents and classification of the public expenditures.
2. Indicators of level, structure and dynamics of the public expenditures.
3. The factors influencing growth of the public expenditures.
4. The public expenditures on the welfare and cultural purposes.
5. Defense and economy development expenditures.

Didactic purposes:


- * • Definition of the essence of the public expenditures.
- * • Classification of the public expenditures.
- * • Explanations of calculation the indicators of level, structure and dynamics of the public expenditures.
- * • Understanding of the factors influencing the growth of the public expenditures.
- * • Classification of the defence expenditure.
- * • Knowledge of process of the analysis of dynamics of the public expenditures.
- * • Analysis of the financing sources of expenses on welfare-cultural actions.
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- * **Keywords:** public expenditures, economic classification, capital expenses, operating costs, dynamics of the public expenditures, specific weight, absolute deviation, relative deviation, defence expenditures, expenses on welfare actions.


1. Contents and classification of the public expenditures.

- * The public expenditures reflect the social and economic relations in the monetary form, carried out between the state and individuals or legal entities concerning distribution and use of financial resources of the state for performance of the functions.
- * The public expenditures include set of the expenses which are carried out in public sector by means of the state institutions which become covered at the expense of own budgets on the basis of the received income.

The classification of the public expenditures:

- * 1) Administrative classification – its basis is the institutional criterion, that is various authorities in which the public expenditures are carried out: ministries, administrative and territorial units (municipality, locality).
- * 2) Economic - it is carried out on the basis of two criteria:
 - * 1-expenses are subdivided into capital and current;
 - * 2-there are expenses on the state services and transfers.

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- * *Capital expenses* (expenses on investments) - assign for material (production) and non-material (service) spheres.
 - * *Current costs* - for functioning and the maintenance of the state institutions.
 - * *Administrative expenses* - include payment for the received services necessary for functioning of the state authorities.
 - * *Transfers* - can have economic (subsidies, transfers for export stimulation) and social character (grants, scholarships, pensions).

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- * 3) Functional - includes defense expenditures, education, health care, economic services, housing and communal services etc.

2. The indicators of level, structure and dynamics of the public expenditures.

The level and dynamics of the public expenditures can be identified by the following indicators:

- * 1) Specific weight of the public expenditures in gross domestic product - provides the analysis of the volume of the public expenditures in comparison with the level of economic and social development of the country.
- * 2) The average public expenditures per one inhabitant.

3) Calculation of specific weight of each category of the public expenditures in their total amount:

$$* \text{CPI} = \frac{CPI_i}{CPT} \times 100\%$$

- * CPI – the share of government expenditure
- * CPI- the amount of a particular category of public expenditure
- * CPT - the total amount of public expenditure

4) Dynamics of the public expenditures:

- * 4.1. Absolute deviation:

$$\Delta CP_{1/0} = CP_1 - CP_0$$

- * 4.2. Relative deviation:

$$\Delta CP_{1/0} = \frac{CP_1 - CP_0}{CP_0} * 100\%$$

$$\Delta CP_{\text{реальн}} = \frac{Cp^{\text{НОМИН}}}{Ip_{1/0}} \text{ расх}$$

$$\Delta Ip_{1/0} = \frac{p1}{p0}$$

3. The factors influencing the growth of the public expenditures.

These factors can be united in the following categories:

- * 1-demographic factors (these are: population growth, population structure (age, employment structure, quantity of the population occupied in public sector).
- * 2-economic factor (in developing countries the public expenditures on the economic sphere, infrastructure etc. are, as a rule, much higher);
- * 3-social factors (the social orientation of the financial policy);
- * 4-urbanization (the emergence of big cities increases the public expenditures);
- * 5-the military factor (war industry is financed mainly from the state budget);
- * 6-historical factors (the historical development of the country);
- * 7-political factors (the organisation of the off-year elections is capable to raise state budget expenses).

4. The public expenditures on the welfare and social purposes.

- * The focus on providing various help such as free services or services with reduced price, compensations, pensions.
- * Certain categories of citizens who have low income or are unable to carry out labour activity use the welfare services.
- * The major factors influencing the size of the welfare expenses are : the demographic factor and the cost growth of social services
- * The public expenditures on welfare and social actions include expenses on sports, education, culture and art, health care.

Sources of financing of these expenses can be:

- * 1 -budgetary funds;
- * 2 -financial funds of a special purpose;
- * 3 -the income received by welfare institutes;
- * 4 -population income;
- * 5 -funds of the non-profit organisations;
- * 6 -external financial help.


Expenses on welfare actions as a part of the state budget of RM make about 50 % from total amount of expenses

5. Defence expenditure and economy development.

- * *Defence expenditure* is carried out for the maintenance of army, maintaining hostilities, actions in the field of researches in the military purposes, for elimination of consequences of the conflicts, providing with arms and equipment.
- * Defence expenditure and maintenance of political influence form military expenses which have unproductive character. They are financed at the expense of financial resources of the state budget and financial means of various alliances and associations.

Military expenses are subdivided on:

- * 1) Straight lines - expenses on purchase of equipment, arms, the maintenance of army.
- * 2) Indirect - elimination of consequences of the conflicts, wars, payments on a covering of military debt, payment of pensions to disabled veterans etc.
- * 3) Expenses on financing of scientific researches for equipment improvement.

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- * *Expenses on development of economy* include the expenses relating to financing of activity of economic character of the enterprises of public sector and allocation of a subsidy to some businessmen of the mixed or private property.
 - * From the point of view of the economic contents these expenses have complex character and consist of the operating and capital costs.
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Expenses on economic activity include:

- * 1) Expenses in the field of power, constructions, fuel and energy complex.
- * 2) Expenses in the field of agriculture (agricultural), fisheries, plant growing, hunting.
- * 3) Transport and communications.