

# PUBLIC FINANCES – THEIR MECHANISM, FUNCTIONS AND ROLE

Associate Professor, PhD Popeangă Gabriel, Faculty of Law and Economic Sciences Tg. Jiu, Titu  
Maiorescu University Bucharest

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***Abstract** Each national economy has a specific functioning mechanism, capable of transforming the nation's resources into potential factors of social production, at all organizational levels. The functioning mechanism of the national economy is the way of its existence and movement, it expresses the way of development and economic and social relations and the fulfillment of the requirements of objective economic laws, in the form in which they have been transposed into economic policy measures and legal norms. In its most general sense, the functioning mechanism of any economy represents a system of structures and forms of its existence, of principles, methods and levers of its movement and management, including the ways of measuring effects and efforts, as well as the criteria for determining and boosting the efficiency with which resources are used to satisfy the function - purpose of the respective economic system.*

## 1. PUBLIC FINANCE MECHANISM

The public finance mechanism, or, in short, the financial mechanism, is an integral part of the functioning mechanism of the national economy. As such, we believe that the definition of the financial mechanism must have as a starting point the definition of the economic mechanism in general, highlighting its financial components, because the financial mechanism is only a structural component of it, with interferences in all its subsystems. The economic mechanism and the financial mechanism are not, therefore, two parallel mechanisms, there are determining relationships between them, as from the whole to the part.

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The general structure of the economic mechanism is particularly complex, being generated by the following factors: economic and social relations, based on certain types and forms of property, in interaction with concrete productive forces, the system of objective economic laws or principles and the mechanism of their action, structural elements or those located on the border between the economic base and the social superstructure, elements of the concrete system of economic management.

The way of valorizing resources depends on a series of circumstances, of which the most significant are, in our opinion, the following: specific branch structures, specific forms of organizing the activities of economic agents, regulations and institutions of supervision, guidance and control, principles and methods of management applied, methods and criteria for quantifying efforts, measuring effects and assessing efficiency, instruments for stimulating or inhibiting certain activities, for preventing and combating certain phenomena of a disruptive and unbalanced nature, for orienting the activity in a certain direction or towards a specific purpose, etc. These elements present both similarities and differences from one national economy to another.

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The connection between the economic mechanism and the financial mechanism, as a connection between the whole and the part, must function in both directions, this being an absolutely necessary condition for achieving maximum efficiency in economic activity. When the methods, principles and instruments of the financial mechanism are used correctly, and production and consumption meet the requirements of financial efficiency, the economic mechanism itself functions efficiently. Otherwise, when the distribution through finance is carried out outside the normal, present or future economic efficiency, unfavorable phenomena, disproportions or inflationary aspects appear in the economy.

The financial mechanism bears the imprint of the fundamental characteristics of the economic relations of which it is the expression. It changes with the economic and social relations and evolves as they develop. As a result, in Romania, it is based on the existence and the way of realizing property, in its various forms, the production of monetary or commodity exchange, the market and circulation of money, distribution, self-financing and the mechanisms of indicative and mandatory planning. These essential characteristics represent the objective determinations that give the necessary and general substance to the existence of the financial mechanism of our society. The financial mechanism therefore expresses the requirements of the objective laws that govern the current society, in their interconditioning and connection. Viewed and considered in this way, the objective economic laws or principles represent an integrated quality.

In Romania, during its development, a specific economic and financial mechanism was created, corresponding to the social order, the degree of development of the productive forces, the complexity of economic processes, the action of objective laws, the nature of political power and the way it is exercised. All institutions, forms and methods of organization and management, economic levers and legal instruments, used to regulate economic processes, including those of a financial nature, form the economic mechanism of Romanian society, in which the financial mechanism is also integrated.

Currently, the economic and financial mechanism in our country includes the following basic financial components: the financial system, the financial levers used by the state to influence economic activity, the administrative methods of management in the field of finance, the institutional framework, made up of institutions and bodies with responsibilities in the field of finance, the legal framework, made up of laws, decrees, decisions and other normative regulations in the field of finance.

Therefore, the economic and financial mechanism in Romania has two types of regulation instruments, namely: direct regulation instruments, macroeconomic management, with the help of the plan with mandatory indicators for the sectors of economic and social importance, which usually form the public sector of the economy, and indirect regulation and self-regulation instruments, with the help of the plan with indicative indicators, the incentive plan and through the functioning of market mechanisms - competition, supply and demand, prices, wage levels, interest rates, exchange rates, etc., characteristic, in particular, of the private sector of the economy. These types of regulators of the economic mechanism and the instruments with which it is equipped involve elements of a financial nature.

The financial mechanism is structured on a series of component elements, among which a distinct place is occupied by financial levers, as an instrument for managing economic and social activity. These represent a subsystem of economic levers specific to the functioning mechanism of the national economy. The value categories, the multiple and varied methods – fiscal, budgetary, monetary, currency, etc., of constituting and directing public financial funds can constitute financial levers, only to the extent that they actually fulfill certain economic functions, engage on the economic bases of certain problems in better conditions than could be done through administrative methods.

To influence certain economic processes, a variety of levers are used, some of which have an exclusively financial character – taxes, duties, loans, subsidies, transfers, etc., and are called financial levers, being directly linked to the function of distributing finances, while others – prices and tariffs, exchange rates, etc. they are not directly related to it, having a general economic role and are known as economic-financial levers.

Between economic and financial levers there is a relationship as from whole to part: any financial lever is an economic lever, but not every economic or economic-financial lever is strictly financial. Economic-financial lever is defined as an economic category, with the help of which the state acts on the economic interest of a determined community or of its members, taken individually, to achieve a certain objective.

With the help of financial levers, the contribution of various factors to social progress is appreciated and action is taken to satisfy general economic-social needs.

The first requirement of the current financial and fiscal mechanism in our country is the functioning of all components of economic and social life on the principle of self-financing, of self-management, in general. The use of financial levers is subordinated, therefore, to the strengthening of the self-financing of economic agents, as the basic link in which the economic and social activity is carried out. The new product created and used by each economic agent, respectively the net added value, must reach such dimensions as to allow the satisfaction of major

requirements such as: supplying own development funds and stimulating the salaried personnel, other participants in the establishment of the company's capital, supplying public funds with financial resources.

Financial levers directly influence the level and structure of income and expenses of the population, economic agents and the state. In order to meet these objectives, financial levers, implicitly those of a fiscal nature, fulfill a series of functions, of which we consider the most important to be the following:

- tools for sizing and standardization, in the sense of using financial levers, on the one hand, to characterize complex phenomena and processes and aspects of social reproduction, which can only be expressed in monetary terms, and on the other hand, to determine the quantities of resources to be spent to satisfy certain needs, respectively to achieve certain objectives and the effects that will result from them, through which society imposes either a certain amount of effort to obtain a certain effect, or the effect that must be obtained, in relation to a certain effort.

- signaling instrument, a fact favored by the determination of the main financial categories at the level of each organizational link, up to the product. The expected or normed level usually represents an average per branch or subbranch, which includes all economic agents in the respective field. The application of average levels determines the emphasis of concerns for better use of production factors and cost reduction and highlights situations in which economic agents do not properly use the means at their disposal and in which technical equipment must be modernized.

- instrument of stimulation, in the sense of using financial categories to stimulate the development of economic and social phenomena and processes, which correspond to and lead to the achievement of the pursued objectives; this is the case of using prices, in order to stimulate the rational use of resources, the priority use of surplus resources, substitutes and waste, the introduction of technical progress, etc.

- instrument of distribution, distribution and redistribution of the gross domestic product, in the sense that the methods and instruments specific to public finances are used, to a very large extent, in the process of its distribution, of the formation of monetary funds in the economy. We recall, in this sense, the levies on budgetary funds on account of profit, the value added tax, excises and other direct and indirect taxes, budgetary allocations and subsidies, direct financing from budgetary funds of some social, economic and other actions or objectives, transfers from budgetary funds, in favor of some social categories.

The degree of interest of economic agents in the efficient use of resources depends on the possibilities of society to leave at their disposal an increasing part of the income it generates. These possibilities depend, in turn, on the volume and structure of production, on the level of production and circulation costs. The closer connection of results to the size of the funds at their disposal contributes to the mobilization of the reserves of economic agents, even from the stage of elaborating the activity programs.

Public finance policy or financial policy is an integral part of the general economic policy, with a particularly important role in the development and improvement of the entire economic and social activity. The political program defines the objectives pursued, the means and methods used to achieve them, the social or socio-professional categories to which it is addressed. The program of the party that has come to power becomes the government program and, as such, must be submitted to the Parliament for debate. The program adopted by the Parliament becomes the government program, which defines the state's policy at the domestic and foreign levels.

Within the framework of domestic policy, a special place is occupied by economic and social issues, which constitute, in the economic policy of the government, an essential component of the general policy. Within the framework of economic policy, financial policy is carried out, as an integral part of it, this, due to the place and role that financial relations occupy and fulfill, within the framework of economic relations.

The concept of financial policy, its objectives and features derive directly from those of the general economic policy, with the particularities corresponding to the development of financial relations. Through financial policy, the growth and modernization of the country's productive potential, its distribution on the national territory, the development of social and cultural activities, the increase in the efficiency of all economic and social activity, the preservation of the integrity of public wealth, the consolidation of the most viable economic and social relations, the evolution of the population's standard of living are directly influenced. This is due to the fact that the achievement of the objectives, provided for in the government program, involves both the provision of public financial resources and state intervention in the economy with the help of economic levers and methods, instruments, institutions, bodies and financial regulations.

Financial policy includes the totality of financial norms based on objective findings provided by the science of finance, used for the establishment, distribution and optimal use of centralized and non-centralized financial funds, necessary for the achievement of economic and socio-political objectives of the given stage. Through financial and fiscal policy, financial ratios and the use of financial levers are established, in order to influence social economic activities and achieve the proposed socio-economic and defense objectives.

Financial policy evolves and improves, as a result of the development of the economy, but, in turn, influences it in all its components. Financial policy is not immutable, given once and for all, but is modified and improved, both in terms of its objectives, as well as in terms of legal regulation and the use of financial levers.

The fact that financial policy is an integral part of the general policy of the state and plays an important role in achieving the objectives formulated by development programs, is supported by reputable foreign specialists.

## 2. FUNCTIONS AND ROLE OF PUBLIC FINANCES

The functions of public finance consist in the manifestation of their content and destination in the process of social reproduction. This mission is fulfilled through two functions:

- the distribution function;
- the control function.

The distribution function consists in the establishment and distribution of funds at the country level.

When establishing funds, the participation of all internal factors (autonomous governments, commercial companies regardless of the form of ownership, public institutions, population, etc.) as well as natural or legal persons residing abroad is taken into account.

The participating social sectors are also taken into account, as well as the nature of the resources.

After the establishment of public funds, their distribution follows, which is preceded by the inventory of the necessary for each form of activity, the quantification of these necessary, and finally their ranking according to social importance.

Of particular importance is the destination of these funds and their priority. The main destinations refer to defense and public order, insurance and social protection, research, health, education and other social actions.

Regarding the priority of destinations, this differs from country to country depending on the degree of economic and social development of each country.

The concrete forms in which the funds are distributed are: payment of salaries and other allowances, procurement of materials and goods, pensions, allowances and major investments.

The function of public finance control lies in the need for proper management of public funds belonging to the state and which are subsequently distributed to the requested destinations, depending on needs and availability.

State control encompasses all areas of economic and social life related to economic activity, medical care, social insurance, public order, health, education, culture, etc.

This is a financial control and refers to the verification of the way in which funds are constituted, their distribution, as well as the efficiency of the use of these funds. Therefore, the purpose of financial control is to prevent the performance of uneconomic operations, to prevent the immobilization of funds in such operations that lead to damage to public property.

The preventive financial control itself or that carried out by the competent state bodies prevents the conclusion and execution of unreal or illegal economic contracts, of the payment of salaries or other uneconomic rights, the recording of damages to public property.

In the world economic literature, especially in the second half of the last century, various points of view have been expressed regarding the functions of public finances and the fiscal system. This point is valid both for economically developed states and for those in the process of development, including those that are in a process of transition towards a liberalized, competitive economy, implicitly for Romania.

Thus, the French economist M. Duverger, starting from the reality that the contemporary state is no longer limited to its traditional, police and military functions and tasks, that it intervenes in traditional social life, in production, in times of crisis, to prevent price increases and maintain the purchasing power of the currency, in times of inflation, to ensure the best possible use of the technical-material, human and financial-currency potential, concludes that, under these conditions, public finances can no longer represent a means of covering administrative expenses, but, in particular, a means of intervening in social life, of exerting pressure on citizens, in order to organize the entire nation.

Another French economist, Pierre Lalumiere, emphasizes the increase in the interventionist role of the state in the economy, after the world crisis of 1929 – 1933, when it was proven that private initiative alone is no longer capable of ensuring economic and social balance. In order to intervene in economic and social life, the state has widely used instruments specific to public finances: public spending, taxes, etc. Public spending was conceived as a means of intervention in economic and social life, it continues to support state administration, but, equally, it must serve to increase the productive capacity of the economy or to redistribute income in the interest of disadvantaged social categories. Tax is also considered as an intervention instrument at the disposal of the state; it continues to ensure the coverage of public expenses related to state administration, but, at the same time, it must also allow for a certain equalization of social conditions or to provoke economic development. Through taxes, the national public budget takes a part of the gross domestic product, and through public spending it directs this part towards social and economic objectives.

Americans Richard and Peggy Musgrave state that taxes and expenditures can influence the economy in several ways and pursue different objectives, so that, in their opinion, budgetary policy fulfills three functions, namely:

- allocation function – in the sense that social goods that cannot be procured through the market are distributed through public authorities,
- distribution function – in the sense that, in a market economy, the distribution of income and wealth between individuals and legal entities is influenced by the way in which production factors are distributed, by forms of private property. This distribution can be considered unfair from the point of view of society, which is why the need arises to redistribute the respective incomes, using specific instruments of public finance – taxes, budgetary expenditures, etc.;
- stabilization function – in the sense that the state aims, through fiscal policy, to ensure a high level of employment, a reasonable degree of price stability, a solid balance of payments situation, as well as an acceptable rate of economic growth.

The structural components of the public financial system in our country, implicitly of the fiscal system, are individualized, depending on the participants in the process of distributing monetary resources and forming public financial funds, the methods used to create and distribute the respective funds, the place of establishment and destination of the funds, thus forming distinct categories of financial relations, but, at the same time, they are linked to each other, interconditioned, forming a unitary system of financial relations. The system of public financial relations is therefore characterized by unity in diversity. Each component of the public financial system constitutes the generalized expression of some economic phenomena and processes, the content of which is formed by the economic relations, which necessarily appear. Each component has a certain economic content and a precisely determined sphere of manifestation, but, nevertheless, viewed as a whole, it forms a unitary, coherent, well-cohesive system.

Each structural component of the public finance system in Romania usually corresponds to several financial funds. Each of these has its own rules for establishment or distribution, specific links with the other funds and a certain reason for being. These funds are classified according to several criteria, the most well-known of which are:

- the level at which they are established: (central level – the budgetary fund of the central state administration, the state social insurance fund, the property, personal and civil liability insurance fund, credit funds and medium level – the own funds of enterprises, institutions and individuals);
- destination (replacement and development – the own funds of enterprises, the funds procured by them on the loan capital market, part of the state's budgetary and extra-budgetary funds, part of the population's own resources, consumption – part of the budgetary funds, social insurance funds, part of the enterprises' own funds, part of the population's own resources, reserve – those entered under this title in the central state administration budget and in the budgets of administrative-territorial units and which serve to finance new and unforeseen objectives and actions, as well as reserve funds, also called risk funds, established at the disposal of enterprises, to cover possible losses, insurance – those established under this title at the disposal of specialized organizations with state capital for insurance of goods, persons and civil liability and which serve to cover losses or damages, as a result of natural disasters, accidents or other random phenomena or events and to pay the amounts due to insured persons, following the occurrence of the insured risk.

Regarding the role of public finances, we can say that it is appreciated according to the needs that finances can satisfy, namely needs for social protection, defense, public order, etc., as well as satisfying the needs of people who are deprived of certain sources of income, the elderly, the sick, the disabled, the handicapped, their assistance being provided in kind or in money through various aids, pensions or tax facilities.

Consequently, the role of public finances refers to:

- ensuring the proper functioning of state institutions;
- ensuring economic development;
- the judicious distribution of a part of the GDP;
- satisfying social needs.

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