

THE INDEPENDANCE OF THE LOCAL PUBLIC FINANCE

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Abstract:

The paper presents the main theoretical and practical aspects concerning local public finance, showing the importance given to the theme in different economies of some developed countries from the European Union. Only by knowing the positive and negative experiences of these countries, Romania could adopt the best system of local public finance, adapted to the realities and characteristics of its own national economy.

Key words: local autonomy, decentralization, public finance

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LOCAL INDEPENDANCE

Nowadays, the local finance holds an essential place into the transformation process of the modern society responsible for the accomplishment of territorial decentralization of the community. In Romania local finances gained an important part into the public finances and they also started to influence the national economy.

Vaclav Klaus considers that „*public finances does not represent but a deep discussion upon the relationship between the individual and the state*”.(Harvey S. Rosen, 2008)

Public finances are „ *the expression of a system of economical division relations, that evolves in form of money between the state and a plurality of individuals – natural persons or legal persons – that assumes the fulfilment of a valuable transfer without having a direct and immediate equivalent, double sense, as a result of the unique purpose of the state, having as a target the public needs gratification.*”(Talpoș, 2001)

According to the Romanian lexicon the term of community determines: „a social group whose members live together or own common goods and who have common interests”. The notion of „local” refers to the characteristic of being territorial limited, restricted, according to the territorial division of the state.

Local communities represent „*human collectivises, territorial restricted from the political and administrative point of view, which have different public authorities from that of the state.*”(Văcărel, 2000, in Mutașcu, 2005).

The term of local community has both a social component marking a group of individuals having common interests who live in the same territorial place and an administrative component, referring to the public authorities from that place and which function on the name of the individuals.

The individuals’ right to participate to the problems management is part of the democratic fundamentals which are common to all the states member of the European Community, and this right can be best exercise on the local level.

European Charter of Local Autonomy defines needful principles for the democratic administrative organization. Local Public Administration is based on local autonomy and on public services decentralization, having a challenge an efficient, transparent and close to the citizens’ administration.

The importance of local communities sequent in the head notes of the European Charter of Local Autonomy, signed by the member states at Strasbourg, in 15th 1985, where it is mentioned that: „*the existence of local communities authorised with effective responsibilities allows an administration both efficient and close to the citizens.*” (Charter of Local Autonomy, 1985)

On the other side, the protection and the consolidation of local power represent an important contribution to the European edification, that promote the democratic principles of power decentralization and assume the existence of local communities led by deliberative and executives members, chosen and instituted in a democratic way, benefiting from a large autonomy regarding attributions, ways of exercising them and the necessary means to fulfil the missions they receive.

Local Autonomy refers to: „*the right and the effective capacity of local public authorities to solve and to manage, according to the law, on their own name and on the interest of local population, an important part of public affairs.*”(Charter of Local Autonomy, 1985).

In Romania, this „*right is exercised by local councils and mayors, as well as by county councils and their presidents, authorities of local public administration chosen by universal vote, equal, direct, secret and free.*”(Law 215/2001 concerning the local public administration)

The European Charter of Local Autonomy shows that a very good local autonomy remains essential for democracy. It is an example for legislative transformation of the new democracy. Some states have already incorporated its principles in their constitutions.

The basic components of the authorities of the local public administration are mentioned in the Constitution or in the law. The authorities of local public administration must state their internal administrative structures, as to adapt them to their specific needs and to assure an efficient management.

The principles that are the bases of the local autonomy are (Hoanță, 2000):

- The existence of specific administrative structures representing the interests of the citizens of that community;
- The state can raise taxes from that community only according to the law;
- The community can do and accept on its territory any activity necessary or wished by the community and which is not forbidden by the law.
- Local finances methods are on the decision of the state, and the accomplishment of mentioned principles is only possible if there is a financing possibility on local level. The state authorizes the right to institute taxes, so that to assure a proper balance between the activities they want to develop and the fiscal sources they have.

As part of the national public budget, local budgets, under the aspects of local autonomy, entered the jurisdiction of the European Charter of Local Autonomy. According to this European document, local communities are guaranteed political, administrative and financial independence.

In the forms of the national law, that of Local Public Finances 273/2006, we find the demand of the European Legislation according to which local authorities have the right to control and administrate, according to the law, on own responsibility, an important part of their judicial problem.

Financial resources of local public administration authorities are according to the following principles mentioned in the European Charter of Local Autonomy:

- Local public administration authorities have the right to proper and sufficient resources, which they can use freely in order to exercise their attributions.
- Financial resources have to be graduated and with competences provided by the constitution or by the law.

- At least one part of the financial resources local public administration authorities have to come from local taxes and contributions, all these being according to the law.
- The taking over systems on which the resources the local public administration authorities have, have to be sufficiently diversified and evaluative as to allow to follow the real evolution of costs.
- Protecting the administrative territorial units – with financial problems involves the institution of financial equalization procedures or of equivalent measures, meant to correct the effects of unequal division of potential financial resources, as well as the fiscal aspect it involves.
- Local public administration authorities have to be consulted, in an adequate manner, concerning the ways of redistributed resources they receive.
- The subvention allocation does not have to get to the fundamental liberties of the local public administration authorities in their area of competence.
- With the purpose of financing their investment expenses, local public administration authorities must have access, according to the law, to the national capital market.

The elaboration of the European Charter of Local Autonomy had as a target the equalization of the lack of common European standards concerning the measurement and the protection of local collectives rights that are closer to the individual, giving him the possibility to participate in the process of decision taking.

From the point of view of the report between the centre and the administrative-territorial units - there are three categories of judicial conditions:

- The form of administrative centralization;
- The form of administrative debauching;
- Local autonomy or the form of administrative decentralization.

a) *The centralized administrative form*, the existence of one category – the state administration – at the level of the only territorial collectively – the state. The administrative structures from the territory are organized, subordinated, named and revocable at the centre. At the same time, they answer to central authorities for all their activities, as they have the status of simple execution agents, subject to hierarchy, and not to the local territorial communities to which they belong.

The administrative players from the territory have the role to report to the central authority the administrative situation in the territory, according to the received orders. Personal initiative can not be put into practice without having the necessary homologation.

Romania had such a centralized administrative structure before 1989, when local decisions were stopped, due to the bureaucracy, and the central authority was blocked due to fact that even the smallest local problem have had to be analyzed and solved on central level. These were partially eliminated by debauching.

b) *The form of administrative debauching*, maintains the characteristics of administrative centralization, except that in the territory, the agents of the state are replaced by administrative authorities, and have proper competences. Administrative authorities are led by persons both named and revoked from the centre, subordinated to this one, responded to this one and who serves the unique public interests of the states. The decision power of debauching administrative authorities mainly refers to minor local aspects, while the most important remain in the competence of the central administration.

By debauching, the administration remains unitary, but no longer uniform in its internality, giving to debauching local authorities the possibility to adapt local particularities to the general measures and orders of the central authority.

The debauching means: „*the redistribution of administrative and financial competences by the ministers and other structures of the central public administration to its own structures from the territory.*” (Law 195./2006)

c) *Local autonomy or the form of administrative decentralization* gives the statute of legal persons of public right to structures, having capacity and proper interests, distinct from those of the centre. The idea of decentralization implies the idea of local autonomy. The administrative decentralization involve: the territorial decentralization and the technical decentralization.

The territorial decentralization is given by the common interests of the individual of a geographical area, part of the state's territory. These interests are different from the national issues, but according to the laws of that state. By the decentralization if the states functions on geographical level we obtain a better efficiency on public services, it allows a better knowledge of individuals' needs and it assures a high efficiency when the public decisions are taken.

On the other side, the technical decentralization assumes the existence of some subject of public right, makes dome services for the state authority, but can not get beyond the state limits imposed by the laws.

The rules that govern the autonomy of local public entities refer firstly to some proper administration structures and to the elaboration of some adequate administrative instruments. The state's capacity to raise taxes is only according to the law. Another issue shows that the community is free to do any activity that is not forbidden by the law as well as local development.

In literature and in practice we find three types of administrative systems (Hoanță, 2000, in Donath, 2004):

1. *the system of complete autonomy*, that offers complete freedom to local communities to administrate its activities, without involvement from the central authorities;
2. *the system of limited autonomy*, according to which local authorities have to deal and solve the main problems of the community, and the central authority has control attributions;
3. *The tutor system*, where the central authority has the general competence in solving the problems of local interest.

FINANCIAL DESCENTRALIZATION

The term decentralization means „*discretionary power of local authorities in deciding upon taxes, expenses and loans*” (Donath, 2004). The decentralization represents „*the transfer of administrative and financial competence from the level of central public administration to the level of local public administration locale or towards the private sector*”. (Law 195/2006).

The financial decentralization also means: „*when the local government gives some specific function on the line of administrative authority and fiscal incomes to the local public authorities.*”(Kee James Edwin, 2001, Mutașcu, 2005).

The main objectives of the decentralization process are the macro-economical stability, the advancement of economical growth, the efficient distribution of financial resources in different geographical areas.

The financial decentralization process has both economical and non-economical motivations. From the economical point of view, decentralization is justified by the fact that some public activities are not of national interest, and the local communities know better the needs of the community and the specific of the area. So, by the attribution they are given, the local authorities can better manage the public money. The non-economic motivations are emphasized by the number of population which can create agglomeration with consequences on the quality of public services.

In the literature there are also other motivations in favour of the decentralization (Hoanță, 2000). The decentralization is a democracy factor towards the state who concentrates the administration power only on the hands of the central authority. The decentralization process allows the citizen to participate in a real way to the options, to follow the process of decision taking and to see representatives and not mandataries.

The distinct organization of public finances on the grounds of financial decentralization allows the reduction of the number of financial flow between the central authority and the local community and the relief of the central finances of a series of expenses.

The decentralization allows a better understanding of the needs of a local member and of the given answers. The decentralization process allows a better control of the public services supply. The decentralization can also be a factor of development in a market economy, by the fact that it creates communication networks, showing the specific resources and allowing a diversified production and it facilitate the cooperation that has to be between institutions, factories and territorial collectivities.

The criteria of the decentralization process, mentioned in Law 195/2006 are:

a) *the subsidiary criteria*, that means the practice of competences by the local public administration authority, at the closest administrative level to the citizen and who has necessary administrative capacity;

According to the Community Law, the subsidiary principle has to assure that the decisions are taken as close as possible to the citizens, as well as the permanent control of the need of actions on communitarian level. It is the principle according to which the U.E. does not take actions (exceptions: the domains that are on its competence) if these are not more efficient than the actions taken on national, regional or local level.

b) *The criteria of assuring the resources according to transferred competences.*

c) *The criteria of responsibility of local public administration authorities according to the responsibilities they receive, that impose the quality standards in supplying the public services and the public unit services.*

d) *The criteria of assuring a stable, predictable, based on objective criteria and rules, decentralization process that will not restrict the activity of local public administration or limit the financial local autonomy.*

e) *The criteria of equity involve the access of all citizens to public services and that of public utility.*

f) *The criteria of budgetary constrain*, that forbidden the use of central public administration authority of special transfers or of subventions.

In the purpose of financial decentralization, according to the literature, we have to keep in mind the following criteria as a request of public financial stability of the country (Donath, 2004, and Cătălin Florian, 2002, and Mutașcu, 2005):

- *The diversity criteria*, according to which the financial decentralization has a lot of forms and different measures, all these given by the differences in the local communities regarding the request of goods and public services.
- *The equivalence criteria in public services financing, explained* on the grounds of geographic benefits they offer to citizens.
- The criteria of accepting the decentralization costs, determined by regional fiscal differences,
- *The criteria of redistribution and centralized stability*, imposed by the fact that some local communities does not have macro-economical instruments for the achievement of national importance objective and some political perspectives;
- *The criteria of the compensation of financial flows between collectivities, due to involuntary incomes transfers* at economical differences and which prejudices the achievement of the expenses programs for some of these. Preventing some of these situations implies the government by applying corrective measure.

- *The criteria of assuring vital social services, according to which this belongs to the central authorities. The Government has to offer the minimum of essential public services (health, social assurance, education) to all the citizens of the country.*
- *The criteria of equitable access to public finance resources, determined by the situation of local collectivities whose balance between needs and fiscal capacity is in deficit, needing the compensation of the minus on resources through governmental transfers, according to a preset chart.*
- *The criteria of the financial balance, according to which the distribution between the levels of local authority of public finance has to assure the management in the limit of attributions and competences.*

The financial decentralization is different from country to country, according to the way of concentration of the state administration and the level of subordination of local authorities to the central jurisdiction and it begins to function beyond the limit where the area of using the public goods starts to restrain, and the comparative cost of taking decisions at central becomes higher (Mutaşcu, 2005). So, Germany has organized the public finances on three levels, while Holland, England and France operates only on two levels, central and local.

THE IMPORTANT OF LOCAL BUDGETS ON THE EUROPEAN STATES

The main instrument through which the financial autonomy is accomplished is the incomes and expenses budget of the administrative unit – local territorial.

The local budgets are components of the general budget, with the state budget, the social state insurance budget, special funds budget, the budget of independent public institutions. The local budget is „*the documents where are mentioned and approved each year the incomes and the expenses of administrative – territorial finance*”.(Law 273/2006)

The local budget are planning and leading instruments of the financial activity of some territorial-administrative units. Their structure reflects the level of autonomy of local administration towards the central power and the links existing between different territorial administrations. Local budgets fulfil several roles depending on the autonomy level towards the central budget. (Donath, 2004)

One of the most important aspects of the state budget is the financial one, according to which the local budgets conscripts and redistributes the financial resources whose volume and nature depend on the laws.

The economical role comes from the involvement local decisional agent in the accomplishment of some economical objectives of social interest, such as: sewerage systems, public illumination, roads and bridges, local transport.

The social role consists of a local fond for under-privileges categories, some needs on education and health, from these resources being paid some expenses for hospitals, nurseries, museums, libraries, etc.

The political part finds itself in the legislative part of local councils, as both incomes and expenses are concerned.

CONCLUSIONS

The importance of local budgets in some European states is shown by the dynamic of local incomes to the level of these countries. This dynamic is studied by

calculating the index that shows the local budgets as percentage from the GDP in some European States and the average of the European Union.

Chart1.Dynamic of local public revenue in some European states and the average UE [% of GDP]

Specification [% of GDP]	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
UE27 (European Union 27states)	10.8	10.8	10.9	11.1	11.1	11.1	11.2	11.3	11.3	12.0
BE (Belgium)	6.2	6.3	6.6	6.9	6.6	6.7	6.6	6.7	6.7	7.1
BG (Bulgaria)	7.5	6.4	7.7	6.2	7.2	6.2	7.0	7.2	7.2	7.3
CZ (Czech Republic)	9.1	9.7	10.6	12.8	12.4	11.8	11.7	11.6	11.1	11.7
DE (Germany)	7.6	7.2	7.1	6.9	7.0	7.2	7.4	7.5	7.5	7.5
ES (Spain)	6.1	5.9	5.9	5.8	5.9	6.0	6.3	6.3	6.0	6.6
HU (Hungary)	11.5	12.0	12.0	13.1	12.4	12.4	12.1	11.6	11.6	11.4
RO (Romania)	4.6	6.6	6.4	6.9	6.8	7.0	8.3	9.3	8.9	9.3

(Source: Annual Government Finance Statistics, Eurostat, 2010)

Image1. Dynamic of local public revenue in some European states and the average UE [% of GDP]

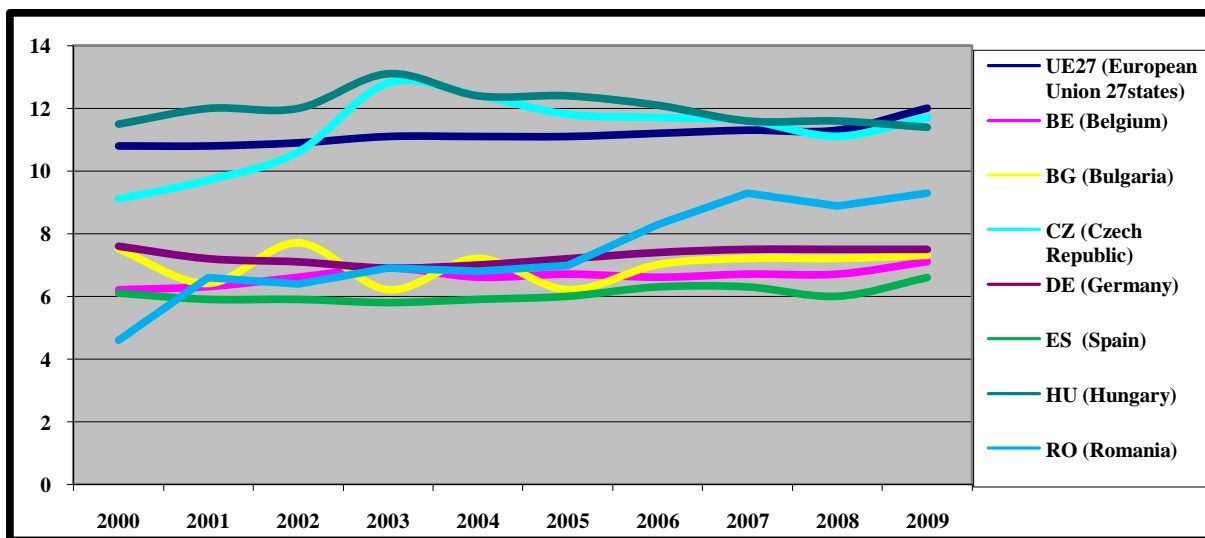


Chart 1. - shows how much represent the local public incomes from the GDP, from 2000 until 2009.

By analyzing Image1 and the data from Chart 1 we can see that the average media of the European Union is relatively constant, between 10.8% and 12.0%. The values of public local revenue as percentage from GDP in Czech Republic (between 9.1 % and 12.8%), Hungary (between 11.4% and 13.1%) is the closest to the average of the U.E. even if in 2003 came to 12.8% for Czech Republic, and 13.1% for Hungary. This can be due to the central position the Czech economy, Hungary also, at the U.E. level from the development point of view.

It is also interesting the oscillating value of the Bulgarian GDP, with multiple developments and decreasing between 6.2 % and 7.7%.

Romania has the smallest value (4.6%) in 2000. In Romania's case we can see the ascendant trend starting in 2001, having the highest point in 2007 – when it has 9.03% from GDP. It is also justified by the positive economical results in that period.

Unfortunately, the effects of the economical crises in Romania are felt since 2008, when we can see a decrease of 0.4%. The data registered in 2009 show an improvement of the situation in Romania's case, when the value goes again to 9.3%.

The average of the European Union grew in 2009, with a percentage of 0.7% from the previous year. The highest growth is registered in countries like Czech Republic and Spain (0.4%), while in Germany the local public incomes remains on a constant level of 7.5%. After studying all these data we can say that during the crises period, the economy of many European countries is based on local resources.

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