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CAUSES OF PUBLIC DEBT AND BUDGET DEFICIT

PRZYCZNY DŁUGU PUBLICZNEGO I DEFICYTU BUDŻETOWEGO

ПРИЧИНЫ ПУБЛИЧНОГО ДОЛГА И ДЕФИЦИТА БЮДЖЕТА

Abstract

The aim of the article is to present a problem concerning the reasons for the formation of a public debt and a budget deficit. The public debt is undoubtedly caused by the excessive costs that may arise, for example, because of the militarization of the economy, excessive administration or high social benefits. However, the reasons of too low taxes and other public revenues may be very numerous - from too low effective tax rates through ineffective and tax collection system to narrowing the tax base caused by the falling level of gross domestic product production. The main reason for the public deficit is a failure to adjust the size of public expenditure to the profitability of the economy. This maladjustment may have a permanent character resulting from the tendency to excessive expansion of public expenditure. It may also have a short-term character related to the alternate nature of over-expand economic development, which is expressed in the business cycle. The low efficiency of public spending, low efficiency of public debt collection and the burden on budgetary expenditure costs of existing debt can be distinguished among the other sources and causes of the public deficit.

Keywords: tax law, budget deficit, public debt, public finances, state budget, tax policy.

Streszczenie

Celem artykułu jest przedstawienie problemu dotyczącego przyczyn powstawania dlużu publicznego i deficytu budżetowego. Przyczyną powstania dlużu publicznego niewątpliwie są nadmierne wydatki, które mogą być spowodowane np. militaryzacją gospodarki, rozbudowaną administracją czy też wysokimi transferami socjalnymi. Rzadziej natomiast zbyt niskie podatki i inne dochody publiczne, których przyczyny mogą być bardzo liczne, od zbyt niskich efektywnych stawek podatkowych poprzez nieefektywny i mało skuteczny system ściągania podatków, do zawężenia bazy podatkowej spowodowanej spadającym poziomem produkcji produktu krajowego brutto. Główną przyczyną deficytu publicznego

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jest niedostosowanie rozmiarów wydatków publicznych do możliwości dochodowych gospodarki. Niedostosowanie to może mieć charakter trwały wynikający z tendencji do nadmiernego rozbudowania wydatków publicznych. Może mieć to również niedostosowanie krótkookresowe związane z przemiennym charakterem rozwoju gospodarczego, co się wyraża w cyklu koniunkturalnym. Wśród pozostałych źródeł i przyczyn deficytu publicznego wyróżniamy: niską efektywność wydatkowania publicznego, niską skuteczność ścigania należności publicznych oraz obciążenie wydatków budżetowych kosztami już istniejącego dłużu publicznego.

Słowa kluczowe: prawo podatkowe, deficyt budżetowy, dług publiczny, finanse publiczne, budżet państwa, polityka podatkowa.

Аннотация

Цель статьи - представить проблему, касающуюся причин формирования государственного долга и дефицита бюджета. Государственный долг, несомненно, вызван чрезмерными расходами, которые могут возникать, например, из-за милитаризации экономики, расширенного администрирования или высоких социальных выплат. Реже - из-за слишком низких налогов и других государственных доходов, причины которых могут быть весьма многочисленными - от слишком низких эффективных налоговых ставок через неэффективную систему сбора налогов до сужения налоговой базы, вызванного падением уровня производства валового внутреннего продукта. Основной причиной дефицита государственного бюджета является неспособность изменить размер государственных расходов на прибыльность экономики. Эта несогласованность может иметь постоянный характер в результате тенденции к чрезмерному расширению государственных расходов. Она также может иметь кратковременное несоответствие, связанное с альтернативным характером экономического развития, который выражается в деловом цикле. Среди других источников и причин дефицита государственного бюджета мы выделяем: низкую эффективность государственных расходов, низкую эффективность сбора государственного долга и бремя расходов бюджета на расходы, связанные с уже существующим государственным долгом.

Ключевые слова: налоговое право, дефицит бюджета, государственный долг, государственные финансы, государственный бюджет, налоговая политика.

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Statement of the problem in general outlook and its connection with important scientific and practical tasks.

The Constitution of the Republic of Poland uses the concept of state public debt (Constitution of the Republic of Poland of 27 April 1997, Article 216, paragraph 5), the Public Finance Act defines this concept as

"a nominal debt of public finance sector entities determined after elimination of financial flows between sector entities." According to the catalog of entities included in the public finance sector (Public Finance

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Act, Journal of Laws No. 155, item 1014 with subsequent amendments to Article 5) "public state debt" is a debt of the whole sector public finances, which means all entities included in this sector, such as local government units and entities not mentioned in the catalog by name, such as the State Treasury. By the State Treasury debt (Journal of Laws of 2009 No. 157 item 1241), the Act on public finance understands the nominal debt of the State Treasury (Szybowski D. 2018, pp. 206-207). The nominal debt of the State Treasury can also be called the debt of the State Treasury. The Public Finance Act specifies that the state budget deficit can be covered by income from:

the sale of Treasury securities, loans taken in banks, budget surpluses from previous years and from inflows related to the privatization of Treasury assets.

In recent years, increased interest in issues of fiscal policy and its impact on the condition of the economy can be observed in the

economic literature. One of the most important reasons of this interest is an increase in the public debt ratios to GDP in many highly developed countries in the last decades (Dahl M. 2015a, pp.306-311). The increase is caused by long-term budget deficits. In the recent period this situation has deteriorated dramatically as a result of the global financial crisis, which proved to be severe for the economic situation of many countries (Dahl M. 2015b, pp.69-74). Currently, the greatest threat to global finances seems to be the worsening state of public finances. (Działo J. 2012, pp.25-40). According to economics, the unfulfilled obligation of the debtor's legal service to the creditor can be considered as a debt. The benefit can be financial as well as factual and therefore everything that is included in the contract between the creditor and the debtor. It must be remembered that a feasible service which completion date has not passed is a commitment not a debt. (Begg D., Fisher S., Vernasca G., Dornbusch R. 2014 pp. 31-32).

Analysis of latest research where the solution of the problem was initiated.

The concepts of a public debt and state deficit was the subject of consideration, among others : Begg D., Samuelson P.A., Nordhaus W.D., Fisher S., Vernasca G., Dornbusch R., Marciniak S., Gołębowski G., Daniłowska A., Lewkowicz P.J., Tyniewicki M., Mączyński D., Pach J., Górniewicz G..

In the first part of the article "Causes of public debt and budget deficit" the author presents Okun's law established by Arthur Melvin Okuneko. Okun's law states that there is a direct relationship between GDP and unemployment rate. This relationship is two-way, and the GDP growth is conducive to the decrease of unemployment rate, but also the increase in unemployment causes a decrease of GDP.

Examples of concepts formulated by eminent economists regarding the topic discussed are presented below:

Public debt (otherwise known as a national debt) is a total debt of the state. The public debt grows when "there is a deficit in the public sector, so new loans have to be taken to cover the surplus of expenses over income." (Begg D. 1998, p. 84). Another definition of the public debt according to Samuelson and Nordhaus is "the entirety of government commitments in the form of debentures and loans taken for shorter periods. The public debt does not include debentures held by quasi-government agencies, such as the central bank." (Samuelson P. A., Nordhaus W. D. 2004, pp. 578-579). In most countries, from the years perspec-

tive budgetary deficits (streams) - not surpluses, can be observed, which increase the size of public debt (Begg D. 2007, p. 91). In turn, Stefan Marciniak states that "the

sum of budget deficits of previous periods is the public debt of the state." (Marciniak S. 2005, p. 447).

Aims of paper. Methods.

One of the main research methods used in this publication is an induction method. This method involves articulating conclusions or defining certain regularities based on empirical phenomena or processes. The induction method is a kind of deduction based on the details of the general characteristics of the phenomenon, process or object. The use of the induction method requires the assumption that only facts can be the basis for scientific resolution. The induction methods include legal acts, analyzes, expertise, statistical data and scientific documents used in a social research. The second method used is a method of analysis. This method consists of two stages. The first stage is an analysis of the collected material in order to show the most important concepts and determine the issues. In this part of the analysis, the analytical and comparative method is used. The second stage of the analysis method is

a classical analysis of documents in which facts are presented. The next presented method which results from the two preceding methods is a synthesis method which is combining various elements into one coherent unity. It captures phenomena and processes as one by studying individual components. Another method used is a triangulation. The triangulation method ensures higher quality of a research and reduction of errors. It involves collecting data using two or more methods and comparing and combining results. Triangulation method is based on combining different concepts into a one. Because of complex research methods, data sources have been triangulated, the information on the effects and causes of public debt and the public deficit was compared, as well as theoretical triangulation based on the analysis of data from different theoretical concepts has been made.

Exposition of main material of research with complete substantiation of obtained scientific results. Discussion.

Causes of public debt. Categories and types.

The causes for a public debt can be considered in many ways.

As the causes of typical and common nature:

- a) overly developed social policy, which is a response to social expectations of the role of the state as a guarantor of social security for less prosperous social groups, as well as pressure from strong claim groups in this regard,
- b) extensive economic role of the state,
- c) the inefficiency of the mechanism of the modern economy manifested in the

fact that in many countries man power cannot be managed and unemployment problem can not be solved.

Causes of an individual, specific or incidental nature, such as costs related to political transformation, costs of reunification, natural disasters.

Causes considered by identifying sources of public debt.

Sources of public debt:

- 1. Sources of deficit as cumulated deficits for a period of time,

The public debt of a period is the sum - accumulated deficit raised by the loan repayment value (if in the period of, for example,

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the next 5 years, an average annual deficit will be PLN 30 billion, the increase in public debt should be calculated as ($5 * 30$) minus paid back amount.)

2. Beyond deficit sources:

- transformation of conditional state liabilities into definitive commitments (performance of state treasury guarantees),
- adverse changes in the exchange rate,
- implementation of state tasks by direct transfer of state treasury bonds and debentures (public debt is calculated in Poland by the accounting method incomes minus expenses),
- unrealized liabilities due to compensations, expropriations of lost processes and damages caused by state institutions, overdue compensation, etc.
- not disclosed in budget deficit debts of budgetary units.

The cause of public debt is undoubtedly excessive spending, which may be caused by the militarization of the economy, extensive administration or high social transfers. However, the reasons of too low taxes and other public revenues may be very numerous - from too low effective tax rates through ineffective and tax collection system to narrowing the tax base caused by the falling level of gross domestic product production.

Some people think that the basic sources and causes of public debt and budget deficits lie in the state, and more specifically in the social groups and institutions representing the state.

Evaluation of the level of public debt and legal consequences

To assess the level of public debt, the debt-to-GDP ratio with 50% as a critical value is mainly used. This indicator can be supplemented by many others, such as:

- debt to export ratio (critical value 275%),
- interest to exports ratio (critical value of 20%),

- debt management to exports ratio (critical value 30%).

A country is considered to be seriously indebted if the level of at least three of the above four indicators exceeds the critical values. A country is considered as moderately indebted if the level of three out of the four above indicators exceeds 60% of their critical value (Gołębowski G. 2008).

In the Maastricht Treaty, as a standard for convergence, is assumed that the share of the planned or current state budget deficit should not exceed 3% of GDP, and the public debt-to-GDP ratio - 60%. In addition to the Maastricht criteria, the government must respect the limits of debt set out in the Constitution of the Republic of Poland and in the Public Finance Act. According to article 216 point 5 of the Constitution of the Republic of Poland – “It is not allowed to borrow or grant financial guarantees, as a result of which public debt exceeds 3/5 of the value of annual gross domestic product”. The method of calculating the value of annual gross domestic product and state public debt is determined by law. Exceeding the limit of 60% is equal to violation of the provisions of the Constitution of the Republic of Poland and should result in resigning of the Council of Ministers and process in the State Tribunal. (Daniłowska A. 2008, pp.107-118).

The most serious consequences can be implement in the situation when the PDP exceeds the level of 60% of GDP according to the Acts of 1998 and 2005, the restrictions concerned the prohibition of granting new guarantees (also in the next budget year), submission of the rehabilitation program to the Sejm by the Council of Ministers and prohibition of including deficit in the state budget and budgets of local government units. As in the Public Finance Act from 2009, in addition to the actions taken already in the situation when the ratio of public debt-to-GDP exceeds 55%, the

Council of Ministers should submit a rehabilitation program. Granting new sureties and guarantees is prohibited and budget expenditures of local government units specified in the budget resolution for the following year can not be more than the revenues of this budget. In comparison with the previous acts, the new Public Finance Act does not contain an absolute order to pass a draft budget act without a deficit, this order only applies to budgetary resolutions of public finance sector entities.

The basic regulation limiting the amount of public debt is art. 86 of the Public Finance Act. According to this article when the value of the ratio of the amount of state public debt to the gross domestic product referred to in art. 38 point 1 a, announced in accordance with art. 38 – until 31st may next year:

1) is greater than 50%, and not more than 55%, then for the next year the Council of Ministers prepares a draft Budget Act, in which the ratio of the state budget deficit to the state budget income can not be higher than the ratio of the state budget to state budget revenues from the current year resulting from the Budget Act;

2) is greater than 55% and less than 60%; what results

a) for the next year the Council of Ministers adopts a draft budget act, in which:

- no state budget deficit is anticipated or is assumed as the level of difference in revenues and expenses of the state budget, ensuring that the ratio of State Treasury debt to gross domestic product forecasted at the end of the budget year concerned by the draft Budget Act will be lower than the ratio referred to in art . 38 point 1 b, published in accordance with art. 38,

- no salaries raise are planned for employees of the state budget sphere, including employees of units referred to in art. 139 paragraph 2;

- the indexation of pensions can not exceed the level corresponding to the increase in prices of consumer goods and services, announced by the Central Statistical Office for the previous financial year,
- granting loans and credits from the state budget is prohibited, with the exception of installments of loans and advances granted in previous years,
- no increase in expenditure is expected in the units referred to in art. 139 paragraph 2, at a higher level than in government administration;
- b) the Council of Ministers reviews long-term programs and state budget expenditures financed with funds from foreign loans;
- c) the Council of Ministers presents to the Sejm a rehabilitation program aimed at reducing the ratios referred to in art. 38 point 1a;
- d) expenditure of the budget of the local government unit specified in the budgetary resolution for the following year may be higher than the revenues of this budget plus the budget surplus from previous years and free funds, only by the amount related to the implementation of tasks from the funds referred to in art. 5 paragraph 3;
- 3) is equal to or bigger than 60%:
 - a) the provisions of point 2 a and b shall be applied;
 - b) the Council of Ministers, no later than one month from the day of announcing the relation referred to in art. 38 point 1 a, presents to the Sejm a rehabilitation program aimed at limiting this relationship to a level below 60%;
 - c) expenditure of the budget of the local government unit specified in the budget resolution for the following year can not be higher than the revenues of this budget;
 - d) starting from the seventh day after the date of announcement of the relationship referred to in art. 38 pint 1 a, units of the public finance sector may not grant new

guarantees. (Lewkowicz P.J., Tyniewicki M. 2010 pp. 66-86).

When assessing legal regulations applicable when the level of budget deficit exceeds 60% of GDP, it should be remembered that the situation is a violation of the constitutional norm resulting from art. 216 paragraph 5. Consequences described in the Act should therefore be of an exceptional nature, leading as quickly as possible to the restoration of a state consistent with the Constitution of the Republic of Poland. (Mączyński D. 2012. pp. 173-182).

Incompatibility of expenditures with the state's income possibilities

The main source of public debt and public deficit is the maladjustment of the size of public tasks to the income possibilities of the country's economy. This maladjustment may be permanent or periodic.

Maladjustment with a permanent character results from excessively extensive public spending and tasks. The state took too many responsibilities. The state has three traditional functions resulting from its tasks: organizational-defensive, social and economic.

The organizational-defensive function consists in ensuring efficient organization of the state and society (public administration, administrative and civil courts) as well as ensuring external(national defense) and internal security (police, fire brigade, prosecutor's office, criminal justice); This function is the oldest function of the state and it is necessary for its existence, so it is often called a classical function. Through the social function, the state has an impact on the pace of social development and on the socio-economic stratification of the population (transfer of funds from "rich to poor"); it causes a flattening of the diversity of the standard of living (the level of "wealth") of individuals and households: with the growth of the scale of income re-

distribution by public finances, the diversity in living standards decreases (Dahl M., Piskorska B., Olszewski P. 2015, pp.52-55).

The problem of rational, and not excessive spending is very complex. If too little funds are allocated to a specific area, then the state will perform worse in this field. This will result in both material losses and negative social consequences. For example if there is a reduction in expenses for the construction and repair of public roads, there is a risk of various losses. The losses in the form of cars damaged in accidents and the costs of treating people are easily measurable. However, moral losses due to death and pain can not be estimated. This also applies to the time lost in congestion that could be used for work or leisure. In the same way it is possible to demonstrate what the risk of losses arises when the police and justice, education, health care, culture, environmental protection or all other public expenditure are underfunded. The risk of losses resulting from the under-financing of individual areas and types of state activities is highly diversified. In some areas the risk is very big in others relatively easy to accept.

Periodic maladjustments are related to the fluctuation of economic processes, are the result of periodic fluctuations in public incomes and expenses due to the change in economic conditions, so during the high rate of economic growth we are experiencing an increase in public revenues while limiting the pressure on public spending (housing allowances, for unemployed, social welfare) however in a period of recession when there is low rate of economic growth, low public incomes and high public spending it is considered as short-term maladjustments. In Okun's law - Okun stated that there is a direct relationship between GDP and the unemployment rate, this relationship is two-way, so GDP

growth is conducive to falling unemployment, but also unemployment increases GDP (however, it did not estimate the effects of unemployment). Arthur Melvin Okun, on the basis of research in the American economy, stated that the increase in unemployment by each percentage point above natural unemployment means a GDP decline by at least 2-3 percentage points. The national product fluctuates more strongly than employment. In the period of recession there are phenomena mitigating employment decline (shortening of working time, part-time employment) and deepening the reduction of the national product (lowering labor productivity by the partially-employed). The GNP gap - the difference between the potential and the actual GNP level, can be interpreted as a measure of economic losses caused by unemployment (PWN Encyclopedia).

Low efficiency of spending public funds

Low efficiency of spending public funds means that the same utility effect of public and social services provided is potentially achievable at lower expenses. For many reasons, the public authority/ public administration system can not spend public funds in an economical and effective manner. There is two group of reasons:

Objective - related to the nature of the public economy / public spending. Manifest mainly in the fact that the majority of public tasks are tasks of difficult to measure spending efficiency. For example, there are no simple methods in the field of administrative and medical services, and sometimes there are no methods of measuring the effectiveness of spending money, because of its non-commercial nature, where there is no revenue, only expenditure. The procedures are often highly individualized (medical procedures), therefore, one can not know whether expenses were incurred in accordance with real needs or not.

No analyses are published anywhere that would justify the effectiveness of business ventures or show how to shape a structure of the budget expenditures in order to minimize the damage caused by underfunding of particular areas.

It is also worth noting that among entities of the circulation of money in the economy only government entities do not carry out analyses of the effectiveness and profitability of their operations. The Entities lack of economic calculation of the implementation of public goals and tasks means the lack of a rational basis for objectified control of activities. This promotes extravagance, wastage and squandering of public funds, including financial resources, and above all carelessly incurring more and more public debt and impunity of power entities, specifically specific persons representing a given power, for further budget deficits. It seems obvious that the units representing the state and local government should be example of prudence and rationality in spending public funds with extraordinary saving skills and constantly increasing efficiency. The lack of economic rationality of spending public funds requires the preparation of extremely accurate:

- economic analyses of the place and function of the authorities in the economy,
- economic analyses of the legitimacy, rationalization, efficiency, profitability of the activities of the authorities,
- economic analysis of concepts, programs, target projects and functions of power in the economy,
- economic financial analysis of the functioning of the socio-economic system by the authorities.

Subjective - resulting from faulty solutions / procedures. It expresses excessive expenditure of public funds in relation to the material effects of public expenditure incurred. The main reasons are::

- Inadequate methods of budget planning (mainly based on the extrapolation method with exception of task planning).

The extrapolation method is based on the assumption that the future is a simple continuation of the past. In Poland the Ministry of Finance (similarly to other countries) relies on a method that can be described as historical in the process of budget preparation. It consists in determining expenditures on individual areas based on the amount of expenditures incurred for this purpose in the previous period, increased or decreased by an indicator based on forecast of economic and budget growth for next year. The draft budget is created in the process of negotiations between the financial departments of individual ministries and the relevant departments of the Ministry of Finance. In these negotiations, both substantive arguments as the needs of individual areas of public activity are taken into account with political arguments and pressures. Political arguments are both an expression of the interests of the management of individual ministries and the interests of various pressure groups.

Budget planning is usually an annual planning, and the government's and Minister of Finance's efforts rarely go beyond the government cadence.

- Incorrect division of competences and resources between different decision centres. The problem of tendency to centralize decisions and even more centralize financial resources, usually leads to a wrong decision when it comes to spending. It is recognized that the use of public funds is the more effective when more decisions are made closer to the community in which these funds are used. The decentralization of public finances brings with it a number of benefits such as:

- better recognition of the needs of local communities creates the opportunity for a more accurate allocation of funds,
- control over the spending of public funds may be more effective due to the fact that the decision maker is less anonymous,
- the state, by delegating some of its powers to the local level, can increase the efficiency of its operations in strategic matters.
- Lack of registers of social services (benefits) and methods of their valuation (cost estimation).
- Characteristics of gross budget financing (expiry of funds at the end of the budget year).
- Sociological factors (the scale of expenditure as a source of position, meaning and prestige).
- Incorrect system of organization and financing of social insurance, socio-cultural services, etc.
- Failure to comply with the rules of budgetary discipline, placing public procurement, etc.

Low efficiency of debt collection.

This problem is related to the issue of the informal economy, an activity consisting in violation of tax law, labour law, and social insurance law. It is a segment of the economy that consists of illegal and legal activities excluded from the gross national product. The informal economy is an economic activity that can be conducted in a legal manner in a given country, and is not registered or it is registered, but partially is not included in statistical and tax comparisons. The development of the informal economy depends mainly on the persistently high unemployment rate, low income, high taxes and unstable tax system, high social insurance fees, inflexible provisions in the labour code and a bureaucratic system of licensing business operations. Research of the phenomenon of the informal economy is extremely difficult because it is hidden

by its nature. The problem of the shadow economy is primarily related to two issues:

1. The problem of tax fraud, which causes very serious damage to public revenues.

2. The problem of low efficiency of tax authorities.

Conclusions.

Public debt can be caused by several reasons. One of such reasons is the long-term budget deficit. The budget deficit is a negative difference between expenditures assumed in the budget and incomes, which may result from too slow increase of revenues in comparison to incurred costs in a given time. Another factor that affects the amount of debt is the increase in public spending which may take place in special circumstances such as an economic crisis, a natural disaster or another state of emergency (war). Enlargement of such expenses is due to the inability to offset them by income. In such circumstances, there is also a decline in economic activity, which means that revenues to the state budget are decreasing.

Another reason that can cause the state to fall into a high budget deficit is the debt trap. When the government draws loans to pay off interest on current liabilities, which does not solve the problem, but only moves it over time. Another elements used by the State are interventionist tools that are designed to stimulate economic growth and reduce unemployment.

Public debt, as a consequence of budget deficits, occurs commonly over the world. This is connected with not respecting the fundamental principle of budget balance which assumes equality of budget expenditures with budget revenues, and their full coverage with appropriate budget revenues. As a consequence, the unbalanced budget with the deficit covered by loans became almost a standard in the economic policy of many countries. (Pach J. 2015, pp. 126-137).

Public debt is a very serious economic barrier in many countries around the world. It can be also applied to some European Union countries. It also affects the size of investment, consumption, economic growth and determines the sequence of economic processes. Therefore, it is very important not to exceed statutory thresholds of debt, to use prudential procedures, to assess the risk of debt and to manage public debt in a proper way. Public debt should become a tool for financing economic development.

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