

***THE ROLE OF SUBSIDIES IN ECONOMY AND ITS INFLUNCE
CONCERNING THE ECONOMIC OPERATORS***

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Abstract: *The paper deals with the highlights of the influence and role of subsidies in economiy. The analysis is focused on the influence in economic health of state owned companies receiving subsidies and the social effects generated, mainly in mining industry. Some recommendations in the cautiouness in using this financial lever situate at the crossing point of economics and politics are formulated.*

Key words: *subsidies, state budget, incomes, expenses*

Intervening in economy due to a diversity of means, the state gives a substantial assistance to certain companies, sometimes limiting their decisional liberty. Owing to these subsidies, some fields succeed only to survive from the financial point of view and obtain systematically weak or null results. Thus, subsidies set a series of problems, both regarding their foundation and the criteria of selection of companies and regarding the determined effects.

Placed at the intersection of economic and plitical decisions, subsidies also generate social effects. This is the reason why the changes brought to this financial “level” should be done very carefully. Moreover, within the fields that benefit by subsidies, the latter primarily finance the expenses with labour that frequently represent more than 70% of unit prices.

Consequently, the subsidy implies the idea of support, of financial assistance granted by one side, with no counterpart, which is, quite often, conditioned and charged with a certain

use. It implies the existence of a financial need and of a support application, on the one side, and the existence of a financial capacity and of the will to grant, on the other side.

We can state that subsidies represent a form a subversive activity carried on by the public authorities, in the sense of breaking the classical frontiers. Granted to a company, the subsidy confirms the relativity of the distinction between the public and the private fields, between the public and the private interest. Moreover, subsidies disturb even the distinction between incomes and expenses. Although, at the beginning, they are public expenses, they are studied as resources of public communities, and fiscal law considers them as those incomes of the companies to which a specific regime should be applied in order to determine taxable benefit or basis of determining the added value tax.

In order to accurately analyze the influence of subsidies upon the companies' activities, it is necessary to classify subsidies. Accordingly, we distinguish between subsidies and investment subsidies.

Exploitation subsidies are meant to compensate the insufficiency of certain exploitation products or to face exploitation expenses. They should compensate, totally or partly, the global loss that companies would register in case such subsidies were not granted. Among the exploitation subsidies we may cite: compensative allowance for insufficiency of selling prices, the sums got from the state in order to create new jobs, the subsidies meant to face exploitation expenses.

Investment subsidies represent the financial support meant to acquire or create immobilization or to finance long term activities. These subsidies may finance, totally or partly, the expenses; the general rule that should be noticed is their accounting, without waiting for the effective payment.

Concerning their financial significance, we can state that subsidies represent only limited sums that can never justify by themselves the financial decisions whose object they were< such decisions should be taken, first of all, depending on strict economic criteria. Moreover, because of their taxable character, subsidies are, sometimes, for companies, less interesting than long term loans having low rates of interest.

Within the financial practice of Romanian companies, investment subsidies are an element of their own capital of the balance passive. In exchange, exploitation belong to the category of exploitation incomes, having a direct effect upon the level of the exploitation result.

As a consequence of the law of the state budget, the greatest part of the subsidies is meant to cover the price differences for the products in the coal industry, the ferrous and non-

ferrous, radioactive, rare and non-metalliferous ore industries. According to the provisions, subsidies expenditure in the state budget and their grant for the mining products above mentioned is done according to the delivered quantities and to the unitary subsidies periodically fixed for those products.

Unitary product subsidies result from the difference between unit process and trade price; consequently, they are part of the subsidies foundation, only in case the ration between these sums and the prices represent decreasing values compared to those of the previous year. Such a principle determine, in case subsidies do not represent decreasing values of prices, a strenous effort of their diminution according to the programmes of activity reorganization. The final index that result from foundation activities is represented by the total subsidies which have direct implications upon the expenses of the state budget. Because of this aspect, it is necessary to have in view the criteria of budget balance, at the level of subsidies.

On principle, subsidies grant is done monthly, in a cumulative manner, from the beginning of the year, according to the demands of budget subsidies opening submitted to the Ministry of Finance by the main credit orderers. In their turn, companies that get subsidies from the state should submit to the General Office of Public Finances the final deduction that justifies the subsidies.

After 1990, all countries in transition confronted to an increase of public expenses and a diminution of incomes.

The progression of expenses was connected to the social subsidies and transfer, while the incomes influenced by a regress of activity that diminished the basis of taxing.

Romania has not registered the degradation of its budget accounts due to the public expenses. The budget deficit of 1992 was determined by an increase of the subsidies granted to companies and to the population. These subsidies that represented 25% of the public expenses in 1989 reached more than 48% in 1991 and 52% in 1992.

The increase of subsidies, after 1990, is determines by the fact that the majority of the companies benefited by the transfers from the state; such a growth made them face losses on the market. Moreover, industrial giants could further carry on their activity despite their weak competitive capacity. While such a policy determined a limitation of unemployment, it is also determined companies to work without taking into account the budget compulsion, a fact that did not determined the reorganization of their activity.

The year of 1993 represents a turning point in administrating public expenses; the state budget deficit decreased from 4,6% of the gross national product in 1992 to 0,1% in 1993. This result maintained as a result of applying a programme based upon a strict budget and

fiscal policy. Public expenses were placed under the sign of austerity that resulted in a significant decrease of their level (from 44,7% of the gross national product in 1992 they dropped to 31% in 1994). The situation was due to the decrease of transfers and subsidies, on the one hand, and to restrictions of investment and functioning expenses, on the other hand. Accordingly, we can state that under the effect of the process of economic globalization and of the activities of international organization, together with the continual growth of competition in all fields and levels, we witness an incontestable “decay” of subsidies all over the world.

In order to illustrate the above data we can use as an example one of the companies that was granted subsidies from the state budget, namely the National Pitcoal Company (NPC) in Petrosani. It has as a main activity the extraction, preparation and processing of pitcoal and dark coal of the mining basin of the Jiu Valley. Beginning with 1990, NPC was granted from the state budget subsidies in order to cover exploitation losses, the total expenses exceeding the incomes obtained from delivering coal products to beneficiaries.

The grant of these subsidies was motivated by the activity’s profile, by the difficult exploitation and by the fact that coal process were limited and controlled by the government.

The effective grant of these subsidies was done according to the approved unitary standard of subsidy and to the amount of coal extracted. Beginning with 1995 the state budget also granted subsidies to cover some expenses with social protection, called transfers.

According to the existent data, between 1990 and 1992, the subsidies granted from the state budget totally covered the losses. Actually, beginning with 1993 we may state that the financial balance broke, the losses which could not be covered by subsidies becoming more and more serious. The decrease of the quantum of subsidies and the incapacity of actualizing the coal price to its real value determined the increase of exploitation losses, on the one hand, and the company’s impossibility of paying its debts to the state budget, on the other hand. The incapacity of paying the debts in due time determined the huge growth of increases and the afferent penalties that had as a result the accumulation of new losses, year by year, creating new problems from this point of view.

Yet, the extraction of pitcoal cannot be carried on without subsidies from the state budget because of the specific conditions of exploitation.

Subsidies cover a vast field of applicability: a large number of public institution for which they represent the only or the prevailing resource of surviving.