

Budgetary Changes at Local Level in Slovenia in Crisis

UDC: 336.14:352(497.4)"2008" ; 338.124.4(497.4)

Uroš Pinterič

School of Advanced Social Studies, Nova Gorica uros.pinteric@fuds.si

XII International Symposium SymOrg 2010, 09. 12 june 2010. Zlatibor, Serbia

Article is addressing one of most up to day topics of social sciences today – economic crisis and its impact. Author is trying to find elements of local budgets that could indicate financial instability at the local level in Slovenia. On representative pattern of municipal budgets he is trying to find changes that could be caused by the economic crisis. However, until 2008 when last budgetary data are available today, he is not able to indicate any serious change that could be systematically connected to the economic situation.

1. Introduction

So called economic crisis that started in the middle of 2008 caused different consequences and reactions at all levels of social system in individual countries as well as on supranational levels. Despite one can strongly doubt about solely economic nature of present crisis, it is truth that main effects were connected to the national as well as international economy. However, all different cases showed so far that economic circle is strongly connected also to the politics, policies and public finances on different levels. One can remember the French support for car industry that was strongly criticized by EU despite effects of French governmental subsidies to the car industry had strong and positive spill over effect in other EU countries such as Slovenia. Main criticism about protectionism of national economies can be at least doubtful. On the other hand, economic crisis connected to the British money saved in stable Icelandic banks showed how combination of economic crisis, increasing external debt and lack of appropriate policy reaction can lead to the bankruptcy of the state and political crisis, leading to overthrow of government. State

cases of different reactions can be translated also to sub national, local level.

We argue that on the local level financial crisis can be even more intense. We expect that municipalities with dominantly rural background will be less affected by financial crisis than those with predominantly industrial or post industrial economy. We expect as well that, later municipalities will realize lower tax revenues and they will change structure of expenditures in a way to keep at least existing bureaucratic expenditures. On the other hand municipalities will try to shrink investment and maintenance expenditures while they will have to increase so called social transfers especially those connected to the maintaining certain level of social security.

Thesis above will be verified on the case of 24 out of 210 Slovenian municipalities in the timeframe 2005-2009. Slovenia has 12 statistical regions and we will take one rural and one industrial municipality for each region and we will avoid municipalities with special status when possible.

Statistical region	Higher share of employees in agriculture in region (as share of employees in agriculture compared to total active population)	Lower share of employees in agriculture in region (as share of employees in agriculture compared to total active population)
Goriška	Brda	Ajdovščina
Gorenjska	Vodice	Škofja Loka
Osrednjeslovenska	Moravče	Mengeš
Savinjska	Solčava	Nazarje
Koroška	Prevalje	Mežica
Podravska	Starše	Hoče Slivnica
Pomurska	Moravske Toplice	Lendava
Zasavska	Trbovlje	Hrastnik
Posavska	Brežice	Krško
Notranjsko-kraška	Postojna	Cerknica
Obalnokraška	Hrpelje – Kozina	Piran
Jugovzhodna Slovenija	Škocjan	Straža

Table 1: List of municipalities

Source: [2]

None of selected municipalities has special status of city municipality (that brings special position in local government system in Slovenia), however in some cases there are differences in size (area as well as population). Concrete municipalities were selected randomly on the basis of relative share of employees in agriculture. In Zasavska and Posavska region, difference between selected municipalities is relatively low.

2. Measuring effects of economic crisis on local budgets

Economic crisis seems to be most frequent phrase in 2008/10. Brake down of world economy started in mid-2008 officially. However, in August 2007, newly appointed Governor of Bank of Slovenia at meeting of European Central Bank make comment on economic situation that was strongly criticised in European and Slovenian national monetary space. He said that »if there will be stronger turbulence they can cause negatively on demand of households«. The statement was in the context of American mortgage crisis and its effect in EU economic space. His comment was diplomatically marked as inappropriate (as also some others further on), but it was academic warning from political person that should not happen. However, he just warned that what is going on can have global consequences for economy. However he just warned from one thing that was best presented by late US stand up comedian George Carlin who well defined the main problem of economic crisis that emerged. People are spending »Money they don't have on things that they don't need«. He only forgot to add that they will probably not be able to pay for a life-time. Any economic situation can be explained generally in two different ways. First there is Smiths' invisible hand of market balancing the market to achieve moments of optimal ratio between supply and demand. Second, opposite pole is system of state intervention in market economy, generally to prevent few important market failures, such as negative externalities, providing so called public goods where private economy is not interested or it can ride on natural or created monopoly where demand is irrelevant and consequently service is not provided adequately or prices are not optimized by market.

However, politics/government is strongly connected to the economy or private »players« who hold important positions and can provide economic support to the different political »players«. Over the time this led to strong bonds between economy and politics, causing lobbying, corruption and clientelism. In this condition natural monopolies are generally outsourced to private sector after initial investment. In this sense state finances private monopoly or oligopoly by out-

sourcing service to one or few private companies who can realise high or medium high profits with more or less no entrance costs and all additional cost are generally paid by final consumer. Under such circumstances it is hard to believe that market economy as well as state driven economy can work separately or together without serious failures.

As we said previously we expect that economic crisis will have certain effects on revenue as well as on expenditure side of local budgets. We could simply take just different types of revenues, maybe create two general categories of tax and non-tax revenues and try to explain potential differences. However, we believe that economic crisis is not day to day phenomena but has longer development procedure. Due to above mentioned history of current economic crisis we believe that in the case of local government following pattern took place.

Personal income tax rates shall drop only in 2008 and fall even lower in 2009,

Real estate tax together with interest rate tax shall get lower in 2008 as well.

Government subsidies form national budgets allow municipalities with lack of their own resources to cover at least so called level of appropriate consumption that is calculated each year for next fiscal year and should be adequate for maintaining developmental status quo in certain municipality. One can assume that state subsidy will not change significantly due to same uncertain economic situation at national level.

Salaries in municipalities on the expenditure level are one of most stable budgetary elements.

Regular transfers will slowly increase in 2008 while different investments will be lowered. We can expect that level of transfers will increase slower than level of investments will fall due to the fact that the difference will cover current expenses for public administration. All categories of expenses will be compared to total expenses.

Empirical results

Gathering empirical data, we were not able to get data on budgets of municipalities for 2009 yet. At the same time it is important to stress that in 2006 there were local elections and in 2007 there was change of municipal finances legislation increasing the share of personal income tax belonging to municipalities to 54%. Due to lack of data for 2009, we are not able to say if small drop of personal income tax at national average is already consequence of crisis or it is within

normal fluctuation. However, we can argue that in all municipalities where change of personal income tax is higher than 5% it is consequence of migration of pop-

ulation, and we believe if net flow is negative as in Trbovlje, Lendava, Moravske Toplice it is also first sign of change in economic situation

	2005	2006	2007	2008
Brda	39,6%	37,7%	54,8%	58,1%
Ajdovščina	39,7%	41%	54,2%	56,3%
Hrpelje-Kozina	22,6%	26,5%	53,8%	41,2%
Piran	35%	20,8%	28,6%	34,4%
Vodice	50,4%	34,7%	45,6%	58,9%
Šk. Loka	48,5%	44,7%	51,7%	51,6%
Solčava	10,8%	11,6%	56,7%	45,8%
Nazarje	33,3%	32,2%	50,7%	57,1%
Prevalje	39%	42,5%	61,8%	60%
Mežica	46,7%	44,1%	68%	52,4%
Starše	31,8%	29,2%	55,2%	54,2%
Hoče-Slivnica	41,3%	44%	64,3%	62,8%
Moravske Toplice	19,1%	19,7%	54,2%	37%
Lendava	29,5%	24,7%	57,3%	47,3%
Moravče	40,1%	37,7%	52,9%	72,3%
Mengeš	57,9%	60,5%	60,6%	66,2%
Žužemberk	23,4%	23,7%	69,7%	58,4%
Trebnje	32,8%	31,2%	62,3%	57,3%
Brežice	31,4%	30%	58,9%	49,1%
Krško	27,6%	29,5%	42,7%	37,8%
Trbovlje	41%	47,3%	62,4%	46,6%
Hrastnik	25,6%	34,9%	62%	55,2%
Postojna	49%	40,9%	52,2%	43,6%
Cerknica	22%	31,3%	54,2%	56,9%
National average	40,4%	39,3%	51,7%	49,4%

Table 2: Personal income tax

[1]

Real estate and financial taxation indirectly shows how much can people and economy effort bigger expenses. Table shows very good the interest for certain municipalities. In this sense it is obvious that after the break of real estate market prime location like Piran (tourist location at the seaside) or Mengeš (suburb of capital) be-

come much more interesting. While other locations kept their average interest rates. Measured via real estate tax income that is paid in the municipality where sold real estate exists). At the same time it is obvious, that in 2008 overall real estate taxation indicates that slightly lower number of real estate transactions was made.

	2005	2006	2007	2008
Brda	0,6%	1,1%	1,2%	2%
Ajdovščina	1,6%	1,9%	2,3%	1,4%
Hrpelje-Kozina	2,6%	3,7%	5,2%	3,7%
Piran	5,3%	4%	8%	7,6%
Vodice	9,9%	3,8%	2,9%	3,2%
Šk. Loka	3,2%	2,9%	2,4%	2,2%
Solčava	0,1%	0%	0,5%	0,3%
Nazarje	1,5%	2,6%	1,5%	1,5%
Prevalje	1,2%	1,8%	1,3%	1,1%
Mežica	1%	1,1%	1,1%	0,5%
Starše	0,6%	0,7%	1%	0,4%
Hoče-Slivnica	2,3%	4,1%	3,4%	3,1%
Moravske Toplice	1,2%	1,7%	1,7%	1%
Lendava	1,1%	1,5%	1,3%	1,1%

	2005	2006	2007	2008
Moravče	1,8%	1,8%	2,4%	1,7%
Mengeš	3%	4,5%	4,1%	6,2%
Žužemberk	1,1%	0,7%	1,2%	1,6%
Trebnje	1,8%	1,6%	2,5%	1,7%
Brežice	1,7%	1,6%	1,7%	1,3%
Krško	1,1%	0,9%	1,2%	0,9%
Trbovlje	1,7%	1,9%	1,5%	1,1%
Hrastnik	0,6%	0,8%	0,6%	0,7%
Postojna	3%	2,6%	3,1%	2%
Cerknica	1,2%	1,5%	2,3%	1,8%
National average	2,7%	2,8%	3,3%	2,6%

Table 3: Real estate and other financial taxes

[1]

Government subsidies are in opposite relation with personal income tax in relation to change of legislation in 2007. However, it is more than evident that certain municipalities such as Solčava, Moravske toplice or Mežica are facing certain difficulties and

are getting new injection of subsidies after one year of relatively low state budgetary participation. On the other hand it is not possible to assure that governmental participation is strictly connected to the economic situation.

	2005	2006	2007	2008
Brda	25,6%	24,4%	11,9%	3,6%
Ajdovščina	20,5%	21,5%	4,8%	0,9%
Hrpelje-Kozina	14,4%	19,6%	6,8%	9,9%
Piran	3,9%	5,1%	5,7%	5,6%
Vodice	9,1%	1,7%	1,4%	3%
Šk. Loka	6,9%	5,1%	2,8%	2,5%
Solčava	80,3%	78%	28,8%	46%
Nazarje	38,8%	34,5%	13%	16,2%
Prevalje	31,1%	25,2%	7,7%	3,5%
Mežica	27,5%	22,2%	8,1%	18,7%
Starše	20,6%	33%	10,1%	8,9%
Hoče-Slivnica	20%	16,8%	3,1%	8,7%
Moravske Toplice	51,5%	54,5%	13,5%	46,4%
Lendava	29,8%	31,4%	15,1%	17,1%
Moravče	38,7%	34,5%	4,6%	5,8%
Mengeš	3,5%	3,9%	0,3%	0,8%
Žužemberk	61,7%	61,4%	17,4%	21,3%
Trebnje	28,8%	29,6%	6%	8,4%
Brežice	34,5%	33,9%	10%	18,5%
Krško	20,5%	21,4%	6,6%	3,4%
Trbovlje	16,4%	13,8%	3,8%	3,7%
Hrastnik	21,2%	23%	2,6%	2,5%
Postojna	8,7%	13%	8,7%	5,7%
Cerknica	21,9%	24,3%	8,9%	7,5%
National average	18,8%	18,7%	7,4%	7,9%

Table 4: Government subsidies

[1]

On the expenditure side of local budgets salaries are one of main expenses in municipalities. Other current expenses and social security subsidies are not included. Despite it seems that salaries are more or less constant with slow ratio of becoming less significant part of mu-

nicipal budgets, one can argue, that they are not systematically connected to the economic situation. Due to governmental measures taken in 2009 only in this year it will be possible to indicate first signs of changes in the field of salaries.

	2005	2006	2007	2008
Brda	6,6%	6,1%	5,8%	6%
Ajdovščina	4,5%	4,1%	3,6%	4,1%
Hrpelje-Kozina	4,2%	3,6%	4,5%	3,6%
Piran	7,4%	6,7%	7,1%	6,5%
Vodice	4,1%	3,4%	5%	6,7%
Šk. Loka	5,5%	5,6%	4,9%	5,6%
Solčava	9,8%	12,7%	10,4%	8,6%
Nazarje	5,8%	4,8%	3,4%	3,3%
Prevalje	7,5%	7,1%	6,9%	6,9%
Mežica	5,6%	5,2%	4,8%	4,2%
Starše	8,2%	5,8%	8,2%	7,7%
Hoče-Slivnica	5,9%	6,7%	5,7%	4,7%
Moravske Toplice	4,6%	4,1%	4,5%	3,2%
Lendava	9,7%	5,6%	9%	6,1%
Moravče	7,8%	6,6%	4,9%	5,8%
Mengeš	6,2%	4,9%	6,4%	6,1%
Žužemberk	3,2%	3%	3,3%	3,5%
Trebnje	4,5%	4,1%	5,1%	4,1%
Brežice	5,1%	4,3%	5,3%	4,5%
Krško	5,4%	5%	5,2%	4,1%
Trbovlje	5,3%	6,2%	5,7%	4,5%
Hrastnik	4,7%	6,2%	6,3%	5,5%
Postojna	7,7%	6%	4,1%	5%
Cerknica	2,6%	3%	3,8%	3,4%
National average	5,6%	5%	5,2%	4,9%

Table 5: Salaries and other payments to employees
(without social subsidies and other current expenses)

[1]

As well as salaries of municipal civil servants also social transfers to private sector and households are slowly lower and lower and in this sense until 2008 it is not possible to confirm that economic crisis demanded any serious measures taken by local authorities in order to

protect social stability of areas. On the other hand, we can see that certain municipalities have issues from time to time that are not connected directly to general economic situation but can be more result of local situations.

	2005	2006	2007	2008
Brda	41,6%	34,3%	30,5%	29,7%
Ajdovščina	34,4%	31,4%	29,8%	32,8%
Hrpelje-Kozina	26,1%	29,5%	36,2%	25,6%
Piran	40,7%	36,3%	38,3%	34,5%
Vodice	33%	26,9%	32,8%	38%
Šk. Loka	30%	28,4%	22,8%	24,5%
Solčava	33,4%	29,5%	23,9%	15,4%
Nazarje	38,7%	29,5%	23,6%	23,8%
Prevalje	36,3%	32,8%	29%	29,4%
Mežica	35,4%	32,4%	42,2%	36,2%
Starše	37,8%	25,2%	32,5%	34,1%
Hoče-Slivnica	37,6%	44,1%	37,4%	31%

	2005	2006	2007	2008
Hoče-Slivnica	37,6%	44,1%	37,4%	31%
Moravske Toplice	32%	30,4%	27,9%	17,2%
Lendava	37,5%	23,5%	38,2%	29,8%
Moravče	37,5%	36,6%	27,3%	27,8%
Mengeš	40,3%	39,5%	35,6%	35,3%
Žužemberk	36,2%	27,1%	35,1%	34,3%
Trebnje	36,3%	32,4%	35,3%	29,5%
Brežice	52,9%	43,6%	35,5%	27,8%
Krško	38,8%	33,1%	30,5%	26,7%
Trbovlje	36,7%	42,8%	36,5%	29%
Hrastnik	25,7%	35,3%	38,5%	33,2%
Postojna	38,6%	30,9%	26,8%	24,4%
Cerknica	20,9%	24%	27,5%	27%
National average	38,5%	35,4%	35,5%	33%

Table 6: Social transfers

[1]

Until 2008, national average shows that municipalities are increasing their investments into local economy or into own municipal projects. On one hand we can explain this with improving ability to use European funds and we can argue that also calls from national govern-

ment that public sector shall spend more in times of crisis in order to keep economy going were relatively successful. New investments after 2007 are also connected to the greater share of personal income tax allocated from national budget.

	2005	2006	2007	2008
Brda	16,7%	26,9%	28,3%	28,6%
Ajdovščina	40,2%	37,9%	46,9%	42,1%
Hrpelje-Kozina	38,2%	39,6%	31,6%	47,7%
Piran	15,2%	26,8%	31,2%	23,3%
Vodice	34%	44,7%	30,4%	19,1%
Šk. Loka	40,2%	36,7%	42%	34,1%
Solčava	38,8%	29%	43,2%	59,2%
Nazarje	19,7%	27%	28%	33%
Prevalje	16,6%	20,5%	34,4%	37,1%
Mežica	7,7%	9%	18,2%	35,6%
Starše	23,2%	10,1%	16,%	36,7%
Hoče-Slivnica	17,4%	13,6%	23,7%	39,6%
Moravske Toplice	40,7%	43,9%	42%	58,1%
Lendava	31,2%	56,1%	26,6%	33,7%
Moravče	32,2%	25,1%	37,2%	32,6%
Mengeš	30,5%	27,5%	34,3%	33,7%
Žužemberk	32%	38,4%	36,1%	29,5%
Trebnje	27%	27,3%	28,5%	30,3%
Brežice	8,4%	28,4%	30,4%	46,3%
Krško	13,7%	23,1%	35,5%	45,5%
Trbovlje	32,2%	20,1%	31,1%	49,1%
Hrastnik	47,7%	26,6%	20,4%	35,3%
Postojna	21,8%	38,4%	44,4%	45,4%
Cerknica	58%	53,1%	48,1%	49,7%
National average	27,4%	31,3%	33,6%	36,3%

Table 7: Investments

[1]

4. Slovenian municipalities in times of economic crisis

In order to get clearer picture we will certainly need budgetary data of realized budgets for 2009 and 2010 before being able to state anything ultimate about influence of the economic crisis at the local level. However, data above are indicating so far that local government is not significantly influenced by global instability. This can be explained by fact that Slovenian municipalities have relatively low policy competences, as well as they are not very active in economy. Due to the fact that corporate profit tax is state tax as well as value added tax, municipalities can be influenced significantly only by lose of personal income tax that was in 2008 not so evident (people were still employed and receiving salaries). We expect that main problems will occur in 2009 and especially in 2010 with increasing number of unemployed workers not contributing to personal income tax mass.

We can argue that hypothetical changes in municipalities, as represented in introduction can still occur but with slight delay of 2-3 years. For the analyzed period we can hardly talk about any serious budgetary changes that can be directly connected to the economic crisis. It seems that other processes, such as ongoing reduction of expenses in administration and increasing level of investment into development of local infrastructure and elements providing higher quality of life are much more present.

REFERENCES

- [1] http://www.mf.gov.si/slov/fin_loksk/obrazec_P_P1/real_P_P1.htm
- [2] Slovenske občine v številkah 2009
<http://www.stat.si/doc/pub/Obcine2009/OBCINE%202009.pdf>