

**THE DECENTRALIZATION PROCESS IN ROMANIA HAS
BEEN AFFECTED BY THE FINANCIAL CRISIS OR NOT;
ARGUMENTS IN FAVOR OR AGAINST
DECENTRALIZATION IN THE MANAGEMENT OF THE
FINANCIAL CRISIS**

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ABSTRACT: *Typically, the decentralization process is extremely complicated and involves many challenges, if we were to take into account local conflicts, the interests of the central government and the complexity of simultaneous decentralization in administrative, political and economic plan. The financial crisis has added another dimension to the complexity of this phenomenon, misbalancing the economy and creating a fiscal pressure both at central and local level. In this context it rises the problem whether the management of the financial crisis can be better realised within a decentralized system or whether it may lay pressure on the return to the centralized government form.*

KEY WORDS: *financial crisis; decentralization; centralization; local budget; local budget; local revenues.*

JEL CLASSIFICATION: *H71G01*

1. GENERAL TRENDS OF GLOBAL CRISIS MANAGEMENT

The financial crisis has given rise to problems at the governmental level, or more, served as a pretext for latent conflicts that have now surfaced. The crisis that affected most countries a few years ago resulted in a concentration of power in the Ministry of Finance, and generated control at this level which was maintained since then until now. Centralizing this control was justified as a necessary measure to resolve

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the problems generated by the crisis locally manifested by high unemployment and social needs, as well as difficulties in financing investments.

When a crisis occurs, regardless of its nature, usually the central government exercises control over policy and seeks to impose its priorities in management. Therefore, we can expect that the usual reaction to the crisis is the move of power to the center.

On the other hand, crisis management requires general consensus or at least certain solidarity among citizens and decentralization can be a useful tool in this regard. If the state must take extreme political initiatives, then local governments should get more involved. Also, in times of crisis, the cooperation between central and local authorities is very important.

Currently there are very few studies on the effects of the financial crisis in countries where decentralization process has been implemented. In this situation, governments have several options: they can either keep the established course, engage in an accelerated rhythm of decentralization (e.g. Cambodia), implement fiscal stimuli (Indonesia), etc. Moreover, central governments might use the financial crisis as an excuse to reduce subsidies to local governments. The need to manage the financial crisis that put pressure on the idea of returning to the centralized government is a reaction against the general trend towards decentralization.

For example, "Great Britain that has tended to centralization in government policy has experienced a broad movement toward centralization during the crisis to hold control over the new situation. Also, Finland has managed the crisis by adopting a slightly centralized form of government. On the other hand, Sweden has maintained the tradition of involvement of local authorities in the decision-making at governmental level. Slovenia, which developed a complex of coordinating committees, emphasizing a strong decentralization, is at the other extreme.

A direct effect that the financial crisis had and continues for most countries is this movement of oscillation between centralization and decentralization. It can be said that this problem is one of the classic dichotomies that arises along with the study of public administration in general. On the one hand, centralized government supposes uniform and equal standard, but places the weight of financial and organizational responsibility to the state authorities. On the other hand, decentralization allows the government to share financial and organizational responsibilities with local governments, but also deprives the State of the opportunity to exercise direct control.

2. ARGUMENTS IN FAVOUR OR AGAINST DECENTRALIZATION

Even if it is generally agreed on the fact that decentralization is almost in every case an eminently political process, and that political processes are seldom promoted such as they are, or mainly only from economical reasons, such as the case of federalization from ethnical reasons, it is compulsory that, in the end, the decentralized system government should be able to provide public services that are less expensive or of better quality, or „closer to the citizens' preferences" than the ones provided by a centralized system.

What between 1980-1990 were considered the main advantages of decentralization, (the possibility of adapting the local politics to the needs of the citizens within the respective region, the direct link between revenues and delegation of responsibilities, the provision of efficient local services due to the exact identification of the citizens needs, a direct involvement of the citizens in the local politics, a more efficient allocation of public goods and services, the support of the democracy, a local economic development), are at present quite controversial issues.

Despite the fact that both developed and developing countries have presented a trend towards decentralization, at present, there are clear proofs in favour of the idea that some governments come back to the initial tendency towards a centralized system (Popkewitz, 1996, pp.27-51; Regulska, 1997, pp.187-207). For instance in Netherlands, one takes prudent measures towards recentralization. In this respect, there are researchers that pronounced themselves either in favour or against decentralization, as one may notice from Figure 1.

In favour: Oates (Oates, 1972, p.35), Imman and Rubinfeld (Imman & Rubinfeld, 1997, pp.43-64), Mello (Mello, 2000, pp.365-380). Against decentralization: Prud'homme (Prud'homme, 1995, pp.201-220), Tanzi (Tanzi, 1995, pp.295-316), Treissman (Treissman, 2002), Rodden (Rodden, 2002, pp.670-687), Rodriguez-Pose and Gill (Rodriguez-Pose & Gill, 2003, pp.1477-1492). Since theoretical arguments give birth to some ambiguous answers concerning decentralization or centralization, and the fact that the theoretic convincing answer to the question whether adopting centralization or decentralization is or not a correct decision, depends on a series of factors, one may wonder whether this theoretic debate loses some essential elements. In my opinion, there are two things that are missing. First of all an analysis of the development of the decentralization process seen from a historic and comparative perspective, and secondly, to pronounce in favour or against decentralization is also a subjective issue. The opinions of the actors directly involved in such processes may reveal important ideas about decentralization that have not been taken into account yet.

Thus, the problems generated by the crisis can thus be solved by transferring revenue collection responsibility to local level, or by recentralizing expense skills. The first option is more desirable to keep the decision-making closer to the citizen in a democratic manner. This is much more difficult in a poor economy where local governments are unable to raise their own revenues" (Boschamann, 2009, p.83).

3. EFFECTS OF ECONOMIC CRISIS ON THE DECENTRALIZATION PROCESS IN ROMANIA

In Romania, the economic crisis has influenced pretty much the revenues and expenses of local budgets. Although decentralization reform was under development when the crisis appeared, central authorities have decided to continue this process, in spite of reduced funding opportunities for new tasks delegated at the local level. Thus in 2010, 374 public hospitals have been decentralized. Local authorities co-finance part of the investment, repair and endowment costs (O.U.G.no.48/2010). Also in 2010, the local police replaced the community police, but funding remained the

same, the costs of establishing and operating being covered from the local budget. In 2011 important news regarding the responsibilities of local authorities in the organization, operation and financing of schools were brought, in the sense of decentralizing the competences (Law no.1/2011). Core funding of schools was provided from the state budget, based on cost standards per student. Other expenses, respectively complementary and supplementary funding, were provided in a combined manner from the state budget and local budgets (Agenda of Communes in Romania - 2012).

In terms of revenue, as it can be seen in Table 1, along the occurrence of financial crisis, these have diminished. The weight of own revenues in total local revenues declined. At the beginning of the crisis, in 2008, own revenues accounted for 90.03% of total local revenues, and in 2012 their weight reached 84.11%. It is found that tax revenues have the largest weight in own revenues in the period under review since the economic crisis affected the state transfer of the amounts deducted from the VAT and the quotas from income tax. In 2012 compared to 2011, the weight of subsidies in total revenues of local budgets decreased by 3.76 percentage points (from 12.58% to 8.82%). Contrary to the downward trend in the other categories of revenues, the economic crisis seems not to affect non-tax revenues. Although their weight in total revenues is not significant, there is a spectacular jump of this category of revenues from 2.97% in 2008 to 18.49% in 2012.

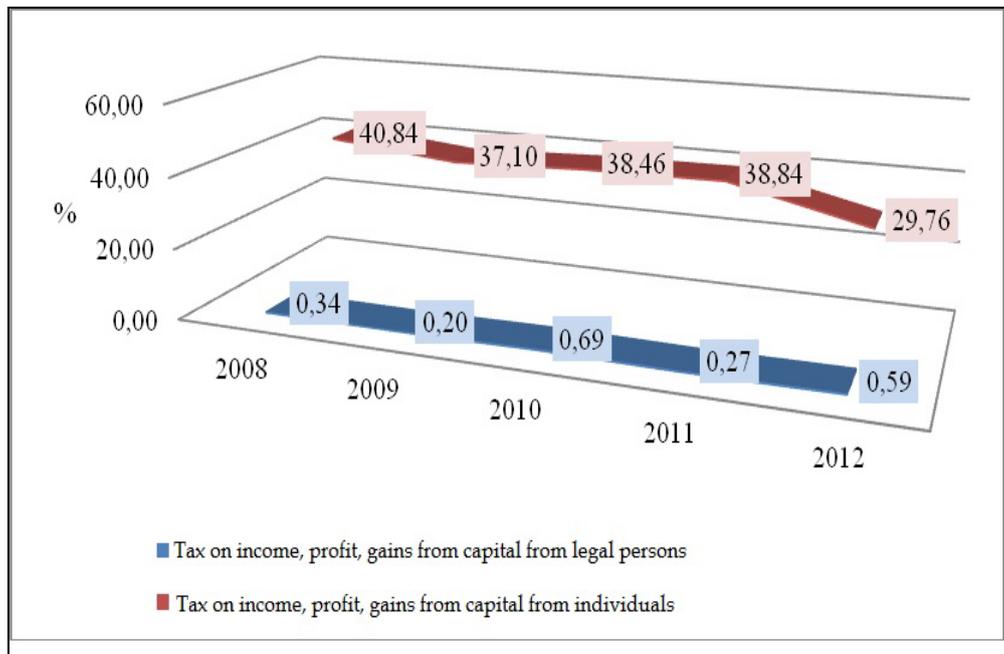
Table 1. Evolution of certain categories of revenues in the local budgets centralized at the country level during 2008-2012

		2008	2009	2010	2011	2012
Total revenues	mil. lei	43629,10	42817,90	43902,80	44671,10	43453,00
	%	100,00	100,00	100,00	100,00	100,00
Own revenues (without quotas from income tax and the amounts deducted from VAT)	mil. lei	39280,60	38435,60	36362,90	35587,80	36547,80
	%	90,03	89,77	82,83	79,67	84,11
Tax revenues	mil. lei	37348,00	36731,60	34523,50	33023,50	28287,80
	%	85,60	85,79	78,64	73,93	65,10
Non-tax revenues	mil. lei	1295,30	1342,90	1547,50	2169,10	8033,80
	%	2,97	3,14	3,52	4,86	18,49
Capital revenues	mil. lei	639,30	361,10	292,00	395,20	226,20
	%	1,47	0,84	0,67	0,88	0,52
Subsidies	mil. lei	4345,10	4379,20	5294,80	5619,70	3834,20
	%	9,96	10,23	12,06	12,58	8,82
Amounts ded. from VAT	mil. lei	18644,80	14988,10	14982,80	13175,40	11682,00
	%	42,73	35,00	34,13	29,49	26,88
Quotas and amounts ded. from income tax	mil. lei	14250,20	15004,50	14327,20	14242,00	11686,10
	%	32,66	35,04	32,63	31,88	26,89

Source: *Statistic Annuary of Romania, 2010*, www.dpfbl.mai.gov.ro (Direction for Local Tax and Budget Policies)

The way in which the economic crisis affected the overall financial capacity of territorial administrative units, translates mainly by the taxes from the incomes of individuals and legal persons. Especially in the case of legal persons, “according to the White Paper on SME’s, considering the development of activity in this sector during October 2008 - March 2012, we may observe that 35,4% of the companies, have reduced activity; 50,57% of the units operate at the same parameters and 14,02% of the companies have led an upward trend, in the sense that they have increased their activity (White Paper of SME’s 2012). In this context, we can see that the economic downturn has affected a large part of the Romanian companies, and only a small percentage managed to consolidate and develop their business” (Fleşer & Criveanu, 2012). All this has a direct impact on the revenues obtained from local taxes and duties.

Thus, to better study the effects of the economic crisis on local budgets, an analysis of the weight of taxes on income, profits and capital gains from private individuals and legal persons in total revenues in the period 2008 – 2012 was carried out, as it can be seen in Figure 2.



Source: *Statistic Annuary of Romania, 2010*, www.dpfbt.mai.gov.ro (Direction for Local Tax and Budget Policies)

Figure 2. Weight of taxes on income, profit and capital gains from private individuals and legal persons in total revenues

Income tax from private individuals has an important contribution to the formation of local revenues, a contribution that had a downward trend during the period under review, from 40.84% of the total in 2008 it reached to 29.76% of the total in 2012. Thus, the weight of income tax from private individuals in 2012 decreased by

11.09 percentage points compared to 2008 and by 9.09 percentage points compared to 2011. Income tax from legal persons (profit tax) is an insignificant source in the formation of local revenues. In the period 2008-2012, this contribution has fluctuated, the highest value of 0.69% occurs in 2010 and the lowest 0.20% in 2009. The weight of income tax from legal persons in 2012 compared to 2008 increases by 0.25 percentage points, and by 0.31 percentage points compared to 2011.

Although the impact and effects of the crisis are large at economic and social level (closing a large number of SMEs, increasing pressure on the unemployment fund and social benefits) the decentralization process supported by increased financial autonomy must be continued but this should be done with caution, given the economic problems Romania is facing.

In conclusion, after the analysis of the evolution of local revenues in recent years, one can not say with certainty whether the phenomenon of the crisis will have a steady trend affecting the overall course of decentralization reform.

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