ECONOMIC DEFICIT ON THE LOGIC OF THE GAP IN ECONOMY

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Rezumat: Studiul are drept obiectiv principal discutarea chestiunii gap-ului economic în general, respectiv a gap-ului bugetar în special (a diferenței intre veniturile şi cheltuielile bugetului public, fie la nivel planificat, fie la nivel realizat efectiv). În acest scop, se propun o serie de criterii de clasificare care sunt utilizate la identificarea unor serii de clase de gap-uri economice teoretice sau practice. Fiecare asemenea clasificare este însoțită de comentarii de natură conceptuală, punându-se în evidență semnificația şi relevanța sa pentru analiza economică.

Abstract: The study aims to discuss especially the matter of economic gap in general, and of the budget gap in particular (the difference between revenues and expenditures, being planned at either the level actually achieved). To this end, it proposes a number of classification criteria that are used to identify a series of economic gap classes, both from theoretical and practical point of view. Each such classification is accompanied by conceptual comments, with a special focuses on their significance and relevance for economic analysis.

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The economic deficit must be understood in its widest meaning, of gap[1] between the expected values of some economic variables and the actual values of these variables. By expected values we must understand either values programmed consciously or even socially, or subjective values, often strongly individualised, concerning the evolution of some (micro or macroeconomic) variables that bear a certain significance to the observing subject (or for the analyst).

The notion of gap has a wider extension (denotation) than the notion of deficit since it includes both possibilities of deviation of the expected value from the actual value (or, more generally, of the deviation from the *in potential* value to the *in actu* value): either upwards (the actual value is higher than the expected value); or downwards (the actual value is lower than the expected value).

Therefore, the actual output at moment t (noted by y_t), effect of the input at moment t-1 (noted by x_{t-1}) is compared within the gap analyzer as the output expected at moment t noted by $\tilde{y}_t$). If the gap analyzer observes values other than zero of the difference $\delta_t = |\tilde{y}_t - y_t|$, then, for the next cycle of that particular economic phenomenon, the input will be corrected based on a methodology presumed to exist. Suppose that along the history of the investigated economic phenomenon we noticed that the size of the correction that has to be made to the input is: $dx_{t+1} = \lambda_\delta \cdot \delta_t$, where λ expresses the fraction to be assumed as correction of the input for the next cycle, of the total observed gap. It is obvious that $\lambda = \lambda(\delta)$, because the observer is not disinterested whether the gap shows an

[1] *Although in a positive-type analysis, as this one, valorisation of the "gap" notion is of no consequence (interpretatively), we will however say that the gap generally has a negative connotation, of undesirable situation. However, there are numerous economic situation in which the gap may also have positive connotations, of favourable situation.*

excess of the expected value of the observed variable by the actual value or, on the contrary, an excess of the actual value by the expected value. The form of $\lambda = \lambda(t)$ function is of no interest for the time being.

Therefore, each time the observer records $\delta \neq 0$ there will be an adjustment of the analysed economic system with the purpose to decrease this value to zero. Actually, it is possible that this adjustment is done with a self-maintained oscillation of the value of δ around $\tilde{\delta}$ (where $\tilde{\delta}$ is the acceptable value of δ), which means that as long as this acceptable value is not exceeded the observer will not show that the adjustment has been done[2].

In order to define the economic deficit as a species of the more general genus of the economic gaps, we will introduce the two polar economic measures that may generate economic deficits: economic advantages (the best known such advantages are the economic incomes) and the economic disadvantages (the best known such disadvantages being the economic expenditure). The prevalence of the economic advantages over the economic disadvantages generates economic surplus, while the prevalence of the economic disadvantages over the economic advantages generates economic deficit. For the time being we are not interested in the axiological connotations of the concept of economic deficit, we are only interested in the mechanism by which it is generated, in the most general case.[3]

[2] *For instance, as long as the upper 3% limit of the deficit of the consolidated general budget within the GDP is not exceeded, there is no need to redesign that budget (at least not due to reasons pertaining to the criteria of nominal convergence imposed by the EU Pact of Growth and Stability).*

[3] *It deals with one of the most important functions of the economic deficit (particularly of the budget deficit), namely the function of sui-generis economic resource.*

The fact that the economic deficit is the result of the prevalence of the economic disadvantage over the economic advantage must not be understood in the exclusively accounting meaning of the expression. As seen above, the appearance of an economic gap (which forms the type of the economic deficit/surplus) may not necessarily materialize in the prevalence of the actual economic disadvantage over the actual economic advantage, but rather in a mere insufficient (according to the expectations) accomplishment of an economic effect (for instance a lower actual output than the programmed one). Therefore, an economic deficit may also appear due to an economic evaluation, not necessarily to an accounting evaluation. For instance, if we admit that the acceptable balance of the difference between the economic advantage and the economic disadvantage is noted with $\tilde{\delta}$, then any higher measure of the actual balance, for instance, $\hat{\delta} > \tilde{\delta}$, where $\gamma = \hat{\delta} - \tilde{\delta}$ will be perceived as economic deficit. Therefore, there may also be an accepted economic deficit, $\tilde{\delta}$ and an actual economic deficit, $\hat{\delta}$. This situation leads us to a new concept, the concept of economic over-deficit: the economic deficit which exceeds the accepted economic deficit, in our case, γ. [4]

Therefore, a *first classification* of the economic deficit may be done by the relation of the actual economic deficit to the programmed economic deficit: a) normal economic deficit (programmed economic deficit, or the deficit which generally occurs in most similar situations); b) economic over-deficit (economic deficit that exceeds the normal economic deficit); c) economic sub-deficit (economic deficit that is below the normal economic deficit).

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[4] *The concept of economic over-deficit is similar to the concept of over-profit: the profit that exceeds the normal profit (the cost of opportunity of the economic decision-maker who chooses to invest in a lucrative business). We may therefore say that the economic over-deficit is that economic deficit which exceeds the sustainability threshold of the economic deficit.*

It is noteworthy that the normal economic deficit and the economic sub-deficit do not introduce problems of deficit management because both have the sources of financing ensured (including the related elements of sustainability) through those economic programs. Only the economic over-deficit causes difficulties in terms of sources of financing (only for the part which exceeds the normal economic deficit).

A *second classification* of the economic deficit can be made according to the criterion of economic relevance at which it occurs. We thus have, a) macroeconomic deficit; b) mezzoeconomic deficit; c) microeconomic deficit.

The macroeconomic deficit is that deficit which occurs at the level of the national accounts, that is concerning the entire national economy. Of course, the macroeconomic deficit can refer both to all the private entities within the national economy (for instance, the aggregate commercial banking system) and to all the public entities within the national economy (for instance, the consolidated general budget). It is noteworthy that the private and the public macroeconomic deficit are not reciprocally independent since one of them can affect the other. Hence, the factorial-causal analysis of the macroeconomic deficit, whatever it may be – public or private – must take into consideration both the influence of the direct factors and the influence of the factors generated by the alternative macroeconomic budget.

The most important macroeconomic deficit is the public one, the deficit of the consolidated general budget.

The mezzoeconomic deficit refers either to a specific economic sector (the tertiary sector, for instance), or to a specific economic branch (the industry, for instance), or to a specific geographical area (one of the 8 regions of Romania, for instance). The organization of the economic deficit by economic branches is facilitated by the records of he national accounts, although for the time being they can only facilitate the calculation of deficits for commercial transactions or for payments. It is not yet possible to calculate the economic deficit at the regional level, although the administration of the community funds is to be done by systems and methodologies yet to be developed, which reveal these deficits at regional level too.

The microeconomic deficits are those deficits recorded at the individual level (natural persons, households, firms). At the level of the natural persons or households, they are preponderantly in the form of budget deficits, while at the firm level all three types of economic deficits can be found: budgetary, commercial, payments.

A *third classification* can be done by the cause that introduced the occurrence of the economic deficit. We thus have: a) economic deficit generated by the decrease of the advantage compared to the programmed level (for instance lower incomes of the analysed economic entity); b) economic deficit generated by the increase of the disadvantage compared to the programmed level (for instance higher expenditure of the analysed economic entity). The first category of economic deficit may also be termed as input economic deficit because it is generated by the unforeseen (or badly managed) variation of the inputs (programmed income) into the system, while the second category of economic deficit may also be termed as output economic deficit because it is generated by the unforeseen (or badly managed) variation of the outputs (programmed expenditure) of the system.

A *fourth classification* can be done by the depth at which the economic deficit occurs. We thus have: a) conjectural (cyclic) economic deficit; b) structural economic deficit; c) accidental economic deficit. The conjectural (cyclic) economic deficit is generated by the impact of cyclic economic processes that affect, also cyclically, either the inputs, or the outputs from the system that describes the formation of the economic deficits. For instance, the fiscal revenues are cashed quarterly, which induces, compared to the monthly cashing, a cyclic deficit which is covered periodically, but which also occurs periodically. The cyclicity of the economic deficit is, of course, perfectly manageable, because it is predictable just in virtue of its cyclic character. On the other hand, the structural economic deficit refers to the basic, in-depth, aspects of the analysed economic system. The structural economic deficit is generated by the long-term, essential factors and processes that act within the economic system. The structural economic deficit can not be removed, and that is why the economic programmers always try to use it to prime phenomena or processes that are beneficial to the specific economic system. The accidental economic deficit has a character of singularity; hence it bears the highest management or control costs. It occurs due to unforeseeable causes and its effect is mostly negative.

A *fifth classification* can be done by the economic significance of the economic deficit. We thus have: a) conventional economic deficit; b) primary economic deficit; c) operational economic deficit. This classification is common particularly for the budgetary deficits (public deficits mainly) although, in principle, it may be also applied to the commercial or payments deficits and to the private budgets. The conventional economic deficit is the difference between the total nominal expenditure of the public budget and the total nominal revenue. The primary deficit is that deficit which is obtained from the conventional deficit after deducting the expenditure with payment of the interests. The operational deficit is obtained after deducting the effect of the inflation on the net interests from the conventional deficit.

A *sixth classification* can be made by the actual economic object to which the economic deficit refers. Thus, we have: a) budget deficit (deficit noticed in the budget of revenue and expenditure using either public or private money); b) commercial deficit (deficit noticed in the budget of economic transactions using either public or private money); c) payment deficit (deficit (deficit noticed in the balance of payments using either public or private money). The budget deficit is the most "popular" deficit and it refers to the positive difference between the expenditure from and revenue to the budget. The budget deficit undergoes, of course, all the previous classifications using various criteria. The commercial economic deficit refers to the positive difference between the expenditure of a specific economic process (for instance an applied economic activity) and the revenue from that activity (this phenomenon is reflected most synthetically in the account of profit and loss of a commercial company, at the micro level, and by the commercial balance of a country, at the macro level. The payment deficit refers to the deficit caused by the positive difference between the payments done (or sometimes assumed) by an entity, at the micro or macro level) and the cashing of the receivables existing (or sometimes created) by the specific entity. Same as in the case of the other economic deficits, according to this criterion we have deficits at the microeconomic, mezzoeconomic or macroeconomic level.

A *seventh classification* of the economic deficit can be done by the criterion of proper or improper (or rather direct or indirect) character of the economic deficit. We thus have: a) proper or direct economic deficits; improper or indirect economic deficits. In the field of the public budgets this typology is found as fiscal deficits and quasi-fiscal deficits. The fiscal deficits are generated by the explicit operations of cashing and payment within that particular public budget, while the quasi-fiscal deficits are generated by operations indirectly related to the cashing and payment operations within that particular public budget. In this case we speak of quasi-fiscal cashing (revenues) and payments (expenditure). One of the categories of operations which generate quasi-fiscal deficits is the category of quasi-fiscal operations of the central bank: loans at subsidised interest rates (equivalent with subsidies to the interest rates); losses generated by sales and purchases of foreign currency within a system of multiple exchange rates (equivalent to subsidies to the exchange rate); imposing minimal compulsory reserves to the commercial banks (equivalent to a tax on the banking deposits, because the interest rate for these reserves is much lower than the market interest rate for interbanking deposits or for the credits given by those commercial banks).

We may also have an *eight classification*, by the nature of the involved asset/liability. We thus have economic deficits for public assets-liabilities and private assets-liabilities, but this typology doesn't bring fundamentally new conceptual-methodological elements to our analysis, so that although we mention it, we will not describe and analyse it in detail.

The economic deficit is one of the most important signals which the market economy (for the economic deficits that occur or are measured within the private economy) and the public institutions (for the economic deficits that occur or are measured within the public economy) produce and transmit to the economic agents. The economic deficits actually act as lags between the demand and offer of goods and services on the common economic markets, generating either the need to increase the revenues (cashing) or the need to decrease the expenditure (payments). The selection of either solution to balance the inputs in and outputs from the analysed economic system relies on the common economic reason, meaning, on choosing the solution that generates the lowest cost of opportunity.