

THE DECENTRALIZATION OF THE PUBLIC FINANCE IN ROMANIA- PAST, PRESENT AND FUTURE

C. BULGARIU¹

¹ „P. Andrei” University of Iași
e-mail: bulgariuc@xnet.ro

In this paper we have started from the question: why has the financial decentralization of the Romanian public administration not been finished in last 20 years?

To answer this question we have analyzed the financial data available in the Yearbooks between 1990 and 2008 (this work-paper presents the last 10 years) and the legislative proposals delivered in the last 3 years to solve this problem.

Our conclusion is: the politicians, whatever party, are not prepared to administer a real decentralization. The central authorities don't want to give up to privilege of power, and the local authorities, especially from the small towns do not have the capacity to achieve lasting development using a larger public budget.

Key words: *lasting development, public budget, financial decentralization, public authorities.*

Within the context of the present-day economy, where the globalization processes encompass more and more sectors out of an ever-increasing number of national states, the role held by the public authorities is more and more important. The increasingly intensified use of the local budgets to satisfy the current public needs, to the detriment of the way the public budget funds are used, would be required due to the specific features of the local funds, out of which we would like to remind [5]:

- The monetary funds constitute and are used at the level of the territorial administrative units of a state;
- The size of the monetary funds as well as their structure depends on the administrative and territorial partitioning of a state; according to the administrative and territorial structure of a state we can constitute, apportion and use monetary funds on two or three levels of the administrative territorial organization;
- The ways in which the local monetary funds are raised by means of taxes and dues may be differentiated through the taxable matter and the objects that are liable to be taxed;
- The people that are liable to pay local taxes and dues may be the natural and legal persons, stipulated in the general legislation or by orders of the local public administration;
- The monetary funds that constitute and are used at the level of the

administrative and territorial units are managed by the authorities of the local public administration;

- The financial resources that are set in motion and used at the level of the administrative and territorial units depend on the competences and the attributions of the local public administration authorities. Their competences and prerogatives are set by the law. The efficiency of the exercising by the local public administrations is increased since they are directly connected to the needs of the local communities.

The European Charter stipulates the right to local autonomy that legalizes “the right and the effective capacity of the local communities to regulate and administrate, within the legal frame and on their own responsibility, and for the respective population, an important share of the public chores”. According to this principle the local authorities are organized and work independent of the central public authorities, as legal persons that hold and administer a patrimony, draw up, adopt and carry out own budgets, within the legal frame, which enable incomes to be collected from the local tax and duties, and community interest expenditures to be performed.

The local autonomy also implies the “increase of the responsibility when managing the local financial resources, when sizing the expenditures within the limits of the incomes, when reinforcing the control and managing the duty with prudence.”[1]

All these arguments lead to the urgent need of establishing a real financial autonomy of the local public authorities and in Romania. Can we speak of the existence, in Romania, of a decentralization of the public finance 20 years after the Revolution?

MATERIAL AND METHOD

The present material has been drawn up based on the analysis of the data published in the Romanian Statistical Yearbook [3] as well as of the legislation in force, which refers to the public and local budget execution. The result of the survey has been compared with the legislative proposal concerning the financial decentralization in Romania.

The estimates have been based on the one hand, on the evolution of the indexes analyzed so far, as well as of the fields and of their financial dimension, for which there have been already made legislative proposals related to the decentralization of the public services.

RESULTS AND DISCUSSIONS

Analyzing the establishment processes and the ones related to the assignment/ use of the Romanian local budgets funds, we have noticed that there is a tight connection among between them, materialized in the incomes and the expenditures of the local budgets. Seen from a global perspective, this connection may be analysed, in dynamics, by means of the elasticity coefficient of the

performed expenditures against the achieved income. The *figure 1* presents the evolution of the elasticity coefficient for the period between 1998 and 2006.

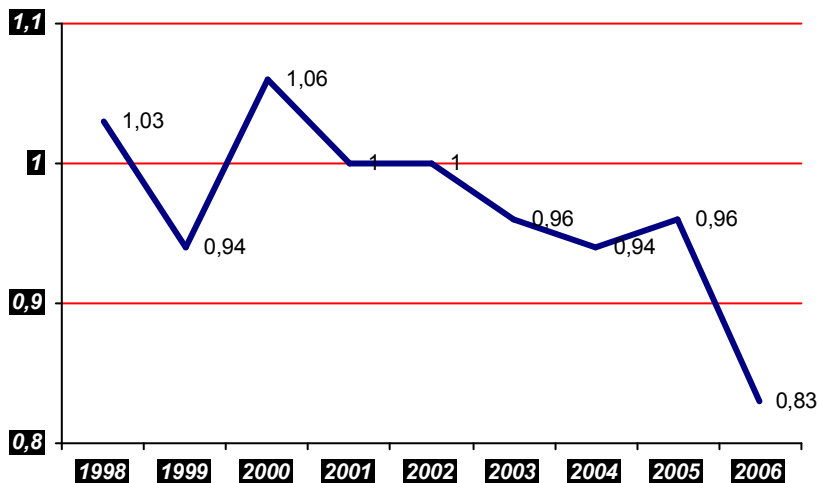


Figure1 The evolution of the elasticity coefficient of the expenditures against the income within the frame of the Romanian local budgets between 1998 and 2006

The general dynamics of the Romanian economy between the year 2000 is also described by means of the elasticity coefficient whose value varied between a supra-unit and a sub-unit, with a very low deviation of ± 0.06 units.

The steady economic growth after the year 2000 has determined a neutral evolution of the elasticity (2001 and 2002), while starting with 2003 the growing rhythm of the incomes surpassed each year the growing rhythm of the expenditures; therefore in 2006 the expenditures increased by 83 units under the circumstances of a 100 -unit increase of the incomes.

Analyzing the whole period and comparing the elasticity coefficient between the expenditures and the incomes falling into the other public budgets, it results that there is a tight correlation between the incomes and the expenditures of the local budgets. This phenomenon is a natural one since the administrative, territorial units use only the funds they can set into motion of their own revenues or from the transfers made from the state budget. The local authorities have closed their financial exercises without accumulating arrears even if they have reduced certain expenditures and have managed to implement the regional and sectorial programmed development programmes.

The only thing that still remains under discussion is the weight each of the two parts holds when raising the local budget fund: personal resources or resources coming from the public budget.

Knowing that the local financial autonomy, according to which the local authority may raise financial resources, is based on a series of principles stipulated into the European Charter, we estimate that it is useful to mention some of them [6]

- The local communities have the right, within the national economic policy to individual resources that are enough, that cannot be used freely, while exercising their prerogatives.
- The financial resources of the local public administration authorities are proportional to the competences stipulated in the constitution or in the law
- Part of the financial resources of the local communities come from ground rents and local taxes whose percentage may be settled by the local communities within the limits set by the law;
- The financial systems that support the resources at the hand of the local communities are diversified and evolutive, to enable a better supervision of the real dynamics of the expenditures.
- The support of the local communities that are weaker financially speaking, need the putting into work of certain correct financial apportioning ways or of some measures meant to correct the effects of the unequal distribution of the possible financing resources without restricting the freedom of choosing in their own responsibility field;
- The apportioning ways of the redistributed resources are set based on a previous discussion with the local communities.

All these principles are meant to delineate as clearly as possible the duties and the competences of the local authorities, both with respect to raising monetary fund's and to their use, rounding up the principles based on which the local budgets are defined. The principle of the budget balance "assumes that the territorial administrative units whose personal incomes do not cover the expenditures benefit of such sums deducted from the income tax, values deduced from certain incomes of the public budget and from transfers" [2]

In terms of course of action in this field we appreciate as a priority that "the emphasis placed on the balancing effort for the benefit of the communities with a low fiscal potential, by means of an increased allotted part out of the income tax. [4]

The result is that the raising processes of the local budgets are part of the general consolidated budget, having important shares within the system of the public financial funds. At the same time, the local sources completed, when necessary, also with funds that are deduced from the public budget create the necessary conditions for the achievement of the active role of the administrative territorial authorities in satisfying the general needs of the local community.

In our opinion the essence resides in the way in which this interdependence is achieved and projected. We should keep in mind the following aspects:

- The contribution of the local funds within the system of the public financial funds depends on the economic power of the respective communities but also on the capacity of the authorities to identify and set to motion all the resources that exist at a given moment. Problems are also raised with reference to the share between the funds that are at everybody's hand and the contributions at the fund of the state budget,
- If the local funds do not cover the real needs of the community, there

appears the need of completing them with funds from the public budget. Such issues are also raised when the achievement of some national interest objective is needed within the local communities.

For solved this problem it must been rational correlated local funds with national budget and recuperated undevelopment economic and social of local communities and insurance growth contribute capacity at public financial fund of cities.

Incomes of local budget growth up in last 10 years as percent in consolidated general budget of Romania (the figure 2)

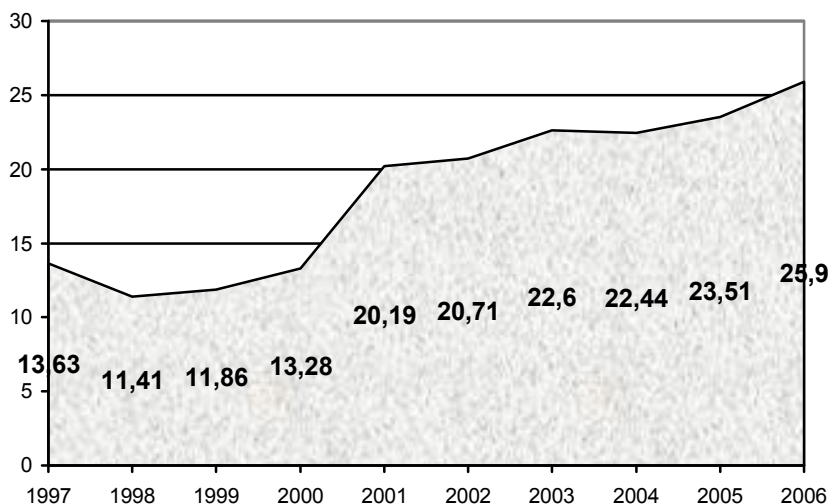


Figure 2 **Evolution weight of incomes local budget in incomes of consolidated general budget in Romania**

From comparative analysis of presented increase with the level of increase from other countries we concluded that evolution would be better. The principal motive for this situations is intermediate stage of decentralize of public finance. I agree that “decentralize wrote in the low is insufficient apply and depend of dignitary capacities to negotiate with state, with all public risks what devolve on this.” [4]

CONCLUSIONS

The analyses of the elasticity quotient of the expenses in comparison to the income of the local budgets , looking at the whole country, shows that there is a balance between the need of financial resources of the public authorities and the resources that are being mobilized. However, this balance is being kept through certain mechanisms of transfer between local budgets and the state budget and not through the capacity of the local budgets to auto-finance themselves.

Furthermore, in latest years , the incomes have increased while the expenses have remained almost the same, thing that might suggest a rise in the financial autonomy . The reality shows that the decentralization initiated by the government starting with the year 2005 has lead to increased responsibilities for the city halls and the local councils but, the financial resources are still coming through the transfers without giving the people there a chance to intervene in the financial plan .There are even situations where certain activities have been passed down to local councils without having a stable financial source, as the case of the community police.

Looking at things from the point of view of the own incomes the local councils make for the general budget, we notice (*figure 2*) that the pace of the decentralization of public finances is a very slow one , especially if we consider that this indicator should be around 60% which is the average of the own incomes the local authorities make for the general budget , referred in the general budget for developing countries.

The main conclusion from the analyses of this evolution is: the central authorities don't want the financial decentralization because that would lower their influence on the local authorities. Under the reason that the local councils and city halls can't manage the administration of the local funds and to create programs to help develop their own areas , as the real reason but, for which there are a number of solutions, the government delays illegitimate the decentralization process.

At the moment in Romania the local authorities don't represent such a strong voice as to make a significant change. This situation is understandable first of all because the mayors of over 11000 towns don't get involved in this process and secondly because the important people in the big cities are all from different political parties and rarely come to an agreement, even if they are aware of the necessity of decentralization.

Considering this analyses, we believe that the decentralization of public finances in our country, although it will have an increased pace in the next period, will not be finished in either this or the next legislation.

BIBLIOGRAPHY

1. Filip, Gh., coordonator, 2001 – *Finanțe*, Editura Sedcom Libris, Iași, p. 289.
2. Profiroiu, M., coordonator, 2005 – *Reforma administrației publice în contextul integrării europene*, Institutul European din România, București, p. 53.
3. Voinea, GH., 2002 – *Finanțe locale*, Editura Junimea, Iași, p. 41.
4. * * * – *Anuarul statistic al României* pe anii 1998 – 2008.
5. * * *, 1997 – *Legea nr. 199/1997 pentru ratificarea Cartei europene a autonomiei locale*, Monitorul Oficial al României, nr. 331/21.11.