POLITICS AND INTERJURISDICTIONAL TRANSFERS: THE ROMANIAN CASE

Lecturer Ph. D. Mihai MUTASCU*
Associate Professor Ph. D. Bogdan DIMA*

** West University of Timişoara, Faculty of Economics, Finance Department*
16 Pestalozzi Street, Timisoara, 300115, Romania,
Tel. +04 - 0256 - 952 - 556
E-mail addresses: mmutascu@yahoo.it, bogdandima2001@yahoo.com

Abstract: this paper represents a continuation of a previous paper where we demonstrated the "abnormal" behavior that local authority from Romania is manifesting regarding the subventions received from the central budget. In accord with public choice theory, exist an "affinity" of a social group - local communities in this case - for a certain political party or political coalition, in which case can expect that the distribution of public funds, having the nature of transfers given by the central budget to local budgets, to be impregnated with a considerable "political color".
This paper is trying to establish, in Romania, quantitative and qualitative, the modality of distributing the central public funds to local authorities under the political impact.

JEL Classification: R5, H7, O17, P35, Z1
Keywords: *politics, regional communities*, *interjurisdictional transfers*
Category: *econometric analysis*

This paper represents a continuation of a previous paper[1] where we demonstrated the "abnormal" behavior that local authority from Romania is manifesting regarding the subventions received from the central budget. The outstanding representatives of the American School of Public Choice, James Buchanan, Gordon Tullock or Geoffrey Brennan, argue that at the base of establishing allocation criteria of the transfers are not only social and economic criteria, but also pure political factors. According to this, the

[1] Talpos Ioan, Mutascu Mihai, Dudas Doru, *Transferurile bugetare versus autonomia financiara locala - cazul Romaniei*, Sesiunea de comunicari stiintifice cu participare internationala, Lumea financiara - prezent si perspective, Cluj-Napoca, 2003.

budgetary transfers given to the local authorities can represent some true "rewards" for the communities that have sustained, are sustaining or will sustain the political demarche of the forces that have the power.

If we suppose that there is a relation between the transfers given by the central to the local authorities and the political sphere, a challenging question arises: how we can identify, characterize and quantified a linkage like this. In Romania's case it has been noticed that in the period before the elections, the fiscal policies were accompanied by several important changes at the level of repartition of public funds, by the reduction of the fiscal and growths of the public charges, especially of those whit a social character.

In accord with public choice theory, we can suppose that there is an "affinity" of a social group - local communities in this case - for a certain political party or political coalition, in which case can expect that the distribution of public funds, having the nature of transfers given by the central budget to local budgets, to be impregnated with a considerable "political color".

This paper is trying to establish, in Romania, quantitative and qualitative, the modality of distributing the central public funds to local authorities under the political impact. For determining the "affinity" of a local community for the political party or political coalition that holds the power, we propose the construction of an "index of proximity to power", obtained on the base of number of votes received by that party in a local community.

The index takes this shape:

$$I = \frac{\text{Number of favorable votes}}{\text{Total number of votes}} \qquad (1)$$

where:
- "Number of favorable votes" represents the number of favorable votes obtained in the local community chosen by the party or coalition that holds the power
- "Total number of votes" represents the total number of votes, valid expressed in that local community.

We can notice that the index takes values between 0 and 1. If the index value is 1, we can conclude that there's a maxim affinity, and if the index is 0, we have a null affinity. So, the proximity to power is greater if it is closer to 1.

In Romania's case, there have been picked and treated two annual statistical series, on the interval between 1993 and 2002, corresponding to the eight regions of development (R1 - North - east, R2 / South - east, R3 - South, R4 - South - west, R5 - West, R6 - North - west, R7 - Center, R8 - Bucharest), representing the "index of proximity to power" (I), and the level of local transfers (T).

To establish the level of the "index of proximity to power" we used the results of the Parliament elections from the 27th of September 1992, the 3rd of November 1996 and the 26th November 2000, putting accent on the percent obtained, at the level of each county, by the winning party in elections. Because the Parliament of Romania is bicameral, to obtain the final global value for the entire Parliament, we used an arithmetical average of the two indexes corresponding to the two chambers of the Parliament.

Even if the Chamber of Deputies and the Senate have slightly different attributions, so we can't consider them equals from this point of view, we have used the arithmetical average for the index, because the majority of the people don't notice the difference between the two chambers, and for them they have approximately the same importance. For obtaining statistical series, that can be correlated whit the regional level of subventions, we have gather around the counties from the eight regions of development from Romania, establishing for each region a value of the "index of proximity to power" as a arithmetical average of the values of the index corresponding to each county from the considered region. Further on, this value is considered to be constant for each of the four years afferent to the period.

For the study of the linkage "local transfers- politic" we have chose the method of the econometrical analysis, conceiving a "Pool Date"[2] regressive model with this shape:

[2] For econometric model we are use the econometric software Eviews 5.0.

$$Y_{it} = \alpha + \beta x X_{it} + \varepsilon_{it} \qquad (2)$$

where Y_{it} represents the dependent variable - T, α free term coefficient, β independent variable coefficient, X_{it} independent variable - I, ε_{it} error terms, *i* cross-sectional units observed for dated periods - 8 sections (the number of regions) and *t* the period of time (years 1993-2002).

$$T_{it} = \alpha + \beta x I_{it} + \varepsilon_{it} \qquad (3)$$

Indexes of proximity to power and interjurisdictional transfers in Romania - annual regional dates, years 1993-2002

Ani/Regiune	TR1	TR2	TR3	TR4	TR5	TR6	TR7	TR8	IR1	IR2	IR3	IR4	IR5	IR6	IR7	IR8
U.M	mld.ROL								IR€(0,1)							
1993	36.705	37.336	27.930	26.015	31.444	29.467	31.152	108.191	0,428	0,395	0,413	0,408	0,267	0,159	0,139	0,280
1994	92.308	82.621	66.965	54.294	72.526	74.239	73.027	246.566	0,428	0,395	0,413	0,408	0,267	0,159	0,139	0,280
1995	150.636	129.498	118.326	90.842	110.857	121.644	111.976	366.108	0,428	0,395	0,413	0,408	0,267	0,159	0,139	0,280
1996	241.007	216.343	191.442	141.121	164.234	192.361	179.177	522.821	0,428	0,395	0,413	0,408	0,267	0,159	0,139	0,280
1997	486.865	432.320	370.403	266.710	338.953	376.887	387.143	1.130.953	0,286	0,342	0,332	0,324	0,347	0,293	0,229	0,472
1998	657.004	564.664	524.622	344.764	459.154	493.151	513.028	1.498.075	0,286	0,342	0,332	0,324	0,347	0,293	0,229	0,472
1999	353.632	248.204	139.787	81.916	158.975	205.543	192.880	183.089	0,286	0,342	0,332	0,324	0,347	0,293	0,229	0,472
2000	301.679	307.018	201.299	114.306	182.124	271.413	163.683	207.241	0,286	0,342	0,332	0,324	0,347	0,293	0,229	0,472
2001	813.690	569.979	560.719	340.639	494.307	612.893	454.533	507.668	0,527	0,463	0,493	0,527	0,387	0,248	0,234	0,401
2002	74.074	43.796	83.942	18.550	137.015	118.678	32.452	389.219	0,527	0,463	0,493	0,527	0,387	0,248	0,234	0,401

The obtained results after the modeling of the two statistical series are:

Dependent Variable: T				
Method: Pooled EGLS (Cross-section SUR)				
Sample: 1993-2002				
Included observations: 10				
Cross-sections included: 8				
Total pool (balanced) observations: 80				
Variable	Coefficient	Standard Error	t-Statistic	Probability
R1--IR1	780.201,3	86.654,15	9,003623	0,0000
R2--IR2	653.265,1	63.367,19	10,30920	0,0000
R3--IR3	564.576,6	51.110,16	11,04627	0,0000
R4--IR4	360774,6	32.884,71	10,97089	0,0000
R5--IR5	660.308,9	44.404,04	14,87047	0,0000
R6--IR6	1.061.351	99.477,19	10,66929	0,0000

R7--IR7	1.073.400	80.597,71	13,31799	0,0000
R8--IR8	1.425.994	172.479,6	8,267612	0,0000
R-squared	0,926197	Mean dependent variable		0,801925
Adjusted R-squared	0,919022	S.D. dependent variable		3,449420
Standard Error of regression	0,981588	Sum squared residual		69,37308
Durbin-Watson	1,961188			

In the supposed case, the model has the next formal and general representation:

$$TR_1 = \alpha_1 \text{ x } IR_1 \quad (4)$$
$$TR_2 = \alpha_2 \text{ x } IR_2 \quad (5)$$
$$TR_3 = \alpha_3 \text{ x } IR_3 \quad (6)$$
$$TR_4 = \alpha_4 \text{ x } IR_4 \quad (7)$$
$$TR_5 = \alpha_5 \text{ x } IR_5 \quad (8)$$
$$TR_6 = \alpha_6 \text{ x } IR_6 \quad (9)$$
$$TR_7 = \alpha_7 \text{ x } IR_7 \quad (10)$$
$$TR_8 = \alpha_8 \text{ x } IR_8 \quad (11)$$

As we can observe, the correlation coefficient shows the fact that 92,61% of the electors political orientation modifications redound on the level of local transfers, so we can conclude that the model is representative.

$$TR_1 = 780.201{,}3 \text{ x } IR_1 \quad (12)$$
$$TR_2 = 653.265{,}1 \text{ x } IR_2 \quad (13)$$
$$TR_3 = 564.576{,}6 \text{ x } IR_3 \quad (14)$$
$$TR_4 = 360.774{,}6 \text{ x } IR_4 \quad (15)$$
$$TR_5 = 660.308{,}9 \text{ x } IR_5 \quad (16)$$
$$TR_6 = 1.061.351 \text{ x } IR_6 \quad (17)$$
$$TR_7 = 1.073.400 \text{ x } IR_7 \quad (18)$$
$$TR_8 = 1.425.994 \text{ x } IR_8 \quad (19)$$

Of course, there are a lot of limitations derived from the small size of data used, from the absence of other explicative variables and from some statistical properties of the residuals errors. Despite these limitations, one can conclude that the model is able to enlighten at least partially the correlations between the political „affinity" and the value of local transfers

and to provide an empirical support for the mentioned theoretical framework.

This survey revealed the fact that between the two elements exists a linkage strong enough and the interfering effects of the political on the repartition central public funds vary from one region to another, and this fact arise the problem of the justness of the repartition mechanism of the public funds to local authorities. The greatest distortion effects can be noticed in regions R8 - Bucharest, R7 - Center, R6 – North - West and R1 – North - East, and we can assume that electorate from that regions is very flexible and sensitive on the aspect of given the vote to the forces that hold the power. On contrary, on the other regions, the electorate remains political faithful, even if the party or the coalition will or will not de power. We can observe in this case, that the „financial recompense" is equivalences.

We can conclude that the purpose of our scientific demarche is not to propose a new "model of central public funds", but only to reveal the fact the actual repartition system of public funds is not working right, mostly due to the political factor, and it's needed to reshape it on new coordinates.

References

1. Arrow Kenneth, *Social choice and individual values*, University Press, Yale New Haven, 1963.
2. Bordignon Massimo, Emiliani Nicoletta, Manesse Paolo, Tabellini Guido, *Come fare la perequazione regionale in Italia?*, Working Paper, Universita Statale di Milano, 1997.
3. Buchanan James, *Public Choice: The Origins and Development of a Research Program*, Center for Study of Public Choice, George Mason University, Fairfax, Virginia, 2003.
4. Buchanan James, *The Limits of Liberty: Between Anarchy and Leviathan*, University of Chicago Press, 1975.
5. Inman Robert, Rubinfeld Daniel, *Fiscal federalism in Europe: lesson from the United States experience*, Working Paper, University of California, Berkley, 1991.
6. Talpoş Ioan, Mutaşcu Mihai, Dudaş Doru, *Transferurile bugetare versus autonomia financiară locală - cazul României*, Sesiunea de comunicări

ştiinţifice cu participare internaţională, Lumea financiară - prezent şi perspective, Cluj-Napoca, 2003.