Pierre Llau and the Economics of Public Finance: An Overview of His Works

Agnès Labye
EconomiX
Paris Nanterre University

This article, a tribute to Pierre Llau, specialist in public finance, presents, from all his works, his contribution to the development of this line of research. His publications concern both the field of public economics and that of public financial economics. He shows the important role played by the state (government), both non-financial agent and financial agent, in the functioning of the economy. In particular, he nuances the requirement of a balanced budget dear to neoclassicals and insists on the role of the public financing system, a component of the system of financing the economy.

Keywords: public finance, state budget, financial economy

INTRODUCTION

Being a nationally and internationally recognized specialist in the economics of public finance, Pierre Llau has contributed to the development of this line of research which, in some of its aspects, mobilizes not only knowledge in economics but also in management and legal sciences.

His contribution is significant, be it vis-à-vis public economics or (public) financial economics, the two branches of public finance economics.

This article is exclusively based on all his works; a list given in the bibliography, which is virtually exhaustive. It is remarkable to note that the themes addressed are still relevant even though the global economic context has changed profoundly, with some of the concepts having have evolved as a result.

Thus, after defining the economics of public finances (I), two current major questions will be addressed, namely the question of whether it is wise to have an objective of maintaining a balanced budget at all costs (II) and the increasingly important place of the public financing and payment system within the economy's financing and payment system (III).

What Is Public Finance Economics?

To understand what the economics of public finances is, it is important to master the vocabulary associated with it. That is why it has been grouped together in an encyclopedic dictionary of public finance (Llau et alii (1991)) and partly in a dictionary of economics (Abraham- Frois, Caire, Hugon, Llau, Renversez (1998)).

The economics of public finances analyzes the behavior of public administrations (called public decision-making centers) whose function is to directly ensure the collection of resources produced by private economic agents which are then used for economic and social purposes (redistribution) with the aim of improving the general well-being.

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In this context, "the public and financial economy appear to be two specific approaches to these same phenomena" (Llau, (1986))[1]. The public economy thus analyzes the behavior of public administrations as agents carrying out economic activities involving tangible assets (production of non-market services) but also as agents intervening in the functioning of the economy in general.

This last aspect has become particularly important over the years. Public administrations no longer only have the governmental functions that are generally known to all (national security with the police, homeland security with the army, justice, access to certain public services that are free or almost free), but also have a key role in the smooth running of the economy. This role is particularly visible in times of crisis, when states intervene to promote the recovery of activity by helping private non-financial agents and to limit the negative effects of the crisis by lowering certain taxes and/or social charges and increasing the transfer of income for the most underprivileged. It is therefore important to study the tax systems and their structure, to examine the weight of compulsory levies, their use, their effects on activity and whether they reduce income inequalities (redistributive nature of the tax), or not.

This increasingly growing intervention by public administrations presupposes ever-increasing budgets. This is what is observed throughout the world. An increase in public spending should normally lead to an increase in taxes and social security contributions in order to ensure or approximate towards equilibrium. However, a limit has been reached; that of the excessive weight of taxes and social security contributions on the GDP that leads to dissatisfaction among the population and in some cases to a refusal to pay taxes. Today, in many countries, budgets are in deficit, which raises the problem of how to finance it; one of the issues dealt with in the economics of public finance.

For its part, financial economics analyzes the behavior of public administration in their monetary and financial dimension involving monetary and financial assets. In this context, they carry out credit-loan, investment-borrowing operations. With the publication in 1975 of the first book on Financial Economics, Hubert Brochier, Pierre Llau and Charles-Albert Michalet enabled the (public) financial economy to "have a place in the science of finance"[2]. Financial economics is thus an integral part of finance; an inclusion which is no longer disputed since (Llau, (1985)).

As a result, public administrations, the State to be precise, have the possibility of influencing the real, monetary and financial behavior of economic agents; and in this context it is essential to analyze the characteristics, components and modes of intervention of the public financing and payment system defined as "the complex of economic structures and behavior relating to the emergence, propagation, regulation and significance of monetary and financial activities during the processes of growth and development" (Llau, (1986))[3]. As such, it is a component of the financing and payment system of the economy which has steadily been growing since 1945 (Brochier, Llau, Michalet (1975), Llau (1985), Llau (1996)) with the evolution of the world economic context characterized since the beginning of the 1970s in the United States, the 1980s in Europe and the 1990s in the rest of the world by the globalization of economies and therefore by their interdependence associated with a change in financial systems (financial intermediaries and financial markets). Moreover, in the book published in 1996, it seemed important to him to emphasize on the distinction between the two components of the economy of public finances, given the reduction in the relative weight of the public economy compared to that of the public financial economy.

Public administrations can thus act both as non-financial agents (public economy perspective) as well as financial agents (financial economy perspective). These two approaches, which are highly complementary, are obviously far from the neo-classical view centered on the dichotomy between the real, monetary and financial spheres.

Government Deficit and Debt: Is It Primordial to Reduce Them?

This question brings us to the question of sound management of a State's public finances. A priori, one can only give an affirmative answer to this question, since it is normally impossible to have expenditure exceeding revenue. Nevertheless, the case of public administrations and in particular the State, which is highly indebted in many countries, is unique since they are invested in a mission of

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general interest and as such, intervene in the functioning of economies, this even in very liberal countries such as the United States.

Therefore, in order to answer this question, it is essential to specify which government/public deficit is involved (II.1) and then to analyze the micro and macroeconomic impact of the public finances (II.2).

What Public Deficit Are We Referring to?

For many years, the rule stipulating that a balanced budget must be achieved has been applied in a somewhat flexible manner. Since then, there has been a development marked by the desire to apply it more strictly, particularly in Europe and more specifically in the euro zone.

How can we explain this change? In the classical view, balanced budget is exclusively looked at from an accounting perspective. The State must manage its budget like a private economic agent; in other words, like a "good father". Moreover, public finances are neutral in relation to the economy. This neutrality can be appreciated from both ends: they cannot influence the economy and vice versa. Therefore, an imbalance in public finances would break neutrality.

Over time, the notion of balanced budget broadened to take into considerations the State's action on the functioning of the economy. We thus moved from a balanced budget in the accounting sense to a balanced budget in the economic and financial sense.

In France, this transition was made with Decree No. 56-601 of 19 June 1956 on the presentation of the State budget and Government order No. 59-2 of 2 January 1959 on the Organic Law relating to Finance Acts. In its Article 1, it stipulates that "Finance Acts determine the nature, amount and allocation of the State's resources and charges, taking into account the economic and financial balance which they define". Now, it is therefore possible to have a budgetary imbalance in the accounting sense of the term, in order to achieve an economic balance.

The case of France is not an isolated one. All countries resort to this practice, especially in times of crisis. Public spending and taxation become key instruments of economic policy. This assertion, which is obvious today (though sometimes contested nevertheless) was not necessarily so in the 1970s, even though Keynes had theorized with "the general theory of employment, interest and money" the idea that it was possible to revive the economy thanks to global demand stimulated by an increase in public spending and/or a reduction in taxes and therefore by a budget deficit. Many countries resorted to this practice after the Second World War until the end of the 1970s. Since then, in the face of the impossibility of reducing unemployment and inflation, liberal supply-side policies of neo-classical inspiration have been implemented until today, which partly explains why in some countries or regions it is considered important to reduce the burden of public debt.

This issue has been particularly topical in recent years, especially in Europe since the signing of the Maastricht Treaty in 1992 which created the European Union (EU) and the Economic and Monetary Union (EMU), the ultimate phase of economic integration (Llau (1997), (2001)). The Treaty defines a certain number of criteria that any country wishing to adopt the euro must meet in order to ensure a certain degree of convergence of the economies, facilitating the success of the economic policy adopted and in particular that of the single monetary policy conducted by the European Central Bank (ECB).

Among these criteria two relate to public finances. Firstly, the budget deficit must not exceed 3% of the GDP. Secondly, the public debt must not exceed 60% of GDP. These two criteria have in effect never been met simultaneously, with some countries meeting the first and not the second, others meeting the second and not the first and others meeting neither. If these two criteria had had to be strictly adhered to, EMU would never have happened. The European Commission was therefore obliged to take a more flexible approach and to consider the efforts made by the Member States to reduce them. It therefore assessed them in trend.

These two criteria will be recalled in the Stability and Growth Pact of 1997, with a view towards coordinating national budgetary policies and avoiding excessive budget deficits. They will be reaffirmed again following the sovereign debt crisis in the Fiscal Pact or Intergovernmental Treaty on Stability, Coordination and Governance in 2012. However, the Pact will go further by stating that budgets must be balanced or in surplus (golden rule) with a higher limit of the structural deficit cap[4] set at 0.5% of GDP.

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It is therefore perfectly clear that this question is very crucial in the euro zone. In order to respect their signature, Member States must commit to a policy of reducing their public deficit and debt.

This being the case, the observation of the evolution of budget balances over a long period shows that the strict application of the accounting rule of budget balancing is difficult to achieve even if there are disparities between countries, particularly in Europe (Llau and Percebois, (1996)), which explains Llau's nuanced position, who considers that the purely accounting view of the budget deficit is not appropriate, this does not mean that public finances should not be properly managed by targeting actions that are carried out such that they have a positive impact on the economy (Llau (1994)).

In other words, setting a balanced budget target "at all costs" may not be consistent with a country's economic and social situation. The example of Greece in Europe or certain developing countries shows that the implementation of an austerity plan has many adverse effects, with it hindering rather than promoting economic and social development.

The Micro and Macroeconomic Impact of Public Finances

The financial choices made by a State have both a microeconomic impact on the behavior of economic agents, as well as a macroeconomic impact (Bobe, Llau, (1978)).

This work, which focuses on taxes and social security contributions (mandatory levies) in France, confirms the idea, which have already been affirmed in previous publications, that the tax and parafiscal system is a component of the system for financing economic activity.[5] A typology of economic agents' behavior with regard to taxes and social security contributions is presented before a macroeconomic analysis of the impact of the taxation on growth.

From a microeconomic perspective, taxes and social security contributions are a variable that private economic agents take into consideration when taking a decision, thus justifying their inclusion in econometric models (Llau (1981) (1)).

As such, the taxation of savings affects its structure (Llau (1978), (1992)). Affecting in general, the tax-exempted or partially tax-exempted investments. In France, for example, the Livret A or the Livret de développement durable, which are completely tax-exempted, are the preferred investments of French households, even though their real return is currently negative. Households tend to prefer short-term liquid savings, especially in Europe. For this reason, governments have sought to promote longer-term, but also riskier savings so that a larger share of these resources can be used to finance economic activity. Hence the introduction of more favorable taxation for financial market securities or life insurance products.

On another level, taxation can be used to favor families and influence their size. In France, for example, there is the family quotient, which allows a tax-paying household to pay less income tax based on the number of dependent children (Herschtel and Llau (1986)).

In addition to actions geared towards households, there is also a tax policy intended for companies. Here, the statutory levies concerned are mainly social security contributions and income tax. In France, we could also add the CSG (General Social Contribution). The objectives here are to reduce the cost of labor, to encourage the hiring of new employees (in the event of a reduction in social security contributions) and to increase investment (reduction in corporate income tax) by allowing companies to use a greater proportion of their profits to improve their production facilities (self-financing) while reducing their solicitation of external resources (debt, increase in capital) (Llau (1979)). In addition to these tax advantages, other forms of aid can be added, such as loans at subsidized rates. In this way, the State contributes to the financing of economic activity (Llau (1966) (4), (1967) (1), (1968) (1), (1977)).

Compulsory levies, through the modification of individual behaviors, change the functioning of the economy. This is true for all countries without distinction.

The effectiveness of the tax policy conducted by a State depends on the choice of tax which must be well targeted to the economic and/or social objective to be achieved. Thus, for example, property taxes can be a good tool for economic action in developing countries (Llau (1988)). In general, tax reforms should be thought out in relation to the country’s economic choices (Llau (1983 (1))) and in such a way as to favor development (Llau (1983 (2)).

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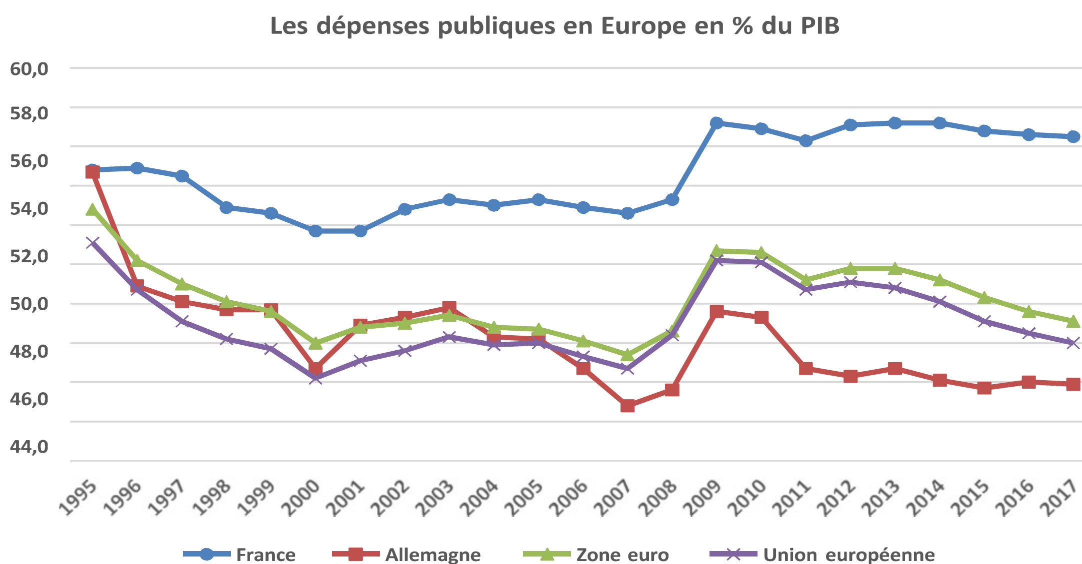
Presently, in most countries, States have little financial margin in the upward use of compulsory levies, which account for a large share of the GDP, with France holding the record with 48.4%, compared to 40.2% of the GDP for the EU in 2017. This rate gives an indication of the extent to which the state levies on the wealth produced in a country and acts in a way as a warning signal when it is too high or considered too high. On the other hand, it gives no indication, since it is global, on the respective weight of the different taxes and social contributions, which varies from one country to another. It is therefore necessary to analyze its structure and thus the characteristics of the tax systems. International comparison of the rate must be made with caution. Some countries, such as the United States, have a lower rate than those observed in Europe, but the explanation lies in the fact that in this country the pension system and health insurance are private. Moreover, it is not a good indicator of the weight of the State, since the definition of compulsory levies also includes taxes and social contributions that governments pay to each other (Llau (1984)).

After having risen sharply, the current trend is heading towards a decline in the growth rate of taxes and social security contributions in the most industrialized countries. In other words, governments can hardly increase taxes and social security contributions to finance their deficits. The only way to reduce it is to cut public spending, which is proving to be a difficult exercise in some countries (see graph below).

In the EU, the graph clearly shows the great disparity between Germany, a virtuous country, and France, where public spending represented 41.9% of the GDP in 1968 and now stands at 56.4%. In France, as in many European countries, there are two main reasons for these figures: the increase in social benefits and the rise in the wage bill. Consequently, reducing public spending means reducing social benefits (which refers to the chosen social model) and the wage bill (number of civil servants).

FIGURE 1
PUBLIC EXPENDITURE IN EUROPE AS A % OF THE GDP



Source : Eurostat ; FIPECO

All else being equal, this upward rigidity of tax and social security contributions and the decline in public spending means that budget deficits cannot be reduced easily for many countries, particularly in Europe, even if some now manage to meet at least one of the two criteria relating to public finances in the Maastricht Treaty. The result is a high level of public debt that impacts the economy (Llau (1990)).

Less industrialized and developing countries are also faced with the problem of managing their public finances. What they have in common, unlike rich countries, is that their budgets depend on their export

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earnings from raw materials whose prices fluctuate. However, they are not all in the same situation, even if many of them are in deficit.

At the global level, the government debt is therefore high, but less than that of private non-financial agents. As a result, most States need to find resources to finance their budget deficits. They thus have resort to the financial markets and their respective central bank, provided it has the right to buy government securities directly, which is not the case for the European Central Bank (ECB) for the euro zone.

The Public Financing and Payment System: A Component of the Economy's Financing and Payment System

The public financing and payment system is an essential component of the economy's financing and payment system (Llau (1985), (1996)), which leads to the analysis of its characteristics and its evolution.

The starting point for the analysis stems from the observation of an increase in the weight of the State despite the liberalism and the globalization of economies (III.1), which then makes it possible to identify the major changes in the financial system characterized by a new form of financial intermediation through the financial markets, making the distinction between intermediated and disintermediated financing less relevant (III.2).

Observations: An Increase in the Weight of States Despite the Liberalism and the Globalization of Economies

The financing and payment system of the economy is directly correlated to the development of economies that increasingly need capital to finance their activities. Historically, the evolution of monetary forms has been linked to the increase in exchanges both at national and international level. It soon became apparent that it was necessary to regulate currency, in order to avoid crises and, especially inflation. This regulation is the responsibility of States and central banks, the latter being the guarantors of the internal and external value of their currency, the guarantees of the monetary stability necessary for the functioning of any economy. In addition to monetary stability, central banks must ensure the security of the payment system, as well as the financial stability. Once the objectives of monetary policy have been defined, they implement it. In the industrialized countries, they are usually independent of the states. It has not always been the case.

This independence is mainly reflected in the impossibility of a State to influence the strategy chosen by the central bank or to exert pressure on its leaders. This being the case, central bankers are supposed to support the action of their governments which are aimed at improving the country's economic growth provided that inflationary excesses are avoided. This general rule is then broken down by country or region, which makes it possible to assess their degree of independence.

The (ECB) is of course the most independent (it is more independent than the Federal Reserve in the United States, for example).

Thus, the ECB does not have the right to directly finance a Member State, something which deprives them (the member state) of one of the two possibilities for obtaining external resources, monetary financing; as such, a State in the euro zone can still go bankrupt. All that is left for it to do is to borrow money on the financial markets.

Insofar as public administrations need to respect its budgetary constraint, they must have a strategy for financing their balance (Llau, Renversez et al (1988)). Consequently, if tax revenues are not enough to cover public expenditure, there are two possible solutions, at least in theory, either debt financing or monetary financing, which is impossible in the euro zone.

In the case of debt financing, the State issues securities on the financial markets and is thus in competition with private economic agents. Insofar as public securities are preferred by agents with financing capacity, the State captures a large share of the savings, which reduces the borrowing possibilities of companies that de facto no longer have enough resources to finance their investments. Public spending has thus crowded out private spending. This is the real crowding out effect. In addition, the tensions observed on the market will induce an increase in interest rates (increase in demand for

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financing) which will increase the debt burden for borrowers, discouraging them from investing, something which has a negative impact on the overall demand. This is the financial crowding out effect. The crowding out effect thus refers to the phenomenon whereby the goal of an economic agent (the State) is compromised by its own action towards achieving it. In other words, stimulus by global demand is inoperative, which justifies the fact that there is no budget deficit in the neo-classical analysis, which is disputed by the Keynesians.

The literature on this topic is largely of Anglo-Saxon origin and relatively little known outside the United States until the early 1980s. In France, it is mainly the works of Llau ((1981) (2), (1985) (2), 1996)) that allowed for their spreading.

Financing the economy is only possible if there is a financial system, i.e. financial intermediaries and financial markets in which the State in particular, and more generally public administrations are major players. In many countries, the dynamics of certain financial markets are directly proportional to the size of the budget deficit and the volume of securities issued to finance it. These financial assets (treasury bills, bonds, etc.) are subscribed to by resident and non-resident economic agents. In Europe, resident and non-resident financial intermediaries hold a large share of the public debt. Banks buy them because they are supposed to be low-risk and liquid securities. It is this liquidity of government securities that enables them, if need be, to obtain the central bank money they are lacking (refinancing) and to in turn remain liquid. The sustainability of banks is thus linked to their ability to buy and sell government securities (though not exclusively. Some private securities are also used as a basis for interbank credit). The central bank, the last resort lender, has the possibility everywhere to lend to a second-tier bank, but if the latter refuses, it becomes illiquid and goes bankrupt. Banks play a major role in the functioning of an economy because they finance it through credit, the main external resource for many economic agents (households, small and medium-sized enterprises). Therefore, as the recent systemic crisis just demonstrated, the banking system must be supported in the event of difficulties. That is reason why it was not only the central banks that intervened, but also governments had to recapitalize it, ultimately explaining the increase in budget deficits and therefore public debt.

Thus, even with the development of financial markets and the globalization of economies making them interdependent, the role of the State has increased considerably. It must manage crises that may rapidly become global and adapt the methods of regulating its economy in relation to its partners, while respecting international law. The exercise is complicated in that national interests are not necessarily the same everywhere.

In order to understand the functioning of economies, one must look at how they are financed. This requires a detailed study of the characteristics of the country or region’s financial system.

A New Financial Intermediation: Is the Distinction Between Intermediated Finance - Market Finance (Disintermediated) Outdated?

As pointed out by P. Llau (1996), the world has changed a lot since the 1970s, with the marketization of economies and the development of increasingly sophisticated financial innovations such as derivatives. These changes have consequences on the economy’s financing modalities which can resort to national but also international capital as per P. Llau ((1965) (1)) with the development of the Eurocurrency market.

The literature on financial systems experienced a certain revival in the second half of the 20th century, particularly with the work of John G. Gurley and Edward S. Shaw, who showed the link between economic growth and financial intermediaries. These two allowed for the achievement of a higher ex post equilibrium level between savings and investment by easing the fiscal constraint of economic agents. A little later, in 1969, Raymond W. Goldsmith devoted an important study on the role of financial structure in development. For their part, in 1973, Ronald McKinnon and E.S. Shaw pointed out the negative effect of financial repression (interest rates, credit rationing) which generated poor quality investments. Finally, in the 1980s and 1990s, thanks to the modelling of endogenous growth, the analysis of the relationship between the financial system and growth was deepened and led to a better understanding of the subject matter.

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Based on this theoretical framework, it has become clear that it is important to look at the way monetary, financial and real variables are integrated into the models, something which P. Llau (1976) did for Australia. In this article, he studied the model of the Australian central bank, the Reserve Bank of Australia (RBA1), showing that it is on the one hand Keynesian, in that the GNP is determined mainly by effective demand, and on the other hand monetarist, since real wealth and price expectations influence spending. He was also interested in the approach adopted in the Fed-MIT model in the United States (Llau (1971)). Finally, for India, he studied how these variables are integrated into planning (Llau (1973)).

Until the early 1980s, two types of economy could be distinguished, the debt economy and the financial market economy. The first was characterized by a high level of indebtedness by private non-financial agents towards the banking system, low resort to the underdeveloped financial markets, high indebtedness by banks towards the central bank and low government indebtedness, all else being equal. Here, the financing of the economy is therefore essentially provided by the banks, as in France and Italy (Llau (1966) (1), (1966) (2), (1974).

Many developing countries may fall into this category as well. They need the banking system, as well as the State to ensure their economic start-up, especially for those with little or no natural resources (oil, gas, etc.) that can be exported and used to finance their economy. In addition, even for those countries with assets, there are difficulties linked to the fact that these countries do not control the price of their raw material(s) so that they are dependent on price trends and are uncertain about the amount of their export earnings, which is a serious handicap. Added to this are the crises that often hit them harder than the richer countries and the hegemony of the industrialized countries.

In view of the difficulties faced by these countries, UNCTAD (United Nations Conference on Trade and Development), which was created in 1964 and which brings together all the member countries of the UN, has the task of promoting their development and integrating them into the world economy. This requires reforming the world system of payments and financing; this is what is proposed by the experts of the UNCTAD (United Nations Conference on Trade and Development), making this proposition at the end of the 1960s (Llau (1965) (2), (1967) (3), (1970)). Other initiatives on the same theme were also envisaged in Africa during the same period (Llau (1967) (2)). In a slightly different vein, Carlos Matus was also interested in the programming of the financing system for his country, Chile (Llau (1968) (2)).

The second type of economy which can be distinguished is the financial market economy, reminiscent of the Anglo-Saxon economies. It is characterized by a low level of indebtedness by private non-financial agents towards the banking system, since they use the financial markets to finance themselves, a low level of indebtedness by banks towards the central bank and a high level of government indebtedness.

Today, the distinction made is rather between intermediated (indirect) and disintermediated (direct) financing; with the concept of debt economy having almost disappeared from the economic and financial vocabulary. It is now less relevant because it is more difficult to clearly distinguish between the two types of financing, because of the considerable weight taken upon by the financial markets, which, especially in Europe, have developed as a result of the initiatives taken by the States.

Indeed, the banking system has become a major player in almost all financial markets, which have become specialist markets dominated by financial intermediaries, governments and a few large companies. Banks have a balance sheet that is extremely sensitive to asset price fluctuations, both on the asset side (securities portfolio) and on the liability side (issuance of securities/shares to increase their stable resources). So, when companies issue shares to finance an investment, banks can buy them and keep them on their balance sheet. The credit support is therefore a security that refers to a market activity, whereas the buyer is a bank, taking us, in this case to indirect financing. Moreover, traditional loans are not always fed (kept until maturity) by the banks. To limit the risks, they can sell them, especially thanks to securitization.

In other words, all the actors of an economy are sensitive to the changes in interest rates. Their control by the central bank is of paramount importance since their level depends on the cost of financing an investment and the return on the savings, and therefore have an impact on economic activity and

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growth. Interest rates are therefore the integration channel between the monetary, financial and real spheres.

It is therefore essential to take them into consideration when analyzing the behavior of economic agents. We must therefore look at the way in which they are theoretically and empirically determined. On the theoretical level, the two founding currents of macroeconomics, the neoclassical current and the Keynesian current, are opposed to each other. In the first case, the interest rate is a real variable (we find the dichotomy between the real and monetary sphere) and in the other, a monetary variable, such that the impact on the economy is obviously fundamentally different, even though in both cases investment is a decreasing function of the interest rate (Llau (1962)). Empirically, the interest rate is not the only variable to be taken into consideration (Llau (1963), (1966) (3)). Other variables, such as the expectations of the economic agents, the growth outlook and the international situation, influence the decisions of all the players in the economy, as could be seen since the subprime crisis, especially in Europe. Indeed, despite an extremely low level of interest rates, private investment has been very slow to pick up, which has necessitated government intervention vis-à-vis companies to encourage them towards investing, and vis-à-vis the banking system, which, for fear of not recovering its debts, had adopted a credit rationing policy.

The functioning of the economy's financing and payment system is thus strongly influenced by the actions undertaken by the State in financial matters, regardless of the country. It is also at the origin of reforms that have considerably modified the functioning of the financial system with the objectives (even if they are not always achieved) of a better functioning of the economy and an improvement in the well-being of the population.

Public finances play an increasingly important role in the economy all over the world. It is therefore impossible to overlook them. Pierre Llau was already convinced of this in the late 1960s, which explains why his researches were oriented towards this subject matter. He insisted on the fact that a State was both a non-financial and a financial agent and that these two functions were linked.

The State ventures on a mission for the general interest and within this framework collects resources (compulsory levies) and incurs expenses. The State must however respect its budgetary constraint to the best of its ability, though this must be second fiddle vis-à-vis the economic balance. Its action thus helps to guide the behavior of all the actors in the economy and works for the development of the country by promoting its growth and improving the well-being of the population.

The State also contributes to the financing of the economy sometimes directly (subsidized loans, subsidies, various tax benefits), but also indirectly by promoting access to financial resources via the financial system. This is how the development of financial markets and financial innovations in Europe, for example, originated. In developing countries, where tax revenues are confounded with export revenues, the latter which also plays a major role since the trade strategy adopted determines the amount of budget revenues. This is the reason why in some countries the state has nationalized its production of raw material(s) and its marketing in order to influence the sector of activity that determines the country's development.

Nowadays, research on public finance economics is much more centered around the public financial economy than on the public economy. This trend is not new, as P. Llau had already pointed it out in the 1970s. It has only become more highlighted. Here, we can see a consequence of the evolution of the world economy, dominated by finance that has become international and by liberalism. Yet, even in this context, the facts show that the state is indispensable to the functioning of the economy and that the shocks suffered can be mitigated by its action.

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ENDNOTES

1. Economie financière (1985), tome 1 : Théorie du système de financement public, p 11
2. Brochier.H, Llau.P et Michalet C.A (1975), introduction p 7
3. p 19
4. Le déficit structurel est le déficit budgétaire hors la charge de la dette publique
5. Se reporter à Brochier, Llau, Michalet (1975), Llau (1985) et Llau (1996), déjà cités

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