

FINANCIAL SYSTEM AND THE LOCAL GOVERNMENT IN EUROPEAN COUNTRIES

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Abstract

Local governing represents the first election school in the formation of the bodies and institutions that are closer to the governed, that in it carry the greatest and aware interest of the governed. It observes the basic functioning of the financial system, the creation and realization of the relations between the government and the governed, through which are implemented the basic principles of: - participation in governance; -expression of the will and liking of governing; - fulfilment of tasks of governing according to the interests and aspirations of the governed; - responsibility and accountability of the government. The effectiveness of the government, assessed through the fulfilment of tasks with concrete results related to the fulfilment of the interests of the entire nation and society, is another important aspect in the system of governing. In fact one of the directions of the two definitions of local Autonomy is to realize an independent school to provide financial support, in the management of incomes and spending too.

Keywords: Local governing, regions, municipalities, decentralization, central governing

Introduction:

Local governing represents the first election school in the formation of the bodies and institutions that are closer to the governed, that in it carry the greatest and aware interest of the governed.

Local governing is thought to be a realization of the political procedures which contain the direct fulfilment of the needs and wants of the governed. Therefore we are talking about political procedures (such as laws, decrees, decisions, orders) which meet even the direct interests of the governed.

The definition of local Autonomy exists in two directions.

- a) Local bodies space to take uncontested decisions from central bodies.
- b) The independent school to provide financial support, in the management of incomes and spending too.

The autonomous school de facto of each government is determined by the possibilities to increase and to use financial means in an independent way.

The constitutions have been decisive for the functionality of local bodies.

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Financial competences are one of the most importantes elements of the local government autonomy. The degree of local government autonomy is defined, mostly, throught the functionality of financial system of local government. It is built on the basis of three main sources. (The Concise Dictionary Politics, 2009).

- a) Local taxes on wealth, the business' activity or on the incomes.
- b) Tax on local services or payments from exploiters of services given by local government.

c) Subventions from the highest levels of government (central government) and loans from capital funds

The direct local tax is imposed on estates and on individuals too. The first one depends on the evaluation of the estates in the rent and sells cases. Local tax on individuals can be imposed being based on an unchangeable or progressive sum in accordance to the incomes.

Tax on estates is more characteristic for those countries in which the estate is viewed as a necessary condition to enjoy the political rights such as the right to vote, and in which the principle of limited government (in the context of: government defending and guaranteeing freedom and human rights) is deeply rooted in the political culture.

Local tax on individuals is executed independently from the estate.

State subventions are three kinds:

- a) Subvention from state budget as part of public spending, or from the imposing of a specific tax, whose incomes go to the local government.
- b) Subventions to cover some services or subventions for a special service.
- c) Subvention post hoc, based on the percentage of the spending done by the local authorities, especially to help the organization of new services.

Subventions based on a certain need which give advantage to the equality of spending levels for services between the developed areas and those that are left behind. (The Concise Dictionary Politics, 2009).

Traditionally local taxes have been the main financial source in those countries where the independence of local bodies has been bigger. In this point of view the services done have been considered as services mainly of local interest.

In Britain the decision making for the level of local taxes has been made by the local administrators, till 1984.

On the contrary, state subventions were the main source in centralized states as France till 1980; local taxes were much less important.

Meanwhile, it is obvious that the increase of funds in the incomes from the central government for the local government leads to the increase of central check on finances and on local administration politics too.

Being based on these sources, the local autonomy degree can be evaluated on the fact how much real freedom do the local councils have to increase the incomes from these sources, as they wish and as well as how far are they allowed to spend the incomes as they consider it to be more useful.

The differences that exist between European states are from one extreme to the other one, with “a lot of freedom” and with “a little freedom”.

On one extreme we can rank Denmark where the commune is the main agency in tax gathering for the state as a whole, with the sum designated for the central government. At the same time, they have the direct responsibility to finance their activities based on the local tax on incomes. The commune decides about the percentages which vary from 13% to around 32%. Furthermore, as the counties, communes have the right that within the specified scales to impose the local tax on the value of the land.

Most of the spending of the Danish communes, as we have mentioned it above, is for the effective administration and realization of State Welfare and Social components, taking into consideration the indicators on national level. Through the implementation of financial policies, the communes are of a higher autonomous degree.

On the other hand, central government has an important role to implement the welfare system in the most possible harmonious levels in all communes. They aim that all have the same national indicators level. For this reason there is used the transferring of central government funds through grants' block. Their quantitative spread is done in the way that all

inequalities that are created in the gathering of the incomes according to the communes to be compensated.

On the other extreme, researchers rank places like Ireland and Italy, where the local councils have really little space in their independence to increase the incomes.

In Ireland, the efforts to change the local bodies into political ones are followed with changes in the source of incomes for the communes. This way, in 1978, central government took off local tax for the estate, which was one of the main resources of incomes for the communes. Central government started the financing of communes through grants. Check on local bodies had to increase more. Local government was dominated by the central one.

The same situation was created in Italy, in 1982; the fiscal reforms took off the communes' real power to finance their services through local taxes. A number of taxes didn't exist anymore like those on the houses, families, groceries, services and businesses.

Changes in transferring financial responsibility from local government into the central one lead to the deprivation of communes from about 92% of their incomes. Italy designed one of the biggest subventions financial systems in the Western world. Since then even the debts of local authorities were of extraordinary figures. While central government increased more the prevalent role in financing the local government.

Britain, has also known the big "strike" of central government on financial independence of central governing. In the process of implemented reforms by the government of the conservator M. Thatcher during 1980, initially to the central councils it was taken off the right to decide independently on the percentage of local wealth taxes. In addition, their increasing spending was put in charge of and was of severe check by the central government. The conservator government was too decisive to exercise its full check on local government. All councillors who dared the central government were threatened to be fired from work, they were even threatened to be legally prosecuted. Their vacancy was occupied by commissioners appointed by the central government. The conservative government of Thatcher used the centralization of power to enlarge the political positions. This was obvious when the "poll tax" (tax per capita) was imposed, on local base. Any adult included in the electoral register was obliged to pay an unchangeable tax. The tax provoked violent demonstrations in a wide degree and it had an impact on Thatcher's expulsion from the government. After this "poll tax" was replaced with "councillors' tax" a modified kind of the old tax on wealth which was in the severe check of the central government. 33 Most of the other European places are ranked in between two extremes mentioned above. In Holland for example less than 10% of local spending is provided from local tax. Other incomes are from the grants of central government, most of which are spending intended for special projects and programs.

In Spain also, regional governments of high level, including the government of Catalonia take 80% of their incomes from central government grant.

On the contrary, in France and Belgium, most part of local spending is financed from local tax, especially from those of land, estates and businesses.

Germany is nearer to the Scandinavian model about the financing of local government from the incomes of tax on incomes, businesses and estates tax. However, local councils take a fixed amount: 15% of all national taxes on incomes gathered in their central region. Local taxes on businesses are also more than divided with the highest levels of government, with municipals councils who have 60%. The percentage that is left is passed on into the regional and federal government. (Gallager, 2011).The check of central government on the finances of local government is one of the key indicators of autonomy in local decision taking in the modern Europe.

The authors and researchers of "Representative Governing in Modern Europe" based also in the studies of A. Lijphart represent taxes data gathered in local and regional level as

an indicator for the categorization of European states from the decentralization point of view of their governing structures.

Meanwhile, “centralization” or “decentralization” is the same with “strong governing system” and “weak governing system”. (Gallager, 2011).

Other authors like Castles uses “fiscal decentralization” based on the proportion of the total incomes of taxes which is gathered in the levels that are under the jurisdiction’s level of central governments. The following table shows both forms of evaluation taken together. The data show that the format of federal governing or the strong system of local governing is accompanied with high scale of tax decentralization. On the contrary, the scale of taxes decentralization is very low in unitary states with weak local governing system. The high degree of taxes decentralization in the Scandinavian places shows about the strong structures of local government. The case of Austria shows that the federal constitutions have the same effects in the places with weak local governing system. (Cit. according to Michael Gallagher, 2011).

Fiscal Decentralization And The Governing Structures			
Strong central governing		Weak central governing	
Federal: Germany	(31%)	Austria	(22%)
Sweden	(32%)	Greece	(4%)
Unitary: Denmark	(30%)	Belgium	(5%)
Finland	(24%)	Britain	(9%)
Norway	(20%)	France	(9%)
Suede	(32%)	Greece	(4%)
		Ireland	(4%)
		Italy	(3%)
		Dutch	(10%)
		Portuguese	(4%)
		Spain	(9%)

(In brackets there is the regional and local taxes part as a percentage of total incomes from the taxes.)

Conclusion:

The decentralization in the European countries is realized through an uninterrupted process of continuity. It was conditioned by a number of factors:

- The historical process of formation of nation states and of the institutionalization of governing bodies of liberal democracy;
- The nature of the political culture of the elite and of the mass of population.
- The undertaking of constitutional changes from certain political forces.
- The need of optimizing governing in accordance with the influence of the new factors of the computing revolution, integration and globalization.

The authors of the study “Representative Government in Modern Europe” wrote that it is vital to determine the area within which the local government’s bureaucracy is committed to fully implement the national policy and as many areas in which the local government bodies are free to modify national policies upon their own initiative (Gallager, 2011).

The determination of the local bodies is done in two directions:

- 1- The power of the local government to take decisions without being contested from the central authorities.
- 2- The degree of independence for the provision of financial support, including the management of the revenue and making expenses. The de facto degree of autonomy of every local government is determined from the opportunities of raising and spending funds independently

The totality of the governing system makes it unavoidable for the above mechanisms of central governing to act alongside those of local governing. This is the reason that for the local governing bodies to operate as governing bodies being closer to the governed and more direct in the fulfilment of the imputes, it is raised the issue of their powers that in the liberal democratic system are summarized in the so-called decentralization with the pre-condition of the autonomy of local governing.

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