

Financial, Public and Regional Economics**The Degree of Autonomy of the Romanian Local Public Expenditures****Maria Letitia Andronic (Bratulescu)¹**

Abstract: The process of local public spending optimization is extensively studied by those who have the power of decision towards saving. Even if the goal is to adjust the imbalance revenues/expenditures, the trend to spend more than accumulated is still a matter of concern. Our objective is that of analyzing the local governments' functional expenditures by measuring the degree of decentralization/autonomy. The value of the paper is given by the model we applied for Romania which is based on spending management. By analyzing different types of expenses, we have highlighted that local expenditures represent instruments of strengthening or weakening local autonomy. The indicators measure the effectiveness of local expenditures by using the model published by The World Bank in 2006. We gathered information through interviewing different Town-Hall representatives from Brasov County and then we gave scores and established ranks. As the degree of autonomy reached a score of about 3 on a scale of 1-4, we identified that the class in which Romania is placed (B) is mostly defined in terms of delegated powers and not decentralized competences. The study is significant for politicians, for those responsible for implementing decentralization, but also for the taxpayers who deserve the best public services.

Keywords: decentralization; local public services; local performance; local budget

JEL Classification: H72; H76

1 Introduction

Throughout the communist period, the freedom of the Romanian municipal councils in the decisions regarding spending was limited. Expenditure plans were subject to prior approval by the central planning authorities. For many years, the system remained strongly centralized and a great majority of expenditures were rigidly controlled by the central Government. Therefore, bringing expenditure decisions closer to citizens became one of the major objectives of fiscal decentralization in Romania after 1990.

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Unlike the private sector, where expenditures rarely exceed revenues and expenses are minimized every year, even if there is an inappropriate management practice, in the public sector, the level of these expenses does not decrease, nor maintained at the same level, but increases steadily.

Although this topic is being attacked from all directions, the results are about the same. Expenses maintain top position in the state budget, regardless the size of the revenues. Although various studies concerning the budgetary balance, the tax policy or the optimal construction of tax systems were conducted by different economists, questions regarding the causes of the unjustified continuous expenditure growth or the identification of realistic and consistent measures by which to overcome these impasses are still frequent.

Generally speaking, the authorities wanted firstly to find ways to increase revenues, reduce arrears, provide financial resources to the budget and only secondly to reduce budget expenses. This is somehow justified as it is known that expenses are the engine of the economy: people spend, the industry produces goods and services and the circle continues amplifying.

According to the Local public finance law, establishing the level of the public expenditures by the local public administration involves not only good knowledge and an appropriate prioritization of the destinations and beneficiaries of these resources, but it also acquires their real capacity to perform certain expenses. However, the distribution of their own or transferred resources must be made according to the actual needs of that specific local government in order to avoid waste and ensure the efficiency, the effectiveness and the economy in the use of public money (Local public finance law no. 273/2006, chapter I, article 5, paragraphs 3 and 4).

State system is a closed one, almost counterproductive in terms of the net direct profit. Health, education, defense, public order and social assistance are considered to be unproductive sectors. In fact, this is an error as these sectors produce and provide skilled labor, maintain health, offer protection to the members of the society (from a socially point of view) so that they can participate afterwards in the economic activity. However, to ensure all these, budgetary resources are necessary. Measuring the expenditures' degree of autonomy can be achieved through several qualitative indicators that show the level of government responsible for spending the necessary financial resources in order to provide a particular service. Defining and measuring competence shared at local, regional and national level in the case of public services, such as education, requires a more rigorous study. Exclusive competences are those that reflect the highest degree of autonomy and, also call the attention of local authorities because they are solely responsible for the quality of public service provision and for the cost of providing it (Roman & Mosteanu, 2011, pp. 168-169).

To reflect the spending degree of autonomy, one of the most complex models was developed by Bell, Ebel, Kaiser and Rojchaichainthorn (The World Bank, 2006). What we want to emphasize in this paper is the degree of autonomy and fiscal decentralization concerning sub-national government expenditure by using this model in the case of Romania. We have also gone deep into the problem of local spending by presenting the evolution of the Romanian local public expenditures according to the functional classification.

2. Stage Research and Research Methodology

Considering that the relationship between local autonomy and decentralization may lead to guarantee the stability of a functioning democracy, we came to the conclusion that it does not present a unified approach in the specific literature, aspect which creates practical difficulties in defining it.

We noticed that many papers which study the quality of the financial decisions taken at local level belong to the local public finance and the management of local public sphere. This occurs because, on the one hand, the financial decisions are the expression of the financial policies pursued by central or local public authorities and, on the other hand, the aspects regarding such decisions concern the public management field. In the area of public financial management, the local part became an important matter of concern especially in the context of decentralization. As a result, there are at least two strategic objectives:

- 1) providing citizens a balanced and sustainable local delivery of public goods and services
- 2) an increase of local government's financial solvency in order to ensure an optimal, balanced and sustainable development.

Undoubtedly, the administration of the two strategic objectives depends on the quality of local financial decisions (Onofrei & Tudose, 2011).

For a correct measurement of the expenditure autonomy, we should be able to identify and, more importantly, to quantify all those direct and indirect constraints that actually reduce the room for maneuvers of a given authority on the expenditure side of the budget. However, it is not even possible to give an exact measure of the direct legal constraints, let alone the rest. Identifying the purely local expenditure functions and the related actual outlays is a relatively simple exercise. The most common estimations of this kind of autonomy have been presented by many authors using different perspectives (Marcou, 1999; Dafflon & Perritaz, 2000; Brueckner, 2000 and 2001; Beer-Tóth, 2009).

However, as it is presented in the study published in 2009 by the last author mentioned, the dominant model used in measuring local financial autonomy

compares the volume of local expenditures to general government expenditures or, alternatively, to the GDP. These simple indicators represent a starting point for the design of fiscal decentralization measures. Nearly all studies used the indicators offered by the Government Finance Statistics of the International Monetary Fund. Even though scholars have long identified their apparent weaknesses (Ebel & Yilmaz, 2002; Meloche *et al.*, 2004), these indicators are still in use (The World Bank database, 2007). Some authors underlined, on the expenditure side, the failure of the Government Finance Statistics to distinguish between mandated and optional expenditures of local governments. The outlays related to mandatory functions appear under local expenditures, even though the decentralized government units have limited or no authority over these functions. Moreover, in addition to direct functional expenditures, the data used by this institute also include monetary transfers flowing from the local level to higher levels of government (Beer-Tóth, 2009, p. 97). Anyway, these indicators show which level of government is responsible for which expenditure functions.

Firstly, our research paper analyzes a more sophisticated typology for describing the role of local governments in service provision than the ones presented before by the authors mentioned. As we emphasized in the introduction, this idea belongs to four economists that in 2006 published their results in a study for The World Bank (Bell *et al.*, 2006). Thanks to the clear description of the content of sub-national autonomy in each of the six dimensions of service provision that they introduced, this model is better suited to practical implementation. In this part of the research, we used the score and the assigning ranks methods. Literature reveals that such an analysis for Romania was also developed by another author (Cigu, 2011).

Secondly, the article aims to point out some results related to the local expenditures in Romania taking into account the overall values and also the values according to the functional classification. The analysis that we present has the following structure: specification of the indicators for the achievement analysis, identification of the right methodology to establish the values of the indicators, calculation of the value and interpretation of results, identification of influence and diagnosis. The main resources used for our analysis are the income and expenditure local budgets for 2000-2013. We focused on the expenditure part of the budget, as our study deals with indicators concerning the efficiency of local public expenditure. We took into account the budget implementation, i.e. the budget execution accounts. We obtained the necessary information for the case study regarding Romania mostly from the Romanian National Institute of Statistics. We used information regarding the public services provision and the degree of autonomy from representatives of Sacele and Brasov Town Halls.

3. The Analysis of the Factors that Influence the Degree of Autonomy and Decentralization

As we mentioned in the first part of the paper work, one important issue that we studied in this paper is the degree of autonomy and fiscal decentralization recorded in Romania lately. According to the study from The World Bank in 2006, the four authors established six factors which influence the degree of autonomy in terms of providing local public services. Each factor receives a score of 1 to 4 to the various degrees of local expenditure autonomy: exclusive competence of central authority (D=1), delegation of competence to the local authority (C=2, B=3) and full competence of sub-national authority (A=4). Therefore, each local public service is provided locally or not. Its classification in one of the four classes depends on the six dimensions of provision and on the score given. Estimating the degree of local autonomy involves obtaining a mean score between 1 (no autonomy) and 4 (full autonomy).

The first three factors taken into account are related to the funding process, to the public employees and the legal framework. The factors have the following features:

- I.** Local funding of public service - which level of government sets the main policy guidelines for the provision of a public service
- II.** Local public officials - which level of government has control over the payroll and the decisions with respect to hiring, promotion or firing civil servants
- III.** Standards setting and regulation, the legal framework - which authority sets quality standards for the composition of local public services and the regulations that may accompany sub-national government spending programs

In the following table we have the main features of each of these factors according to the four classes described before.

Table 1. A typology of expenditure autonomy – factors I, II and III

Factors of influence	Full local autonomy (A = 4)	High level of local autonomy under central authority supervision (B = 3)	Reduced level of local autonomy under central authority control (C = 2)	Central authorities fully control and no local autonomy (D = 1)
I	The policy, the budget and the assignment of functions are set by the local government.	The local authorities control their own budget process and execution with guidance from central government.	Central authority sets policy and budget; the local one has some ability over decision-making.	Local authority is delegated to execute the work which was fully planned by the central.
II	The civil servants are controlled by the local governments.	Civil servants are controlled by the local level. Central government supports the local one in areas with no expertise.	Central authorities control the civil servants. Local government has some ability over decision-making.	Central level determines the civil servant's salaries and the conditions of employment.
III	Local authority sets the standards of all public services which are consistent with the state law.	Local government sets some standards, of public services under the central government's supervision and influence.	Central authorities set standards and regulations. Local ones may adjust the standards to local circumstances.	Central administration sets standards, regulations and compositions of public services.

Source: Bell et al., 2006

The other three factors of influence mostly concern the administration, the production and the delivery evaluation of the local public services offered to the local communities. They are described as follows:

- IV.** Local public service administration - service delivery on a day to day basis
- V.** Local public service production - which authority has control over the service opportunity and priority, ensuring the proper quality, as well as delivery in a timely manner
- VI.** Monitoring and evaluation of public service delivery - which authority is responsible for the evaluation of local government performance.

The typology of the last three factors according to the classes A to D is presented in the table below.

Table 2. A typology of expenditure autonomy – factors IV, V and VI

Factors of influence	Full local autonomy (A = 4)	High level of local autonomy under central authority supervision (B = 3)	Reduced level of local autonomy under central authority control (C = 2)	Central authorities fully control and no local autonomy (D = 1)
IV	Local authority determines its own structures in order to adapt them to local needs.	Local governments determine their administrative structures with guidance from central government.	Central authority sets administrative structures while local ones may adjust the services to local needs.	Central administration mandates internal administrative organization.
V	Local authority fully controls the standard of the public service, ensure quality and timely delivery.	Local governments ensure quality and timely delivery according to local needs under central government's guidance.	Central authority has the entire control. The local one has the ability to adapt the services to the needs.	Central administration controls the standard of the service and ensures quality and timely delivery.
VI	Local administration has full control for future improvements.	Local administration has the control, but the outcomes are reported to the central government.	Central authority has all the control. Local government participates in some aspects.	Central government fully monitors and evaluates the local performance.

Source: Bell et al., 2006

The main idea is to study each public service sector and sub-sector individually along the six dimensions of service provision and to evaluate local autonomy in each of these dimensions by means of the scores 4 to 1. The score of a certain sector will be established as an average score of all the sub-sectors included in it. The final step would be to develop a weighting of the various sectors in order to provide a final score of the sub-national autonomy of a certain country or group of countries. For instance, in the case of Romania, a municipality might have full control over recreational activities, but a negligible influence on basic health care. So, we should analyze the autonomy degree of the most important public services offered to citizens in a country such as Romania.

We applied the model proposed by these four economists in Romania:

Table 3. The expenditure measure of autonomy degree in Romania

Public service	I	II	III	IV	V	VI	Autonomy degree
Public authorities	2.67	2.67	2.67	2.67	2.67	2.67	2.67
Foreign relations, nat.defense	1	1	1	1	1	1	1.00
Local police	4	4	4	4	4	4	4.00
Public order and fire fighting	3	3	3	3	3	3	3.00
Education	2.50	2.50	2.00	2.00	2.00	2.00	2.17
Primary and secondary school	3	3	2	2	2	2	2.33
Higher education	2	2	2	2	2	2	2.00
Health	2.33	3.00	2.00	3.00	3.00	2.00	2.56
Basic health care	2	3	2	3	3	2	2.50
Health protection,public health	2	3	2	3	3	2	2.50
Hospitals	3	3	2	3	3	2	2.67
Culture and sport	3.50	3.50	3.00	4.00	4.00	3.50	3.58
Theaters, museums, libraries	3	3	2	4	4	3	3.17
Parks and recreation	4	4	4	4	4	4	4.00
Social care	4.00	3.00	2.00	4.00	4.00	3.00	3.33
Nursery and homes for elderly	4	3	2	4	4	3	3.33
Services to the elderly, to the persons with disabilities	4	3	2	4	4	3	3.33
Special social services	4	3	2	4	4	3	3.33
Unemployed	4	3	2	4	4	3	3.33
Public utilities	4.00	4.00	3.00	3.67	3.67	4.00	3.72
Running water, sewage system	4	4	3	4	4	4	3.83
Electricity	4	4	3	3	3	4	3.50
Fuel and heating systems	4	4	3	4	4	4	3.83
Environmental protection	3.25	2.75	2.50	3.25	3.25	2.75	2.96
Waste collection and storage	4	4	3	4	4	4	3.83
Street cleansing	4	4	3	4	4	4	3.83
Environmental protection	3	2	3	3	3	2	2.67
Natural disasters	2	1	1	2	2	1	1.50
Public transport	3.50	3.50	3.00	3.50	3.50	3.00	3.33
Roads	3	3	3	3	3	2	2.83
Public transport and lighting	4	4	3	4	4	4	3.83
Urban development	3.00	2.00	2.67	3.33	3.33	2.33	2.78
Urban planning, development	4	2	3	4	4	4	3.50
Regional planning	2	2	2	2	2	1	1.83
Tourism	3	2	3	4	4	2	3.00
Average autonomy degree	3.19	2.99	2.54	3.27	3.27	2.81	3.01

Source: The author, based upon data received from Brasov and Sacele Town Hall and specific legislation

According to this analysis, the degree of autonomy of sub-national government expenditure is about 3, a score which places Romania in class B. The highest score is obtained in the case of service delivery administration and production (3.27). As a result of the implementation of local autonomy in a unitary state in which local authorities competences are set by the national legislation, the influence factor reflecting standards setting and regulation is the lowest (2.54).

The framework law on decentralization regarding the provision of public services underlines that local government authorities are required to meet quality standards (the decentralization framework law no. 195/2006, article 7). This is particularly evident when the correlation between the decentralization process of local public services and local financial resources is not a matter of concern. Whereas in services, central authorities tend to transfer more responsibilities, in the resources area, there is no clear strategy of decentralization.

Up to this date, the approach proposed by Bell *et al.* (2006) has certainly been the most powerful one for measuring sub-national expenditure autonomy. Nevertheless, at least two points deserve some further reflection:

1. The reason about whether local government units in a given decentralized system have a “high degree” or just “some degree” of autonomy (i.e. the choice between score 2 or 3) is highly subjective. Within “civil service” for instance, control over wages and working conditions appears as a key component of autonomy. In reality, the actual labor market conditions may limit the degree of control both for the central government and the sub-national governments (Beer-Toth, 2009, p. 104).
2. The level of aggregation of the public expenditure categories as proposed in table 3 allows hardly anything more than a few generalized observations about sub-national autonomy. In order to obtain more reliable information, every category has to be broken down into a set of subcategories. In the case of primary or secondary education, these could be represented by teacher’s qualifications, wages and employment conditions, educational programs, school organizations, buildings and equipment etc. (Dafflon, 2006, p. 296).

There are still major economic and social objectives of national and strategic interest like national defense, public order, foreign relations, citizen and environment protection or macro-social policies of stability and welfare which are kept by the central government. They are being financed by the central government because their impact affects all citizens of a country. However, in the past few years, the area of expenditure financed from local budget has grown in Romania. As we saw in the previous table, some public services financed by the central government moved to local financing. It is the case of some public utilities like road construction, police activity, schools, local transport, municipal services etc.

For instance, during 1999-2000, financial decentralization took place in the case of several activities such as subsidies to thermal energy delivered to the population, financing the agricultural consulting centers, the plant protection or the veterinary activities. The decentralization of public services has continued to support the primary and secondary education system by taking over the process of financing civil service (especially wages), as well as financing nurseries. Nevertheless, new units of culture and religion and domestic heating aid for individuals were transferred to the local government administration. In 2003, we recorded the transfer to local authorities of the expenditures regarding the rights of persons with disabilities, the population computer record service and the community police activity.

Table 4. The evolution and structure of sub-national government expenditure (SNGE) in Romania according to the functional classification in 2000-2013

Year	SNGE	General public services	Social-cultural expenditure	Services and public development, dwellings, environment and waters	Different economic actions	Other expenditures
million lei current prices						
2000	3321.7	478.3	802.4	1196.4	398.8	445.8
2001	7067.5	686.3	3503.8	1797.9	601.0	478.5
2002	9268.8	893.5	5002.4	2079.0	710.9	583.0
2003	12852.7	1203.0	6774.7	3334.0	1044.9	496.1
2004	15540.7	1488.8	8256.8	3156.3	2203.7	435.1
2005	18777.0	1908.7	9971.8	3673.4	2766.3	456.8
2006	25392.8	3045.7	13574.7	2999.7	5535.5	237.2
2007	33982.3	4257.6	17847.9	3778.4	7712.6	385.8
2008	42210.2	5668.9	22272.3	4815.4	8844.6	609.0
2009	42074.5	5821.5	22519.9	5357.1	7720.2	655.8
2010	41207.1	5235.0	21191.5	5533.0	8714.1	533.5
2011	44003.8	5180.6	20356.0	7372.8	10608.7	485.7
2012	46333.4	5561.8	21586.1	7715.8	10916.6	554.1
2013	47380.4	5825.8	22999.8	7340.8	10562.3	651.7

Source: *Statistic Yearbook of Romania, Local budget execution on expenditures 2000 - 2013*

Based on the data offered by the Statistic Yearbook of Romania, an analysis of expenses, according to the functional classification for the 2000-2013 period of time, highlights the following aspects:

- in 2000, the expenditures group represented by services, public development, dwellings, environment and waters had the largest share among local public expenditure (36.02%);

- since 2001, Romania recorded an increasing share in the local budgets of social and cultural expenditure, in particular for education (in 2001 the category of social and cultural expenditure doubled as compared to 2000, 49.58% vs. 24.16%);
- in the following years, the social-cultural expenditures remained at relatively high values, with an average of about 51.50%, due to the extremely high growth recorded in the expenses for education supported by the sub-national government;
- it is expected a substantial rebound regarding the finance from the local budget of the health system, especially since the services offered by hospitals were decentralized in 2010;
- the assistance and social protection subgroup had a sinuous evolution, with a trend to increase its share in the local budget expenditure;
- over the analyzed years, the sub-national government expenditure reveals the existence of a general ascending trend in current prices, with no big fluctuations, due to the enlargement of the local financing and subordination of the expenditure area.

The evolution of the main categories of local government expenditure can be highlighted also in figure 1.

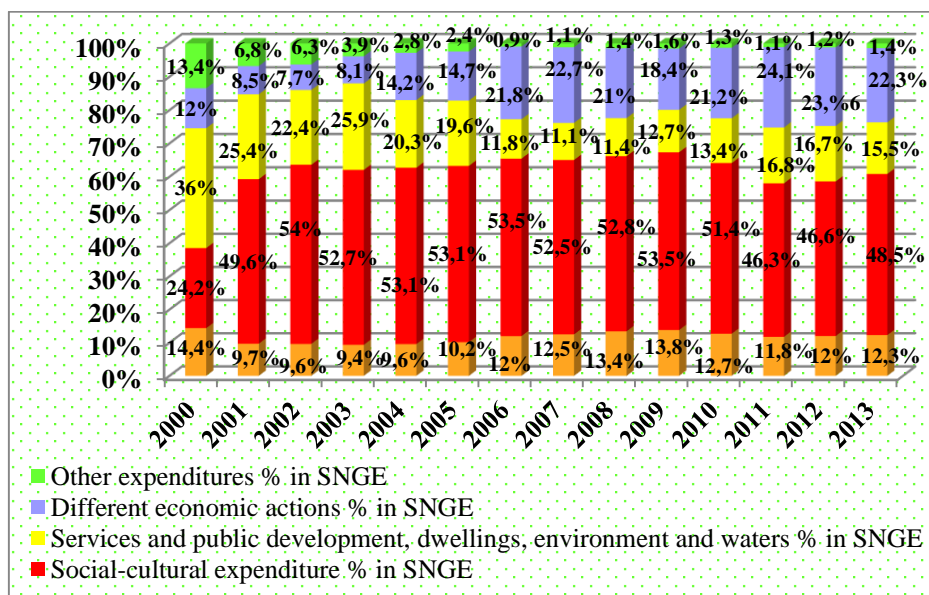


Figure 1. The evolution of the main categories of local public expenditures as percentage in SNGE for 2000-2013

General public services expenditure recorded a quite constant evolution during the 14 years analyzed (at about 11.67%), in contrast with the other evolutions presented in the figure. In 2000, general public services had the highest share in total expenditure (14.40%); during the next years the indicator decreased, so that, in 2003, the weight was of only 9.36%. Between 2004 and 2009, the weight increased from 9.58% in 2004 to 13.43% in 2008 and 13.84% in 2009, while in the last four years of analysis, the indicator went under 13%.

We notice an upward trend both for the social and cultural expenditure, but also for the economic actions. The social-cultural expenses represented 802.4 million lei in 2000 and their weight in the local public expenditures grew from 24.16% to 48.54% in 2013 (all most 23,000 million lei). In the case of the economic actions developed, the indicator increased from 12% (398.8 million lei) in 2000 to 24.11% (10,608.7 million lei) in 2011. However, for the latter category mentioned, in 2001, 2002 and 2003, the percentage dropped to 8.50%, 7.67% and 8.13% respectively. The same remark can be made for the last two years of analysis, but also for 2008 or 2009, when these types of expenditure decreased to a level of 20.95% in 2008 or 18.35% in the next year.

Public development, services, dwellings, environment and waters expenditure recorded an important evolution, even if the general trend was a downward one. At the beginning of the time period, the share was very high (about 36%). For the 2001-2004 period of time, the average level decreased to 23.53%; starting with 2005, a drastic reduction occurred, so that in 2007 their weight in the local budget was of only 11.12%.

4. Conclusions

Local autonomy is the most effective and efficient framework that can influence development by combining coherent strategies and resources to local policies, possibilities and needs. Institutional decentralization also implies fiscal decentralization, thereby ensuring the creation and strengthening of local autonomy, as well as the rationalization of fiscal relations between central and local authorities in order to create a balance between the responsibilities of local administration and the financial and material resources available to them. The system used for collecting the needed resources for the local authorities must be sufficient and diversified to enable them to follow and measure the real cost of exercising the powers and competences they hold.

As we saw in the literature review, measuring the financial side of local autonomy has been the subject of many researchers as a result of the process of measuring the relationship between decentralization and macroeconomic variables. Many of the indicators have been revised over time and sometimes were the basis for building

other indicators. So far, an indicator to cover all the components of autonomy was not yet identified.

As we expected, the study of fiscal decentralization in Romania and its impact on the financial autonomy of local governments resulted in several findings. Local autonomy, the extent of which is determined by the division of expenditure powers among the various levels of government, is ideally subordinated to equity, efficiency and stability. Following this line of argumentation, local authorities should desire neither more nor less autonomy than what is necessary for ensuring that the general government system fulfills its economic role. In this context, autonomy is not the final objective, but an instrument that allows the achievement of other objectives. Nevertheless, the optimum degree of decentralization (or autonomy) cannot be determined by using only objective criteria, aspect which leads to some divergent conclusions of those who approached the autonomy and decentralization areas.

Lack of sufficient financial resources determines the impossibility for a part of the goods and services that should be provided from the local level to be covered. The power of financing such goods and services depends on the level of economic and social development of each locality. First of all, the more developed an administrative unit is, the more varied and complex are the services expected to be offered to the inhabitants. Secondly, a municipality or a county with higher degree of collection can support better the cost of goods and services. Moreover, it can even better control the efficiency of supply.

The result obtained from measuring the expenditures' degree of autonomy in Romania established by using Bell, Ebel, Kaiser and Rojchaichainthorn's model points out that the autonomy of public services is placed within class B, close to class C. Reaching a score of autonomy of 3.01 may be defined by the existence of more delegated competencies than decentralized competencies regarding especially the legal framework (2.54), the monitoring and the evaluation of public service delivery (2.81) and the local public officials (2.99).

Romania's experience reveals a higher consensus in the political environment on the transfer of responsibility for expenditure than on the level and degree of autonomy regarding revenues. In this context, local governments would likely provide public services of a low quality, eroding citizens' trust in local authorities in the process of the administrative reform.

In most of the administrative-territorial units of Romania, budgeting was not preceded by a pertinent inventory of the whole taxable mass. In addition, nobody paid the proper attention to tracing and identification of all the available own revenues. All these brought about an excess of expenses by predicting the achievement of additional revenues in the form of allocations and subsidies from the central government. This has also resulted in failures regarding payments due to lack of funding.

On short and medium term, we propose the implementation of adequate, flexible and modern economic and financial mechanisms to encourage local performance. Currently, although local governments have potential, it is not fully used as the self-financing level is relatively low. Long-term strategic goal will be the continuous economic and social development of local communities in order to ensure government resources comparable to their responsibilities.

All in all, together with the functional classification of public expenditures, the indicators and methods of local autonomy measurement presented in this article provide a multi-dimensional matrix that also allows cross-country comparisons. We consider that such comparisons should be applied in further studies. The local financial indicators analyzed throughout this research paper can be combined with some other non-financial indicators that characterize local administration, in order to provide a much more complex diagnosis. For instance, future articles might refer to the role and implications of the region, as level of local government in Romania, upon strengthening local autonomy. Besides the theoretical part, the study of regions as levels of local government could cover a configuration of competences and public services on different levels of public administration (national, regional, county, local or private sector).

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