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LOCAL BUDGETS – MORE DECENTRALIZATION, MORE EFFICIANCY[14]

Assoc.Prof. KameliaAssenova
Department of Economics
“Angel Kanchev” University of Ruse
E:mail:kassenova@uni-ruse.bg

Abstract: *The expansion of the fiscal powers of the municipalities in Bulgaria in order to use the resources more efficiently and satisfy needs remains a partially realized goal.*

The goal of every economic policy is improving well-being of all citizens in the country. It requires high and sustainable economic growth, low unemployment, rising incomes and an equal level of satisfaction with public goods in all regions of the country. The local budgets together with the government public expenditures make possible achievement of these goals. It requires to put in the practice all instruments for increasing the efficiency of public expenditure incurred by local authorities. At the same time, these subjects must have economic interest to realize more local budget revenues and resources to remain at their disposal. The centralized decision-making leads to inefficiency. The public goods provided in all parts of the country and for all citizens must be in accordance with their needs and approximately the same quality. The data for Bulgaria for the period 2010-2019 shows a strong redistribution of the own revenues of the municipalities and they have no interest to raise them. Local public spending is not dependent on revenue accumulated. This situation requires changing the relations between government and local budgets and put in the practice financial equalization by transferring some of the tax revenues to municipalities.

Keywords:*State and Local Government, Fiscal policy and behavior of Economic Agents*

JEL Codes:H7, H3

Introduction

The expansion of the fiscal powers of the municipalities in Bulgaria in order to use the fiscal resources more efficiently and satisfy the needs more fully remains a partially realized goal.

The goal of every economic policy is the improving the well-being of all citizens in the country. It requires high and sustainable economic growth, low unemployment, rising incomes and an equal level of satisfaction with public goods in all regions of the country. The local budgets together with government’s public expenditures support the achievement of these goals. It requires put in the practice all instruments of increasing the efficiency of public expenditure incurred by local authorities. At the same time, these subjects must have an economic interest in increasing revenues by local budgets and remaining at their disposal. Fiscal decentralization addresses all of these local budget management issues.

Exposition

The local self-government is the basis for the development of local finances. The local budgets are their main instruments. They are part of the financial system of the country. Some of the public financed goods are locally restricted in their consumption. They are mostly consumed by a group of people living on same territory. The spatial limitations of local goods and their specific features in different regions require local organization and financing of their supply.On the other hand, local authorities can mobilize much more resources and discover new sources at regional level, knowing the local specifics. Creating stimulus to accumulate more revenue and spend more efficiently expenses is a key objective of financial decentralization.

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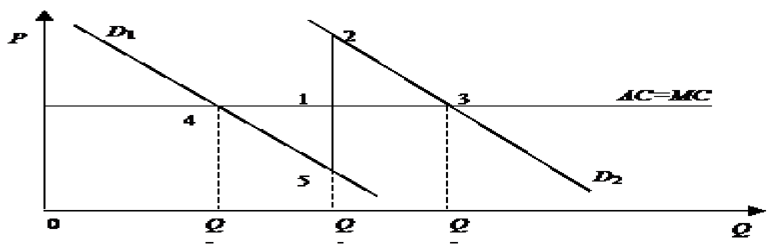
The study is based on decentralization theory of Oates. According it, centralized decision-making leads to inefficiency. The consumption of local public goods is done by a geographically localized subgroup of the population. For them, the production costs at each level of production in each administrative-territorial subject are equal and as the costs of the central government. Let's it suggests the population of a country is divided into two clearly defined regions. Benefits and lost from movement between the regions do not exist. Production of goods is with a constant return. The demand of public goods of favorable represent from the second region is higher than from the first. In the case of a decentralized decision, the level of benefit will be determined by the marginal cost for represents Q_1 and Q_2 for first and second regions. In the case of a centralized solution, the average level of production of the public good Q_0 will be chosen (in principle it may be weighted average or otherwise determined, it is important it be between those levels that will be established in different regions with a decentralized solution). This level of public goods will be provided in each region.

Graph 1



The areas of triangles 123 and 145 show the loss of well-being of the central decision-makers, respectively, of the residents of the second and first regions.

1.Model

Based on Oates's decentralization theory, it was created a model incorporating several indicators. First of them is local public expenditure on revenues, giving us measure if the costs incurred depend on tax and non-tax revenues on the local budget or on transfers from the central budget. Here, we note that local public needs must be met in each municipality. At the same time, local authorities should be interested in increasing budget revenues and keeping them in the region.

$E_1 = \frac{PE}{Tax}$

Where

E_1 – PE per 1 BGN local own revenue

PE – Public expences by local budgets

Tax – tax and non- tax revenue by local budgets

On the other hand, the expenditures in the region should lead to an increase in the municipality's own revenues, a greater supply of public goods and a better satisfaction of the needs in region. Therefore, we will also calculate the inverse coefficients - impact of local public expenses on own revenue.

$E_2 = \frac{Tax}{PE}$

Where

E_2 – local own revenue per 1 BGN made PE

Tax – tax and non- tax revenue by local budgets

PE – Public expences by local budgets

A part of costs have only effect in the period they are made. Such are the costs of salaries, social security and maintenance. Others, such as capital expenditures, have a multiplier effect and in several periods.

$E_3 = \frac{CPE}{Tax}$

Where

E_3 – Local capital PE per 1 BGN local own revenue

CPE – capital public expenditure by local budgets

Tax – tax and non - tax revenue by local budgets

$E_4 = \frac{Tax}{CPEt-1}$

Where

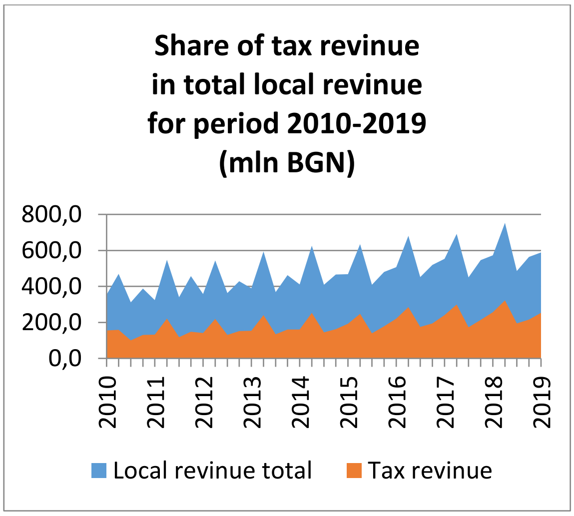
E_4 - local own revenue per 1 BGN local capital PE in previous period

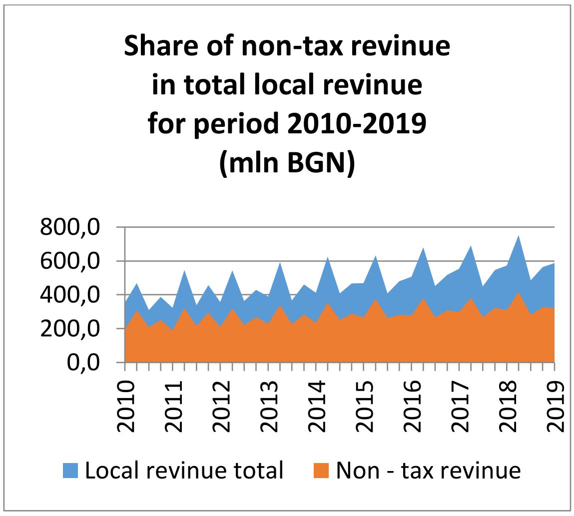
Tax – tax and non - tax revenue by local budgets

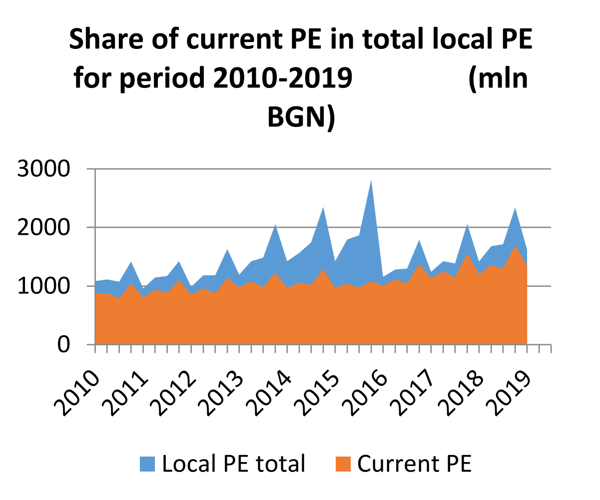
CPE_{t-1} –capital public expenditure by local budgets in previous period

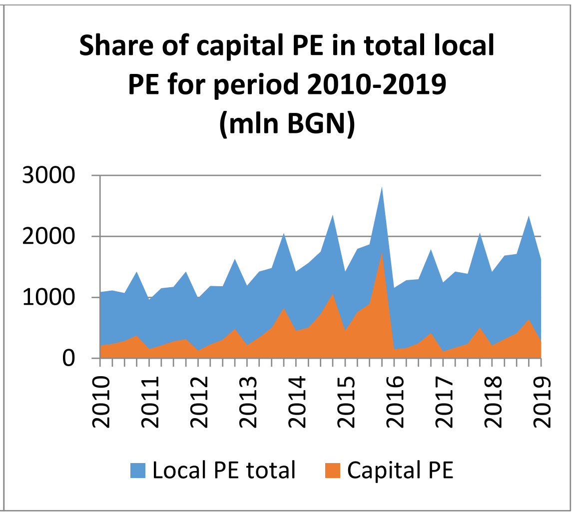
2. Data

Graph 2









3. Results

Table 1 Local public expenditure per 1 BGN local own revenue

Year	Q1	Q2	Q3	Q4
2010		2,37	3,45	3,66
2011	2,96	2,10	3,46	3,11
2012	2,77	2,17	3,27	3,79
2013	3,06	2,40	4,03	4,45
2014	3,46	2,51	4,27	5,04
2015	3,08	2,83	4,57	5,88
2016	2,28	1,89	2,87	3,45
2017	2,25	2,05	3,08	3,77
2018	2,47	2,23	3,52	4,15
2019	2,76			

Table 2 Local own revenue per 1 BGN made PE

Year	Q1	Q2	Q3	Q4
2010		0,42	0,29	0,27
2011	0,33	0,48	0,29	0,32
2012	0,36	0,45	0,31	0,26
2013	0,32	0,42	0,25	0,22
2014	0,29	0,40	0,23	0,20
2015	0,33	0,35	0,22	0,17

2016	0,44	0,53	0,35	0,29
2017	0,44	0,49	0,32	0,26
2018	0,40	0,45	0,28	0,24
2019	0,36			

Table 3 Local capital PE per 1 BGN local own revenue

Year	Q1	Q2	Q3	Q4
2010		0,51	0,91	0,96
2011	0,48	0,38	0,82	0,69
2012	0,36	0,41	0,84	1,13
2013	0,56	0,57	1,36	1,79
2014	1,10	0,81	1,78	2,27
2015	0,97	1,19	2,18	3,63
2016	0,29	0,25	0,55	0,80
2017	0,20	0,24	0,52	0,93
2018	0,37	0,42	0,85	1,14
2019	0,47			

Table 4 Local own revenue per 1 BGN local capital PE in previous period

Year	Q1	Q2	Q3	Q4
2010		2,20	1,31	1,36
2011	0,86	3,53	1,62	1,63
2012	1,12	4,22	1,61	1,41
2013	0,80	2,74	1,08	0,93
2014	0,50	1,37	0,81	0,64
2015	0,44	1,40	0,54	0,53
2016	0,29	4,65	2,65	2,07
2017	1,33	6,22	2,61	2,29
2018	1,13	3,53	1,53	1,37
2019	0,92			

Common trends for all local budgets observed are:

- Large redistribution of funds between central and local budgets. The public expenditures by local budgets depend less from own tax and non-tax revenues. The expenditures per 1 BGN own revenue change for period 2010 - 2019 from BGN 1.89 in Q2 2016 to 5.88 in Q4 of 2015.
- The local public spending made does not lead to increasing of local budget revenues. They range from BGN 0.17 of own revenues per 1 BGN of PE made in Q4 2015 to 0.53 in Q2 of 2016. For local authorities lack interest to increase their revenues, because they know they will be redistributed. Most of the local public spending depends on the central budget.
- Unequal distribution of revenue and of expenditure quarterly - lowest first quarter, strongest fourth quarter. It does not allow the potential effect on product made in the region to be realized.
- The capital expenditures from the previous period generate more own revenues for the municipality in the current period.
- Elasticity fluctuates widely for all ratios, indicating local public expenditure is not dependent on own revenues. And the costs made do not lead to better satisfaction with public needs, higher economic growth and increase of own revenues.

Conclusion

The goal of every economic policy is improving well-being of all citizens of a country. This requires high and sustainable economic growth, low unemployment, rising incomes and an equal level of satisfaction with public goods in all regions of the country.

The study is based on decentralization theory of Oates. According it, centralized decision-making leads to inefficiency. The public goods provided in all parts of the country and for all citizens must be in accordance with their needs and approximately with the equal quality. The data for Bulgaria for the period 2010-2019 shows a strong redistribution of the own revenues of the municipalities, destroying their interest to work for raising. The local public spending is not dependent on revenue generated in the region. It requires new local budget policy and switching to financial equalization by transferring some of the tax revenues to municipalities.

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