

# THE FINANCING OF LOCAL COMMUNITIES IN SOME EUROPEAN STATES

LAURA-RAMONA RĂDUCAN

FACULTY OF ECONOMICS, TIBISCUS UNIVERSITY TIMISOARA, DALIEI STREET, NR.1/A,  
300558, TIMISOARA, laura.raducan@gmail.com

## **Abstract:**

*The financing of local communities is nowadays an important problem in our country. The new governments that have succeeded have tried to find solutions for the balance of poor counties budgets in the detriment of the regions that are "good tax payers" to the national budget, creating dissatisfaction on the local level. The developed European countries have found other ways to solve those delicate problems.*

*This paper presents some of these solutions, which, if adapted to the realities of the Romanian economy, can be applied with positive results.*

**Key words:** public finance, local autonomy, decentralization, local communities

**JEL classification:** H71

Taxation policy is a tool that is at the service of a policy that translates through a certain view on life in common, organized by the constituent parts of the power specialized in public services administration and for these services to be working at full capacity it is crucial that some financial resources be obtained. These resources are meant to cover the general expenses of the company. The revenues are comprised of all the taxes, dues, contributions and the other categories of public revenues that compose the taxation system.

The literature defines taxation as "a system of setting up the state revenues through the redistribution of the national revenue being aided by taxes and dues, regulated by rules." (Minea, 2006)

The financial autonomy of the local communities calls for the creation of some local public financial systems effective, just and correlated with the needs and economic policies at the national level. Within the national economic policy, the authorities of the local public administration are entitled to their own sufficient resources, which they can use freely in carrying out their attributions.

The study concerning the financing of the local communities in some European countries intends to analyze the revenues' structure on the main government levels (central, regional and local), to highlight the public revenues percentage collected from the three levels out of the total revenue. At the same time, this study also intends to analyze the structure of each category of public revenue collected at the local level in each of the studied countries.

## **1) Study on the financing of local communities in Belgium**

Belgium is a federal state having three government levels, namely, the central level, the territorial regions and the communities. If we analyze the data in Chart 1 and the diagrams in Image 1. and 2., we can notice the following:

- minimal annual oscillation for all revenue types around some average values of: 27.4 % for the public revenue of the central budget (minimum 25.9 % – maximum 28.9 %), 13.85% for the public revenue of the regional budgets (minimum 13.2 % – maximum 14.5 %), 6.55 % for the public revenue of the local budgets (minimum 6.2 %

– maximum 67.1 %), 48.7 % for the total public revenue (minimum 47,5 % – maximum 49,9 %);

- minimal annual oscillation for the quotation of all types of revenues around some average values of: 57.15% for the public revenue of the central budget (minimum 54.5 % –maximum 59,8 %), 28.95% for the public revenue of the regional budgets (minimum 27.4 % – maximum 30.5 %), 13.9% for the public revenue of the local budgets (minimum 12.8 % –maximum 15.0 %);

- this minimal oscillation is characteristic for a relatively stable economy of a country developing within an unstable business environment;

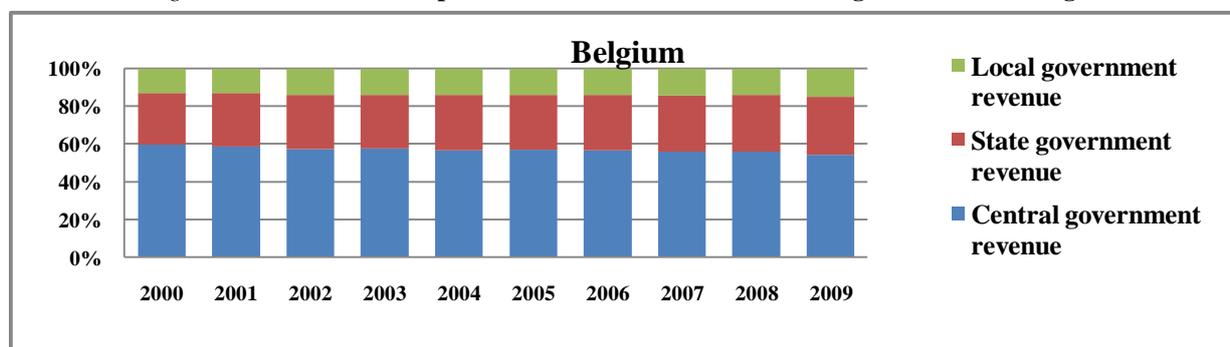
- relatively constant collection of the contributions to the local and central budgets;

*Chart1. Structure and dynamic of local public revenue on different level of government in Belgium*

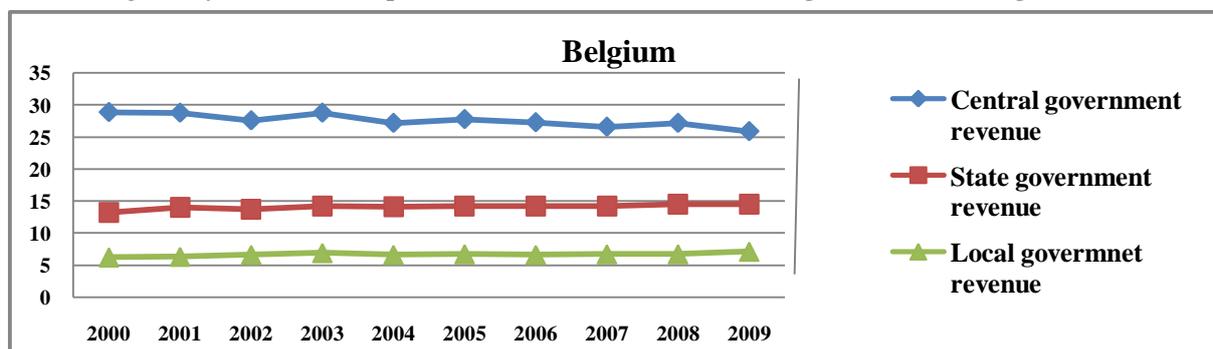
Specification	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>[% of GDP]</b>										
Central government revenue	28.9	28.8	27.6	28.8	27.2	27.8	27.3	26.6	27.2	25.9
State government revenue	13.2	14.0	13.7	14.2	14.1	14.2	14.2	14.2	14.5	14.5
Local government revenue	6.2	6.3	6.6	6.9	6.6	6.7	6.6	6.7	6.7	7.1
Total government revenue	48.3	49.1	47.9	49.9	47.9	48.7	48.1	47.5	48.4	47.5
<b>[% of total government revenue]</b>										
Percentage of central government revenue from total government revenue	59.8	58.7	57.6	57.7	56.8	57.1	56.8	56.0	56.2	54.5
Percentage of state government revenue from total government revenue	27.4	28.5	28.6	28.5	29.4	29.1	29.5	29.9	30.0	30.5
Percentage of local government revenue from total government revenue	12.8	12.8	13.8	13.8	13.8	13.8	13.7	14.1	13.8	15.0

(Annual Government Finance Statistic; Government revenue, expenditure and main aggregates; Eurostat, 2010)

*Image 1. Structure of local public revenue on different levels of government in Belgium*



*Image 2. Dynamic of local public revenue on different levels of government in Belgium*



The Belgian economy, although affected by the whole world crises, recovered relatively quick also due to the enforcing and observing a series of just laws of the market economy, of the existence of an underground economy relatively diminished and of a stable government system.

## 2) Study on the financing of local communities in Bulgaria

Chart2. Structure and dynamic of local public revenue on different levels of government in Bulgaria

Specification	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>[% of GDP]</b>										
Central government revenue	25.1	25.5	24.6	27.9	28.0	29.3	29.4	29.7	29.2	27.0
State government revenue	-	-	-	-	-	-	-	-	-	-
Local government revenue	7.5	6.4	7.7	6.2	7.2	6.2	7.0	7.2	7.2	7.3
Total government revenue	32.6	31.9	32.3	34.1	35.2	35.5	36.4	36.9	36.4	34.3
<b>[% of total government revenue]</b>										
Percentage of central government revenue from total government revenue	77.0	79.9	76.2	81.8	79.5	82.5	80.8	80.5	80.2	78.7
Percentage of state government revenue from total government revenue	-	-	-	-	-	-	-	-	-	-
Percentage of local government revenue from total government revenue	23.0	20.1	23.8	18.1	20.5	17.5	19.2	19.5	19.8	21.3

(Annual Government Finance Statistic; Government revenue, expenditure and main aggregates; Eurostat, 2010)

Image 3. Structure of local public revenue on different level of government in Bulgaria

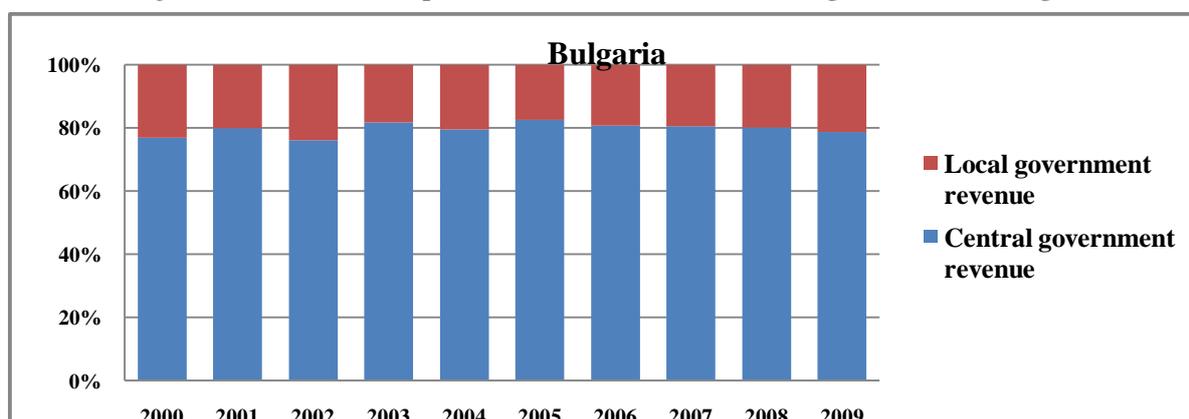
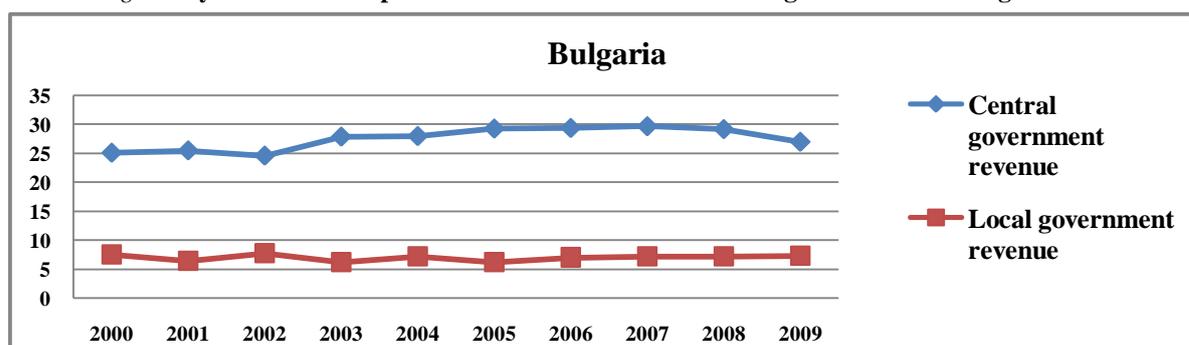


Image 4. Dynamic of local public revenue on different level of government in Bulgaria



The government structure of Bulgaria is distributed on two levels: central and local.

Concerning the public revenues of the central budget we can notice a pronounced growth in 2003 compared with 2002, from the value of 24.6% from the GDP in 2002 to the value of 27.9% from the GDP in 2003. During the crises period we

can notice a decline of the resource assets at the central level from 29.2 percentage points in 2008 to the value of 27.0 in 2009. The situation of the local revenues is relatively constant registering a minimum of 6.2% in 2003 and 2005, and a maximum of 7.7% in 2002.

From Chart 2 we can easily notice an oscillation of the percentage of the public revenues of the central budget, respectively local, out of the total public revenues around some average values of 79.35% for the public revenues at the central level (minimum 76.2% - maximum 82.5%) and 20.65% for the public revenues at the local level (minimum 17.5% - maximum 23.8%). These oscillations can be noticed in Image 4.

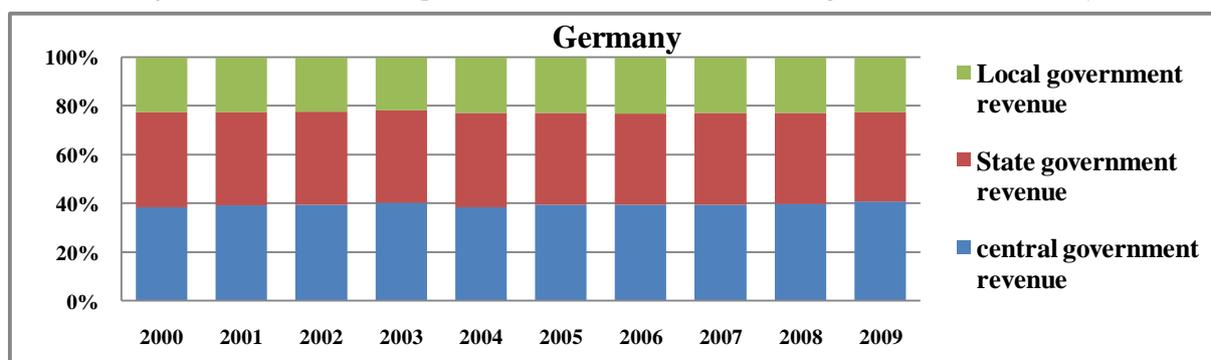
### 3) Study on the financing of local communities in Germany

*Chart3. Structure and dynamic of local public revenue on different level of government in Germany*

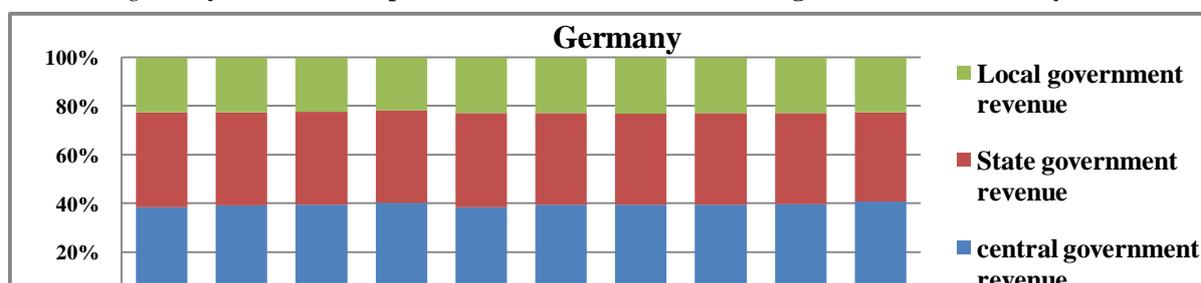
Specification	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>[% of GDP]</b>										
Central government revenue	13.0	12.6	12.6	12.8	11.8	12.4	12.6	13.0	13.1	13.5
State government revenue	13.2	12.3	12.1	12.1	11.9	11.9	12.0	12.3	12.2	12.1
Local government revenue	7.6	7.2	7.1	6.9	7.0	7.2	7.4	7.5	7.5	7.5
Total government revenue	33.8	32.1	31.8	31.8	30.7	31.5	32.0	32.8	32.8	33.1
<b>[% of total government revenue]</b>										
Percentage of central government revenue from total government revenue	38.5	39.3	39.6	40.3	38.4	39.4	39.4	39.6	39.9	40.8
Percentage of state government revenue from total government revenue	39.0	38.3	38.1	38.0	38.8	37.8	37.5	37.5	37.2	36.6
Percentage of local government revenue from total government revenue	22.5	22.4	22.3	21.7	22.8	22.8	23.1	22.9	22.9	22.6

(Annual Government Finance Statistic; Government revenue, expenditure and main aggregates; Eurostat, 2010)

*Image 5. Structure of local public revenue on different level of government in Germany*



*Image 6. Dynamic of local public revenue on different level of government in Germany*



Germany is a federal state that has three levels of administration: federal, land and local. This polycentric structure is characterized by strong historical and political connotations. Each level of the administration has legal autonomy and is, theoretically, independent concerning carrying out the constitutional provisions. Almost three quarters of the federal legislation addresses directly to the lands and local governments and they need to implement it.

Chart 3. shows us the fact that the revenues collected at the central and respectively, regional levels oscillate around the same minimum values (11.8% at central level, 11.9% at lands level) and maximum (13.5% at central level, respectively 13.2% at regional level). At the local level, during the analyzed period, the percentage difference is of 0.7% (minimum 6.9%, maximum 7.6%).

Lately, the ascending trend of the collected revenues is preserved only at the central level. At the lands level there is registered a decrease of the percentage from 37.2% in 2008 to 36.6% in 2009. This declining trend can be seen also in the case of the local revenues, the difference being of 0.3 percentage points (22.9% - 22.6%). This decline of the revenues collected at the regional and local levels is part of the German government strategy to overcome the crises period.

#### 4) Study on the financing of local communities in Spain

Chart4. Structure and dynamic of local public revenue on different level of government in Spain

Specification	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>[% of GDP]</b>										
Central government revenue	19.3	19.1	15.5	14.7	14.4	14.9	15.5	16.2	13.0	10.6
State government revenue	11.3	11.2	12.8	13.3	14.0	14.2	14.6	14.7	14.3	15.3
Local government revenue	6.1	5.9	5.9	5.8	5.9	6.0	6.3	6.3	6.0	6.6
Total government revenue	36.6	36.2	34.2	33.8	34.3	35.1	36.4	37.2	33.3	32.5
<b>[% of total government revenue]</b>										
Percentage of central government revenue from total government revenue	52.7	52.8	45.3	43.5	42.0	42.5	42.6	43.5	39.1	32.6
Percentage of state government revenue from total government revenue	30.7	30.9	37.4	39.3	40.8	40.5	40.1	39.5	42.9	47.1
Percentage of local government revenue from total government revenue	16.6	16.3	17.3	17.2	17.2	17.0	17.3	17.0	18.0	20.3

(Annual Government Finance Statistic; Government revenue, expenditure and main aggregates; Eurostat, 2010)

Image 7. Structure of local public revenue on different level of government in Spain

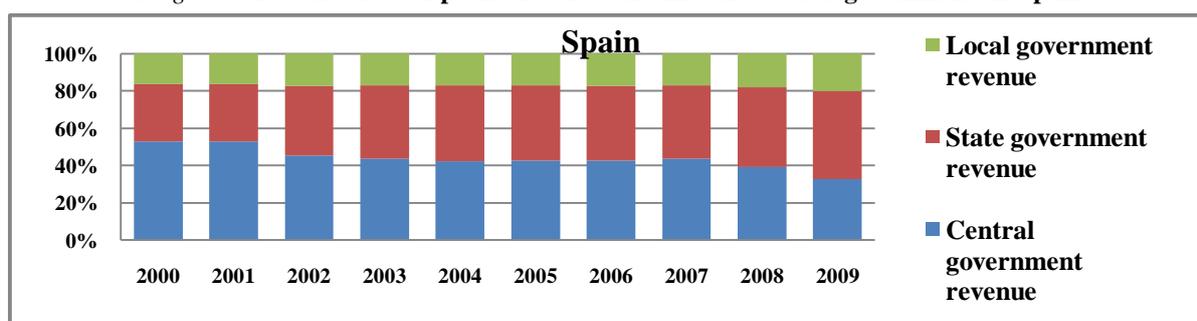
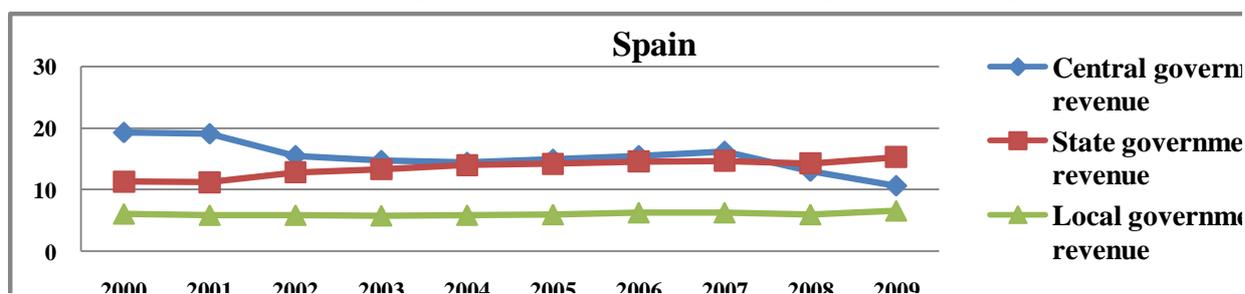


Image 8. Dynamic of local public revenue on different level of government in Spain



According to the Law of the Organization and Functioning of the State General Administration no.6/1997, in Spain there are three levels of political and administrative organization: central, represented by the Spanish state, autonomous, represented by the autonomous communities and local, represented by the municipalities.

In Chart 4 and Image 8 we can see a strong revenues fluctuation at central level. From the maximum registered in 2000 of 19.3% we can see a pronounced decline up to the value of 14.4% registered in 2004. Starting with 2005 the revenues level increased from 14.9% to 16.2%, value registered in 2007. In the following period there can be seen a decline of the revenues up to the value of 13.0% in 2008, respectively 10.6% in 2009. The decline of the local revenues is caused by the economic crises also experienced by the Spanish economy in the recent years.

Chart 4 and Image 7 show us a strong fluctuation of the percentage of the revenues at the central level out of the total revenues, around the average value of 42.7% (maximum 52.8% - minimum 32.6%). The percentage of the revenues at the regional level registers an ascendant trend from the value of 30.7% in 2000, to the value of 47.1% in 2009.

At the local level, the quotations of the local revenues register a minimum oscillation around the average value of 18.3% (minimum 16.3% - maximum 20.3%).

## 5) Study on the financing of local communities in Hungary

Chart5. Structure and dynamic of local public revenue on different level of government in Hungary

Specification	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>[% of GDP]</b>										
Central government revenue	26.8	26.1	25.4	25.4	25.6	25.4	25.8	27.0	29.2	29.5
State government revenue	-	-	-	-	-	-	-	-	-	-
Local government revenue	11.5	12.0	12.0	13.1	12.4	12.4	12.1	11.6	11.6	11.4
Total government revenue	38.3	38.1	37.4	38.5	38.0	37.8	37.9	38.6	40.8	40.9
<b>[% of total government revenue]</b>										
Percentage of central government revenue from total government revenue	70.0	68.5	67.9	66.0	67.3	67.2	68.1	69.9	71.6	72.1
Percentage of state government revenue from total government revenue	-	-	-	-	-	-	-	-	-	-
Percentage of local government revenue from total government revenue	30.0	31.5	32.1	34.0	32.7	32.8	31.9	30.1	28.4	27.9

(Annual Government Finance Statistic; Government revenue, expenditure and main aggregates; Eurostat)

Image 9. Structure of local public revenue on different level of government in Hungary

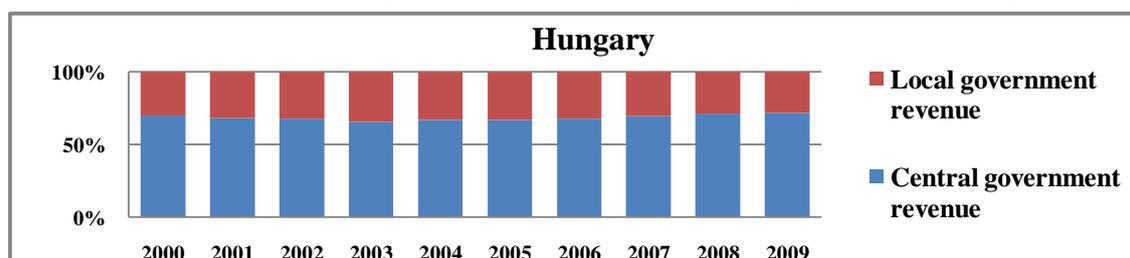
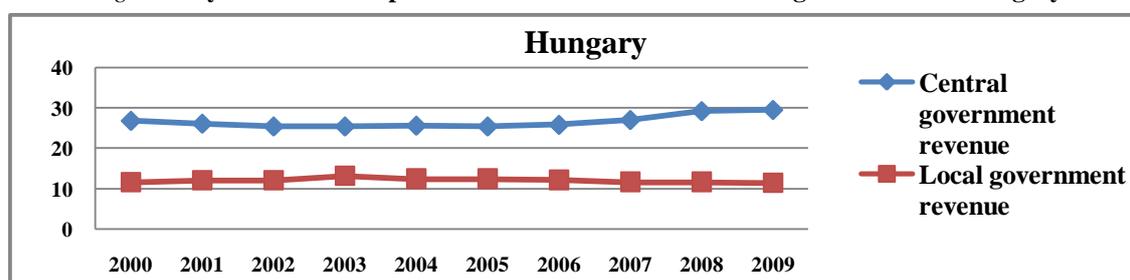


Image 10. Dynamic of local public revenue on different level of government in Hungary



Hungary, a member of the European Union since 2004, has a revenue structure on two government levels: central and local.

Table 12 and Figure 18 show us that the revenues at central level register a decrease from the value of 26.8% in 2000. In the last 4 years we can see a growth up to the value of 29.5% in 2009. As for the percentages from the total revenues, at central level, these oscillate around the average value of 69.05% (minimum 66.0% - maximum 72.1%).

At the local level, there can be seen a minimum oscillation between the minimum value of 11.4, registered in 2009, to the value of 13.1% in 2003. Because of the financial crises, the percentage of the local revenues out of the total revenues registered a decline from 28.4% in 2008, to the value of 27.9 percentage points in 2009.

## 6) Study on the financing of local communities in Romania

Chart5. Structure and dynamic of local public revenue on different level of government in Romania

Specification	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>[% of GDP]</b>										
Central government revenue	22.8	22.0	23.2	23.0	23.7	23.6	23.7	23.7	23.1	22.4
State government revenue	-	-	-	-	-	-	-	-	-	-
Local government revenue	4.6	6.6	6.4	6.9	6.8	7.0	8.3	9.3	8.7	9.3
Total government revenue	27.4	28.6	29.6	29.9	30.5	30.6	32.0	33.0	31.8	31.7
<b>[% of total government revenue]</b>										
Percentage of central government revenue from total government revenue	83.2	76.9	78.4	76.9	77.7	77.1	74.1	71.8	72.6	70.7
Percentage of state government revenue from total government revenue	-	-	-	-	-	-	-	-	-	-
Percentage of local government revenue from total government revenue	16.8	23.1	21.6	23.1	22.3	22.9	25.9	28.2	27.4	29.3

(Annual Government Finance Statistic; Government revenue, expenditure and main aggregates; Eurostat, 2010)

Image 11. Structure of local public revenue on different level of government in Romania

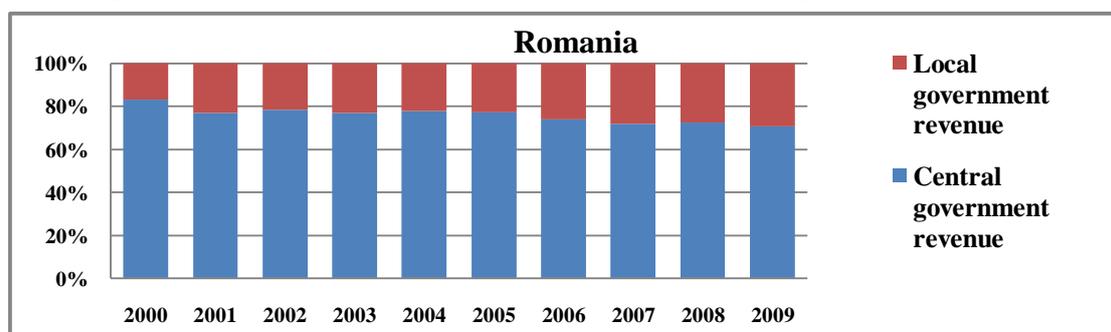
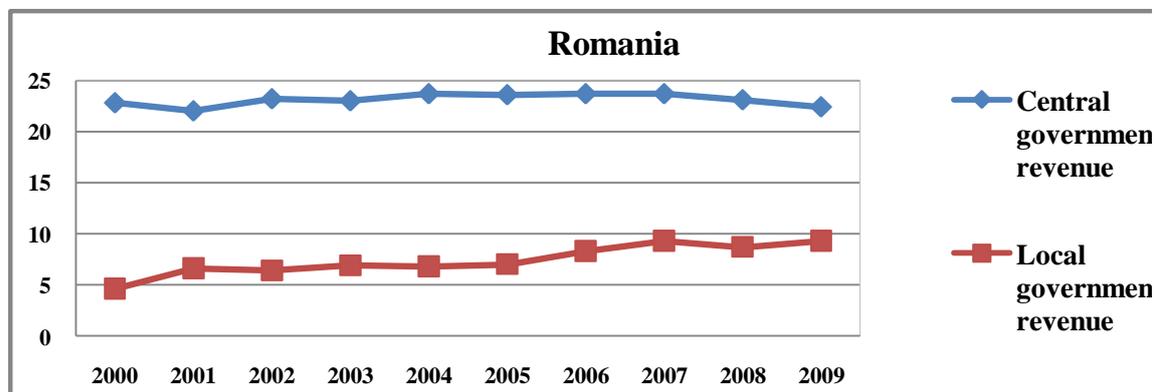


Image 12. Dynamic of local public revenue on different level of government in Romania



Romania has a government structure differentiated on two levels: local and central.

At central level we can notice a minimum oscillation of 1.7 percentage points, from the minimum value of 22.0% to the maximum value of 23.7%. When talking about the percentage out of the total revenues, at central level, a pronounced decline is registered, from the maximum value of 83.2% in 2000, to the value of 70.7% in the last year of the studied period.

Amidst the adhesion to the European Union in 2007 there can be seen a growth of the local revenues in the last years from 4.6% in 2000 to the maximum value of 9.3% in 2009. At the same time, also the percentage of the local revenues out of the total revenues registered a significant growth from the value of 16.8% to the value of 29.3%.

Today's world crises highlights the importance of a good government in the European countries, and also, that it is of great importance that the local and regional authorities to actively participate in the creation and the support of the economy.

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