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THE REVENUE AUTONOMY OF SELF-GOVERNMENTS IN SELECTED EU COUNTRIES

The subject of this article is the analysis of self-governments' revenue autonomy in Poland and other selected EU countries. As an indicator we have chosen a share of own revenue in the structure of the whole self-governments' revenue. For our research we would like to chose such countries which are comparable to Poland as regards their population, area and GDP. As the result, Spain, The Netherlands, Belgium, The Czech Republic, Hungary, Greece and Portugal have been chosen. Research reveals diversity of self-governments' revenue autonomy level in these countries. A particularly high level of revenue autonomy is found in Spain, where over half of self-governments' revenue is own revenue. In the case of some countries (Belgium, The Czech Republic, Hungary and Portugal) the share of own revenue in the structure of whole self-governments' revenue exceeds 30%, but is lower than 50%. The lowest level of self-governments' revenue autonomy is in The Netherlands and Greece. The Polish solution is compliant with the decentralized fiscal authority models as well as with centralized fiscal authority models.

Keywords: local and regional self-governments, self-governments' revenue autonomy, justice in spatial aspect, fiscal federalism

JEL codes: H41, H 71, H72, H77

1. INTRODUCTION

Self-government is an important element of contemporary modern states. Its basic attribute is independence, which has many aspects. Full implementation of independence rule is guaranteed by financial independence. This may concern revenue or other expenditure of local and regional governments. We can also distinguish public credit autonomy. The problem of financial autonomy of self-governments is considered in many streams of economic thought. One of the leading theories connected with financial autonomy is fiscal federalism, explaining how and why governments have to share their financial authority.

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In the second section we briefly show the concept and aspects of self-government fiscal autonomy in the light of contemporary literature and Council of Europe law. We present a set of self-governments' revenue autonomy indicators as well. The third section enumerates reasons for self-governments' revenue autonomy implementation. The following section presents the countries in question, periods and methods of research. In the fifth section we carry out a comparison of self-governments revenue autonomy in the chosen countries. The last section briefly shows the final results and comparison of self-governments' revenue autonomy models.

2. CONCEPT AND ASPECTS OF SELF-GOVERNMENT FISCAL AUTONOMY

The essence of self-government has been object of many controversies in economic and law theory. In contemporary literature the most important role in explaining the relationship between self-governments and states is played by two theories – the naturalistic theory and state theory. Researchers who prefer the naturalistic theory perceive self-governments as independent organizations. They think self-governments are older than the state. Local and regional governments present an area of freedom, protecting citizens from central government's dictate [Bigo (1990)]. The starting point of state theory is state sovereignty rule. The essence of self-governments is execution of state power granted by central government. Self-governments' independency is limited only by legal regulations. Panejko (1990) defines self-government as decentralized public administration executed by local and regional communities and their institutions, which are not subordinate to other institutions and independent under legal regulations.

Essence of self-government has been defined in international treaties such as European Charter of Local Self-Government and European Charter of Regional Self-Government. The former defines the concept of local self-government as the right and the ability of local authorities, within the limits of the law, to regulate and manage a substantial share of public affairs under their own responsibility and in the interests of the local population. This right shall be exercised by councils or assemblies composed of members freely elected by secret ballot on the basis of direct, equal, universal suffrage, and which may possess executive organs responsible to them. This provision shall in no way affect recourse to assemblies of citizens, referendums or any other form of direct citizen participation where it is permitted by statute. The last Charter states that regional self-government denotes the right and the ability of the largest territorial authorities within each State, having elected bodies, being administratively placed between central government and local authorities and enjoying prerogatives either of self-organization or of a type normally associated with the central authority, to manage, on their own responsibility and in the interests of their populations, a substantial share of public affairs, in accordance with the principle of subsidiarity.

Independence makes up the chief attribute peculiar to contemporary European local and regional self-governments. It relies on granting self-governments a wide range of freedom in deciding about local and regional affairs on their own responsibility. The European Charter of Local Self-Government states that "local authorities shall, within the limits of the law, have full discretion to exercise their initiative with regard to any matter which is not excluded from their competence nor assigned to any other authority. Local authorities shall be consulted, insofar as possible, in due time and in an appropriate way in the planning and decision-making processes for all matters which concern them directly".

We distinguish three main aspects of self-government independence. These are as follows:

1. political independence, which constitutes the possibility to exercise power/authority by local community, especially to make local and regional law, and the right to hold free elections,
2. administrative independence, which constitutes the right to organize its own appropriate administrative structures, and the right to go to court to defend independence,
3. financial autonomy, which constitutes revenue autonomy, expenditure autonomy and public credit autonomy [Denek (2001)].

Expenditure autonomy is connected with a range of rights and duties concerning local and regional public expenditures and budget process. The scope of expenditure autonomy is determined by:

- legal limitations concerning expenditures – prescription or prohibition of incurring definite expenses,
- limitations from budgetary procedure,
- determination of organizational forms institutions executing budgets,
- extent of self-government's finance supervision and control [Denek (2001); Kornberger-Sokołowska (2001)].

European Charter of Local Self-Government prescribes that grants to local authorities shall not be earmarked for the financing of specific projects. The provision of grants shall not remove the basic freedom of local authorities to exercise policy discretion within their own jurisdiction. Public credit autonomy is the right and the ability of local and regional authorities to borrow money in financial markets. The importance of this right is stressed by European Charter of Local Self-Government and European Charter of Regional Self-Government:

- local authorities – for the purpose of borrowing for capital investment shall have access to the national capital market within the limits of the law,
- regional governments shall, within the limits of the law, have access to the capital market in order to cover their capital expenditure by borrowing, provided they can demonstrate their ability to service the debt throughout the repayment period from their own income.

In our research we focused only on revenue autonomy. The concept of this financial autonomy aspect is an effect of balancing between the concept of full chapter of source of revenue between state and self-government and the concept of full connection of this revenue. Revenue autonomy is connected with some rights of local and regional self-governments:

- right to have sufficiently high financial resources to execute self-governments' tasks,
- right to define revenue in a way of legal act,
- right to limited tax authority [Denek (2001); Kornberger– Sokołowska (2001)].

The significance of local tax authority is stressed in European Charter of Local Self-Government. This Charter postulates so that at least part of the financial resources of local authorities shall derive from local taxes and charges of which, within the limits of statute, they have the power to determine the rate. Revenue autonomy is also combined with the capability of increasing revenue from diverse sources and using diverse methods.

Contemporary literature suggests only a few indicators of revenue autonomy. These indicators are the contribution of municipal taxes in the structure of public revenue, share of such municipal taxes which are almost entirely decided by self-government in the structure of municipal revenue. The most popular and the simplest indicator is share of own tax revenue in the structure of municipal revenue [Denek (2001); Kornberger-Sokołowska (2001); Miemiec (2005)].

3. REASONS FOR REVENUE AUTONOMY OF SELF-GOVERNMENTS

Several reasons for giving local and regional self-governments revenue autonomy are to be identified. The most important arguments are:

1. such a system enhances economic efficiency of producing almost all public and merit goods; from the point of view of the fiscal federalism theory it will be attained, if the costs of provision of the public goods are met by residents of the spatial benefit area, in which these goods are consumed (spatial fairness rule or correspondence principle) [Bardhan (1996); Boyne (1998); Broadway et al. (1994); King (1982); Musgrave, Musgrave (1989); Oates (1977, 1999); Rattsø (2002); Swianiewicz (2004)],
2. such a system promotes responsibility of self-governed authority towards inhabitants in decision-making and in implementation [Bardhan (1996); Seabright (1996); Swianiewicz (2004)],
3. such a system promotes citizens responsibility for their community and citizens interest of public cases thus promoting local democracy [Bardhan (1996); Seabright (1996); Swianiewicz (2004)],
4. such a system promotes rationalization of public expenditures because it is hard to increase them, if it is necessary to be financed by increasing the tax imposed on voters rather than grants received from central government [Bardhan (1996); Prokopijevic (2001); Tiebout (1956)],
5. in such a system fiscal policy of local and regional governments can be adjusted to the local environment and individual community preferences, which are diversified especially in broad territory and various levels of regional economic development [Bardhan (1996); Prokopijevic (2001); Tiebout (1956)],
6. such a system may be more flexible – it enables politicians to respond properly in periods of economic difficulty which are more acute than in other regions of state [Bardhan (1996); Prokopijevic (2001); Swianiewicz (2004)],
7. such a system lessens the pressure on the increase in public expenditures:
   - for local politicians are more interested in efficiency of spending policy rather than obtaining additional transfers from central government; if the majority of financial resources are from transfers, inhabitants may expect excessive supply of public and merit goods.

- and because we can more efficiently control the political process at local and regional government level than at central government level [Prokopijevic (2001); Rattsø (2002)],

8. strong participation of own self-governments revenue in the structure of all general government revenue strengthens the position of self-governments in the state, making them partners of central authority [Swianiewicz (2004)];
9. such a system increases local and regional governments incentives to disseminate (promote) local economic development in order to gain growing public revenue [Swianiewicz (2004)],
10. such a system increases competition among local and regional governments in a country, which encourages lawmakers to rationalize public finance thus enhancing both static productive efficiency and long-term dynamic efficiency [Oates (1981); Oates, Schwab (1988, 1997); Tiebout (1956)].

The economic literature also stresses the costs connected with decentralization. For example, it has been claimed "exporting" tax burdens, shifting some of the burden of local taxes onto non-residents, and impact on other communities revenue levels [Tanzi (1996)].

4. THE COVERED COUNTRIES, PERIODS AND METHODS OF RESEARCH

The research focused on European Union countries. Since May 2004 Poland has been a member of the group of countries working continuously on implementing standardized rules in their economic policies. These standardization procedures range from financial statistics to definition of different financial tools and tax regulations. There is even discussion about standardizing tax levels, which already applies to value added tax. This makes the group of countries constituting the EU a potentially fruitful and unique research field. However, big differences in incomes, structures and rules are still present. Analysing the revenue autonomy of self-governments, it was decided that not all EU countries should be the basis for comparisons.

The goal of the article is to evaluate the revenue autonomy of Polish local governments by comparing it to the situation in the chosen EU countries. The complementary tool is the set of different self-government models which can be subject to comparative analysis. So when choosing the countries for comparisons their relative similarity to the Polish economy was taken into account. Of course such a choice has to be arbitrary and subjective and many groupings are possible. In this research it was decided to exclude big and, at the same time, rich countries. Those countries are found to be so much richer and their economies bigger then the Polish one that the comparisons could be not of much use. So countries such as Germany, France, Italy, Great Britain have been excluded. Also countries much less populous than Poland have been excluded (e.g. Estonia, Malta, Luxembourg, Ireland). The most important reason was the fact that the structures of government in such countries are usually very different. The subjective choice was to exclude any country with a population of less then 10 million people. As a result, Poland, Spain, The Netherlands, Belgium, The Czech Republic, Hungary, Greece and Portugal were chosen. All of them are countries with populations in the range of 10 to 40 million people and of medium sized economies. Those economies and government structures are still very different, but this differentiation takes place within those laid by EU standards and regulations and the described above frames.

The researched period was chosen as the most current comparable data. The article focuses more on structures than on trends, so a 3-year period of research was chosen with the simple purpose to eliminate the odd behaviour of data which occurred in just one year. To secure comparativeness of data used, only data from the IMF Government Finance Statistics Yearbook was used. The research periods range from 1998 – 2000 for Greece (most current comparative data available) to 2000 – 2003 for The Netherlands.

The contribution of taxes in revenues is used as the measure of revenue independence of self-governments, as was described in the first paragraph of this article. This is based on the notion that the grants are just transfers from the other levels of government or foreign institutions, quite often with a pre-selected goal. So the local community has only limited authority as to how to spend given funds. On the other hand, "other revenues" – in many countries important position – is composed of many very different elements and it is too difficult to evaluate. It was decided to treat it as an undefined kind of funds. Those positions require more thorough future research. Only taxes are the source of revenue over which local communities – by elected bodies – can freely decide how they are willing to spend the money. So it was decided that the measure based on the tax revenues/overall revenues index constitutes the measure of revenue autonomy of self-governments in researched countries.

The biggest methodological problem was caused by one odd revenue position for Poland. This was the revenue from social contribution payments. In IMF data it was treated as one of the positions of local government revenues. There is no such position in Polish statistics on the self-government level. The reason for the presence of this position is a statistical problem which was created for IMF by OFE (open pension funds) which are included alongside with finances of 2,489 communes, 373 counties and 16 districts in the local governments' financial data (*IMF Government Financial Yearbook* 2004). The Polish solution to pension system potential problems, caused by demographic decline, is quite special and no such pattern in other EU countries exists. However the social contribution funds position is present in the IMF data for local governments for Portugal, Spain, The Netherlands, and Belgium. But nowhere is it of such importance as for Poland. So it was decided to calculate two indexes – one taking data about revenues of self-governments as it is in the IMF data, the second one based on the more proper way of calculation – thus excluding the social contributions from self-government revenues.

5. THE COMPARISON OF SELF-GOVERNMENTS REVENUE AUTONOMY

Taking into account the assumptions described in the previous chapter, the revenues structures of analysed countries have been researched. In this research the attempt to distinguish different models of self-governments revenue position was made. When comparing Poland to the relatively similar economies of Hungary, The Czech Republic and Portugal, much higher financial autonomy of the later self-governments was found (compare table 1). All 3 countries had a revenue independence index by more then 40% higher than Poland – even when calculated after excluding from OFE social benefits revenues! It means that these countries let their local communities have much more freedom to decide about the way they spend money. It also means that one should treat their local finances as the model different from the Polish one (table 3). The model applied by Czechs, Hungarians and Portuguese is, up to discussion presented in first section of article, more effective than the Polish one. It creates better initiatives to rationalizing self-government finances and better conditions to satisfy local community needs.

Table 1

The structure of self-governments revenues for Poland, Hungary, The Czech Republic and Portugal

	Poland PLN mn			**Hungary HUF bn**			**The Czech Rep. CZK bn**			**Portugal EUR mn**		
Year	2000	2001	2002	2001	2002	2003	2001	2002	2003	1999	2000	2001
Revenue:	**103126**	**112593**	**115890**	**1806**	**2072,6**	**2393,9**	**185**	**228**	**290**	**6558**	**6505**	**7361**
Taxes:	***18457***	***20630***	***21911***	***605***	***687***	***814***	***89***	***110***	***119***	***2345***	***2524***	***2552***
Taxes on income, profits and capital gains	9978	10230	10274	289	336	405	49	61	66	560	573	587
Taxes on individuals	9011	9480	9425	286	333	405	26	32	34	214	202	197
Taxes on corporations and other enterprises	967	750	849	-	-	-	23	29	32	346	371	390
Taxes on payroll and workforce	-	-	-	1.2	1.2	1.1	-	-	-	-	-	-
Taxes on property	7484	9419	10681	70.7	79.6	100.4	4.6	4.6	4.8	458	509	538
Taxes on goods and services:	984	695	725	243.8	270.4	306.8	35	44	48	1308	1424	1410
General	-	-	-	*227*	*253*	*272*	*30*	*36*	*39*	*413*	*493*	*482*
Excises	-	-	-	-	-	-	-	-	-	*116*	*108*	*112*
Customs	-	-	-	-	-	-	-	-	-	-	-	-
Other taxes	11	286	231	-	-	-	0.05	0.01	0.01	20	18	17
Social contributions	***22812***	***25584***	***26437***	-	-	-	-	-	-	***55***	***62***	***73***
Security social contributions	22812	25584	26437	-	-	-	-	-	-	4	5	5
Other security social contributions	-	-	-	-	-	-	-	-	-	51	57	67
Grants	***41651***	***46060***	***45938***	***911***	***1028***	***1232***	***67.3***	***87.1***	***138.5***	***2698***	***2516***	***2869***
From foreign governments	-	-	-	-	-	-	0,01	-	0,02	-	-	-
From international organizations	-	-	-	3.3	-	-	0.09	0.06	0.06	-	1	-
From other general. government units	41651	46060	45938	907	1028	1232	67.2	87	138.4	2698	2516	2869
Other revenue	***20206***	***20319***	***21604***	***291***	***358***	***348***	***28.6***	***31.3***	***32.2***	***1460***	***1402***	***1867***

Source: authors' own, based on *IMF Government Financial Yearbook 2004*

In the next step Polish self-government revenues were compared to more different countries: Spain, The Netherlands, Greece and Belgium. The Spanish self-government has the most freedom of all analysed in this article (compare table 2). Its financial freedom index is more then 110% higher than the Polish one. Based on these results, Spain can be treated as a different model in itself. This uniqueness is caused by the extreme autonomy of

Spanish self-governments and its government structure placed in between a federal and unitary model. Also Belgium has a much more independent government on a local level than Poland. However, its index is higher than the Polish by "only" 40%. The difference is high enough to treat Belgium as in the same model as Hungary, The Czech Republic and Portugal.

Table 2

The structure of self-government revenues for Spain, The Netherlands, Greece and Belgium

	Spain EUR mn			**The Netherlands EUR mn**			**Greece EUR mn**			**Belgium EUR mn**		
Year	2000	2001	2002	2001	2002	2003	1998	1999	2000	2000	2001	2002
Revenue:	**38092**	**40009**	**42353**	**67972**	**71212**	**75895**	**2761**	**3177**	**3348**	**15895**	**16378**	**17634**
Taxes:	*19604*	*20457*	*21203*	*6087*	*6492*	*7002*	*340*	*378*	*402*	*4719*	*5363*	*5889*
Taxes on income, profits and capital gains	3530	3756	3941	-	-	-	-	-	-	1411	1881	2028
Taxes on individuals	2621	2791	...	-	-	-	-	-	-	1411	1881	2028
Taxes on corporates and other enterprises	909	965	...	-	-	-	-	-	-	-	-	-
Taxes on payroll and workforce	-	-	-	-	-	-	-	-	-	-	-	-
Taxes on property	5723	6042	1596	2693	2926	3162	197	217	226	2762	2915	3267
Taxes on goods and services:	10221	10514	15666	3394	3566	3840	139	157	172	546	567	594
General	*4465*	*4549*	*3537*	-	-	-	*11*	*11*	*11*	-	-	-
Excises	*1084*	*1002*	*185*	-	-	-	-	-	-	-	-	-
Customs	*2*	*2*	-	-	-	-	*4*	*4*	*4*	-	-	-
Other taxes	128	143	-	-	-	-	-	-	-	-	-	-
Social Contributions	***202***	***214***	***225***	***2350***	***2374***	***2500***	-	-	-	***867***	***891***	***918***
Security social. contributions	-	-	-	-	-	-	-	-	-	16	16	16
Other security social. contributions	202	214	225	2350	2374	2500	-	-	-	851	876	902
Grants	***13523***	***14340***	***15801***	***46496***	***49159***	***52981***	***1040***	***1314***	***1344***	***7727***	***7736***	***8357***
From foreign governments	-	-	-	-	-	-	-	-	-	-	-	-
From international organizations	492	542	645	67	22	22	27	21	24	-	-	-
From other general. government units	13031	13798	15156	46429	49137	52959	1013	1293	1320	7727	7736	8357
Other revenue	***4763***	***4998***	***5124***	***13039***	***13187***	***13412***	***1381***	***1485***	***1602***	***2583***	***2387***	***2470***

Source: authors', based on *IMF Government Financial Yearbook 2004*

Interesting results were obtained when Greece and The Netherlands were researched. They are characterized by lower revenue autonomy then Polish local governments – by about 50%. There is the basic question, if they constitute one different model or two different models with comparable levels of independence. Answering this question goes beyond the goal of this article. However, it is tempting to formulate the hypothesis that they belong to two different models. Greece is an example of centralized, not very effective structure of government. The Netherlands, on the other hand, is the model of government structure, in which the local government is mostly concentrated on servicing the local needs by directing the way to spend public funds, which are collected on higher levels of government. From the point of view highlighted in first section of this article both should be treated as dramatically less effective than the Spanish or Czech – Belgium models. But the effectiveness of the model applied in The Netherlands is very real and proves that other factors – social, legal and cultural are very important. Anyway, Poland in these comparisons seems to be a unique model in itself.

Table 3

The local government's financial independence indexes[1]

Year of research	1	2	3	Avg.	Deviation over Poland
The Netherlands*	8.96%	9.12%	9.23%	9.10%	-50.48%
The Netherlands**	9.28%	9.43%	9.54%	9.42%	-60.32%
Greece	12.31%	11.40%	12.01%	12.07%	-49.12%
Poland*	17.90%	18.32%	18.91%	18.38%	x
Poland**	22.98%	23.71%	24.49%	23.73%	x
Belgium*	29.69%	32.75%	33.40%	31.94%	73.83%
Belgium**	31.40%	34.63%	35.23%	33.75%	42.25%
Hungary	33.50%	33.15%	34.00%	33.55%	41.39%
Portugal*	35.76%	38.80%	34.67%	36.41%	98.14%
Portugal**	36.06%	39.17%	35.02%	36.75%	54.88%
The Czech Republic	48.11%	48.25%	41.03%	45.80%	93.00%
Spain*	51.46%	51.13%	50.06%	50.89%	176.92%
Spain**	51.74%	51.41%	50.33%	51.16%	115.60%

Source: authors' calculations based on *IMF Government Financial Yearbook* 2004

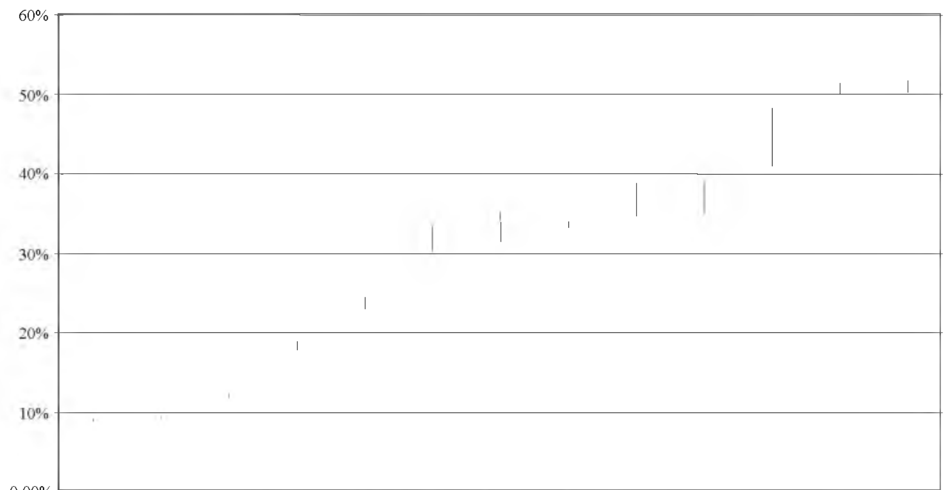
* The revenue for all positions up to IMF data

** The revenue without social contributions

[1] The deviation from Polish data was calculated against overall Polish self-governments revenue, if a comparable position was the base in any given country, or against revenue decreased by the value of social contributions if such a subtraction was done for the compared country or when social contributions were not constituting part of compared country's revenues.

6. FINAL RESULTS AND COMPARISON OF MODELS

Independence is an important element describing contemporary European local and regional self-governments. We distinguish three main aspects of self-government independence. We focused only on revenue autonomy and chose as its indicator the share of taxes in the structure of self-governments' revenues. Municipalities which have a high level revenue autonomy are probably more efficient and flexible; their executives are more responsible, flexible towards inhabitants, and may lessen the pressure on the volume of general government expenditure. From self-governments' revenue autonomy point of view individual European countries represent diverse models. In the researched countries, the four basic models of self-governments' revenue autonomy can be distinguished.



	Nether.*	Nether.*	Greece	Poland*	Poland**	Belgium	Belgium*	Hungary	Portugal*	Portugal*	Czech R	Spain*	Spain**
Serie1	8.96%	9.28%	12.31%	17.90%	22.98%	29.69%	31.40%	33.50%	35.76%	36.06%	48.11%	51.46%	51.74%
Serie2	9.12%	9.43%	11.90%	18.32%	23.71%	32.75%	34.63%	33.15%	38.80%	39.17%	48.25%	51.13%	51.41%
Serie3	9.23%	9.54%	12.01%	18.91%	24.49%	33.40%	35.23%	34.00%	34.67%	35.02%	41.03%	50.06%	50.33%

Figure 1. Revenue autonomy indexes of selected EU countries[2]

Source: authors' own

[2] The vertical line represents the range of data for 3-year research periods

The first one is Spain, where more then 50% of local governments revenue is tax-based. The second applies to Belgium, Hungary, Portugal and The Czech Republic. Those two models are assumed to be most effective ones, at least from the viewpoint of theoretical assumptions. The Netherlands and Greece have the lowest share of taxes in local governments revenues. It is tempting to treat them as two different sub-models because of the very different effectiveness of their self-governments. However, the reason for this could be more of a social and cultural nature and – taking this into account, this research is dealing only with revenue autonomy – here the proper way is to treat them as one group.

Poland is a unique model. It seems that this country aims to follow the group of countries giving big autonomy to local communities and trying to implement the model solutions fulfilling the theoretical conditions for effective self-governments. On the other hand, it has obvious and visible difficulty in implementing them. The centralization instincts of the political class and slow reform of public finance is the reason why Poland is far behind most of its partners from the EU and has the model which has the worst of the most popular solutions. It is too centralized to give enough revenue autonomy to self-governments and not enough centralized to realize big cross-country projects with smooth cooperation on a local level. The proper way of reforming it, given the ineffective public finance on the central level in Poland, is giving much more revenue and wider fiscal autonomy to local communities, which in the longer run should bring the positive results anticipated by the theory of local public finance.

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