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FINANCIAL AUTONOMY OF LOCAL GOVERNMENTS – CASE STUDIES OF FINLAND AND POLAND

1. INTRODUCTION

Local governments are a part of the economic, social and political system in all democratic countries. However, the role that is played by local governments, their importance and the level of autonomy varies a great deal between countries. Different approaches to the issue of local governments in different countries come about as a result of varying historical, cultural and social backgrounds.

This article deals with two local government systems whose path of development was greatly different – namely Finland and Poland. Since the mid-1940s both these countries operated under extremely different conditions. Poland, although not a part of Soviet Union as such, was nonetheless a part of the Soviet-run block of Central and Eastern European countries. During nearly five decades of communist regime local governments were abolished in Poland. On the other hand Finland was a democracy and a market economy, where local governments operated and developed.

Only after 1990 did Poland start to chase the developed European countries. The political system changed, the economy became market-oriented and local governments were resurrected. This article attempts to present the current status of local governments in Poland and Finland in order to ascertain where the Polish model of local governance is on the map of development. The article emphasises the issue of financial autonomy and further develops the OECD research project entitled "Fiscal Design Across Levels of Government" regarding the concept of financial autonomy in sub-national government levels.

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Financial autonomy may be approached from two sides, namely the income source side and the expenditure side. The authors are attempting to assess the income source based autonomy by analysing the income structure of local governments and the decision-making power that the local authorities may exert over various types of income sources. On the other hand the authors attempt to assess the extent to which the expenditure is predetermined by national legislation. This is done through allocating particular expenditure items on an expenditure autonomy continuum ranging from voluntary tasks (expenditures) to commissioned tasks (expenditure) which are steered in detail by the central government. The article is concluded by an analysis of relationships between the income autonomy on the one hand and tasks as well as expenditure that they incur on the other hand. A matrix combining both these facets is constructed and presented in order to assess whether the income autonomy and the expenditure autonomy are balanced.

1.1. Organisation of the local government system in Poland

The contemporary history of local governments in Poland started in 1990. The current form of locally managed communes ("gmina") has been created by a Local Government Act passed by the Parliament on March 8, 1990. The Act has replaced the old system of so-called national councils, which were a relict of the communist era.

The role that the communes were to play in shaping a democratic Poland was at that time considered to be great (Stoker 1991, p. 1–20). The recreation of local governments was one of the first fundamental reforms undertaken after Poland had changed its political and economic system. The fact that the Local Government Act has been passed by the Parliament on the same day as the new Constitution, which was a confirmation of and a stepping stone for further transformation, speaks volumes for how significant the local governments were thought to be. The creation of autonomous local governments was to help stabilise the new democracy through political, fiscal and administrative decentralisation. It was considered vital to have local governments as allies in the struggle for strengthening and stabilising the democratic system in Poland during the time of system transformation in the early 1990s.

The communes have been the only level of local government administration for nearly nine years. On January 1, 1999 a new territorial division was implemented, which created two additional levels of local government – voivodships ("województwo"), which are also referred to as regions and are the largest of local governments, as well as an intermediate level between regions and communes – counties ("powiat"). This reform was meant to increase the effectiveness of the way in which the country was managed, make the society more actively involved in the matters of running the state and finally to adjust the territorial division of Poland to the requirements posed by the anticipated enlargement of the EU (Kot 2003, p. 82–83).

The local governments of all levels are not hierarchically subordinate to local governments of higher levels nor to the central authorities. Currently there are 16 regions, 381 counties and 2478 communes. The expenditure that is carried out by local governments amounts to slightly less than a third of all public expenditure. Within that amount Polish local governments take care of a wide array of tasks from spatial planning and environmental protection, through maintaining public facilities and infrastructure, supllying heat, gas and electricity, treating sewage and waste, providing local public transport, health care, social welfare, education and culture to ensuring public order.

1.2. Finnish local government system

The foundation for Finnish local government system was layed between 1865 and 1873 with laws on rural municipalities and cities. The present Local Government Act of 1995 treats both rural municipalities and cities in the same way. The present act gives more flexibility than former laws to organise municipal functions and administration. Local self-government is safeguarded in the Finnish constitution.

Finland has a one-tier local government system with 444 municipalities. There is no intermediate local government level with its own taxing powers and elected councils as in other Nordic countries. Instead, Finland has so-called municipal joint authorities, which have council members appointed by member municipalities. These joint authorities take care of hospitals and vocational schools and some other activities requiring wider population bases than separate municipalities have.

At the regional level there are six regional general-purpose state authorities, provinces ("lääni"). Provinces are mainly regulatory authorities. Besides these provinces there are some special purpose regional state authorities.

The 1990s saw two important law reforms. Besides the enactment of the Local Government Act in 1995 also the grant system for local governments was reformed. The new system that came into power in 1993 replaced cost-based, specific government grants by calculated general type of grants which are determined by municipal expenditure needs and tax base differences.

The expenditure of local authorities and joint municipal authorities makes up nearly two-thirds of all public expenditure on consumption and investments in Finland. Most of the expenditure of local authorities and joint municipal authorities arises from the provision of basic welfare services. Staff costs are over half of local government expenditure. Employees in total are little over 400,000.

Local authorities run the country's comprehensive school system, upper secondary schools, vocational institutes, libraries, cultural and recreational services. Child day care, welfare for the aged and the disabled and a wide range of other social services are also responsibilities of local authorities. Local governments provide preventive and primary health care services, specialist medical care and dental care, and also promote a healthy living environment. They are even taking care of planning and supervision of land use and construction in their area, water and energy supply, waste management, street and road maintenance and environmental protection.

2. FINANCIAL SYSTEMS OF LOCAL GOVERNMENTS

2.1. Local government finance – case Finland

Finnish local self-government derives its strength from an independent taxation right that is protected in the constitution. Local authorities fund nearly half of their operations out of their own tax revenues. These consist of a local income tax, a share of a corporate income tax and a real estate tax. Contrary to typical public economics' arguments of tax assignment, income tax is the most important local tax in Finland whereas property tax is of minor importance. In addition, local governments receive an annual share of revenues from corporate taxes (a shared tax)[1].

Each municipality decides independently on its income tax rate; no upper limit is set. The real estate tax has an upper and a lower limit prescribed in the tax law. Municipal income tax is a flat rate tax on the earned income of individuals. The average tax rate has been slowly increasing during the last decades. In 2002, the average local income tax rate was 18.03% of taxable income.

Government grants are another major source of income for local authorities, and amount to, on average, 15% of their income. A major grant

[1] *Of Finnish and Nordic municipal finance*, see: Oulasvirta 1993, p. 106–135; 2003a, p. 89–98; 2003b, p. 340–349).

reform was implemented in 1993 most of the grants that the municipalities received were changed from specific grants at actual costs to general purpose grants related to objective criteria (non-matching grants). As the grants are not anymore matching and earmarked like before, the municipalities are expected to be more efficient in providing services according to local needs and circumstances. Currently the system is made up of general grants and two sector grants to social welfare and health care as well as to education and culture. Both the general and sector grants are by nature general purpose grants. The general grants are formed by grants per capita and tax revenue equalising grants, which are typical general and non-matching grants.

In addition to grants mentioned above, also **discretionary general grants** may be awarded to a municipality which, primarily due to exceptional or temporary financial difficulties, is in need of additional financial support. The applications are directed to the Ministry of Interior and the Cabinet makes the ultimate decision.

Operating revenues (fees and charges) make up about 26% of municipal income. Two-thirds of municipality income from fees and charges comes from publicly-owned enterprises, mainly energy, water and sewerage works and harbours. Within the limits laid down in the law, the local authorities may also use charges for social services and health care and for educational and cultural services. These charges are, however, of minor significance in funding these services.

Loans bring in about 2–4% of municipal income. Local authorities normally use loans only to fund investments; they do not normally take loans to finance their running costs. They have the right to borrow independently on both the domestic and the foreign money market.

Table 1

Municipal finances in Finland during 1950–2000 (%)

	1950	1960	1970	1980	1990	2000
Tax incomes	50.8	50.4	54.4	40.2	39.4	51.0
Loans	11.5	5.2	5.3	3.9	4.5	3.0
Grants-in-aid	17.5	15.0	15.3	18.2	23.0	14.0
Other incomes	20.2	29.4	25.0	37.7	33.1	32.0
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: "Statistics Finland" and The Association of Finnish Local Authorities.

2.2. Local government finance – case Poland

The system of financing local governments in Poland is slightly more complex from the Finnish one due to the fact that there are three separate tiers of local government authorities. Thus, the following analysis provides only the simplified view of the financial system while attempting to reflect the characteristic features of each level of local government.

Tax incomes play a lesser role in financing Polish local governments than they do in Finland despite the fact that there are ten different tax income sources available to local governments. Local taxes include eight of them: real estate tax, agricultural tax, forest tax, tax on means of transportation, dog tax, inheritance and gift tax, personal income lump-sum tax, tax on civil law contracts. All income from these local taxes goes to communal budgets. The remaining two tax income sources, namely the personal income tax and the corporate income tax are state taxes which are shared between the state and all local governments. As of January 1, 2004 the shares that are transferred to local government budgets have been raised quite significantly. This change is bound to change the income structure of local governments considerably.

Apart from tax incomes Polish local governments also have a number of other income sources that are considered as their own sources of income. The most prominent in this group are charges which the communal local government may collect: a treasury fee, an administrative charge, market dues, charges for some services provided by local governments, mineral royalties and other charges and fines. The group of local governments' own sources of incomes is concluded by various other sources including: incomes from property, inheritance and donations, interests etc. The share of local governments' own sources of incomes in total incomes has been gradually decreasing ever since the local governments have been re-established in 1990. This is particularly clear in the case of communes – as far as counties and regions are concerned the shares have been more stable (in the case of counties the share has even increased), but their level is much lower than for communes (see Tab. 2).

As a result of a weakening role of local governments' own sources of incomes the role of grants transferred from the state budget has been gradually increasing. The role of general grants has been growing particularly significantly. Similarly to Finland the general-purpose grants are based and calculated according to a set of objective criteria. These include: local governments' per capita tax incomes, low population density, high rate of unemployment, level of expenditure on social welfare, etc. General-purpose grants are a major source of funding for all local governments in Poland.

Finally, the specific grants that are awarded to Polish local governments are conditional grants. They are awarded mainly for executing tasks in the field of government administration and other tasks which are commissioned by law or which derive from agreements. They are not as significant as general grants in financing communes but play a major part in financing counties as well as regions.

Table 2 shows the development of major components of the local government income structure since 1991 (a recreation of communal local government) and 1999 (establishment of counties and regions).

Table 2

Local government income structure 1991–2002 (%)

	Communes			Counties		Voivodships	
	1991	1999	2002	1999	2002	1999	2002
Own sources	45.4	34.3	34.7	4.3	9.5	1.6	2.9
PIT and CIT shares	28.9	18.2	15.2	1.9	1.3	16.4	12.8
General grants	13.5	32.1	35.2	44.4	47.0	34.7	35.8
Specific grants	12.0	15.4	14.9	49.4	42.2	47.3	48.5

Source: reports on implementation of state budget – information on local government budgets, published by the Cabinet and Statistical Yearbooks published by the Main Statistical Office.

3. FINANCIAL AUTONOMY OF LOCAL GOVERNMENTS

3.1. The relationship between central and local government

Usually three crude models of the relationship between central and local government are mentioned. The relative autonomy model gives local governments a freedom of action within a defined framework of powers and duties. Central control is limited and local authorities are steered by legislation. Local authorities raise most of their revenue through direct taxation. In the agency model local authorities serve mainly as agencies for carrying out central government's policies. This is guaranteed by detailed legislation, regulation and controls. There is therefore little need or justification for significant local taxation. Grants and other central funding make up the most of the local government income. The interaction model is something in between the two extreme models. According to Stoker the political processes of central and local government are closely inter-related – possibly through a dual mandate – with issues being resolved by mutual discussion. In this model it is difficult to define responsibilities, since emphasis is on working together. Local government finance will consist of both taxes and grants, but taxes may be shared and grant levels protected (Stoker 1991, p. 6–7).

Stoker emphasises that normally no country can be simply described in terms of only one of these models. Also one must observe that the pattern may vary between different activities in the same country (Stoker 1991).

It is certainly not true that any of these models is a universal one, the best solution irrespective of the phase of development in the country in question. Local government systems and central-local relations develop in their country-specific circumstances, culture and history. In Europe we may discern a modern trend that emphasises local democracy and decentralization from central government to regional and local levels, which has even been expressed in the European Charter of Local Self Government.

3.2. The income autonomy concept

Comparing financial autonomy between Polish and Finnish local governments requires that the analysis is based on comparable units that carry out a similar scope of tasks. That is why only local governments on the communal level in Poland are analysed and compared to their Finnish counterparts[2]. Similarly, the Finnish joint authorities are not taken into consideration. This approach is to safeguard the quality of the comparison and prevent the distortion of results and conclusions.

The concept of income autonomy is approached according to the classification of income sources prepared by the OECD (*OECD*... 2001). According to that classification the sub-national government income sources may be ranked respective to the level of autonomy that they provide local governments with. Tax incomes are divided into three main categories of decreasing tax autonomy which are then subdivided into groups and ranked by decreasing order of control that the local governments may exert over a given income source. The grants are also classified and divided into smaller groups. The breakdown of local government income sources is presented in Tab. 3, together with the income structure of local governments in both analysed countries.

[2] The analysis is carried out for communes as well as large cities which have a status of counties, while being communes at the same time.

Before presenting a more detailed analysis of the income structure let us first discuss shortly the features of particular groups of income sources with regards to financial autonomy. Tax incomes and other own sources of income are by far the most favourable sources of income as far as financial autonomy of local governments is concerned. Not only do they offer a possibility of deciding (to a greater or lesser extent) the amounts that are collected, but normally also provide local authorities with a priviledge of deciding freely how these funds will be spent. That is to say that tax incomes are not earmarked to any specific activities.

Specific grants on the other hand offer very little as far as the income side of financial autonomy is concerned. Furthermore, they are often very restrictive with regards to the expenditure side as well. Since they are awarded for a specific purpose (mostly tasks that are commissioned to local governments by legislation) it is necessary to use them exactly as the donor has specified. Should these funds be used otherwise it is required that they are returned to the donor. This means that the local governments' hands are tied – there is no freedom of using or allocating specific grants as the local authorities consider it best. It is therefore clear that specific grants are the least favourable group of incomes as far as financial autonomy is concerned.

Finally, the general purpose grants lie somewhere in between the tax incomes and specific grants. They do not offer much with regards to the income autonomy but have a distinct advantage over specific grants in that they may be used freely, as the local government authorities see fit.

Table 3 presents the shares of incomes allocated to particular income sources ranked in accordance with the OECD report on tax autonomy. The classification of grants used in the table is slightly less complex than what the OECD report proposes. The reason for that being that such a detailed breakdown of grants is not fully applicable for our country comparison purposes.

The income sources of Polish and Finnish local governments have been allocated to appropriate classes in the table below. In the case of Polish local governments the grants have only been allocated to main groups as either general-purpose grants or specific grants. Also there remains a significant group of own incomes of Polish local governments that could not be allocated to specific groups due to the fact that the available statistics do not provide a required level of detail. This group accounts for 5.6 billion PLN (8.87% of total incomes). They have been included in a separate group called "other own incomes". The data shown in Tab. 3 was used as a basis for further calculations of the **income autonomy index**.

Table 3

Income sources of Polish and Finnish local governments

Tax incomes and other own sources of income	Weight index (%)	Finland 2002 (bilion EUR; % of total incomes)	Poland 2002 (bilion PLN; % of total incomes)
1	2	3	4
a. Local government sets tax rate and tax base	100	–	Income from property 2.89; 4.58
b. Local government sets tax rate only	80	Income tax 11.95; 66.7 Real estate tax 1.49; 8.3	Real estate tax 9.77; 15.48 Agricultural tax 0.82; 1.30 Tax on means of transportation 0.53; 0.84 Marketplace fee 0.24; 0.39 Forest tax 0.11; 0.18
c. Local government sets tax base only	70	–	–
d1. Local government determines revenue split	65	–	–
d2. Revenue split can only be changed with consent of sub-national government	60	–	–
d3) Revenue split fixed in legislation, may unilaterally be changed by central government	50	Share of corporate tax 0.64; 3.6	Share of Personal Income Tax 8.80; 13.94 Share of Corporate Income Tax 0.79; 1.25 Tax on civil law contracts 0.87; 1.38 Treasury fee 0.48; 0.77 Mineral royalties 0.23; 0.36 Lump-sum income tax 0.19; 0.30 Inheritance and gift tax 0.18; 0.29

Table 3 (cd.)

1	2	3	4
d4. Revenue split determined annually by central government as part of the budget	40	–	–
e. Central government sets rate and base of local government tax	40	–	Other own incomes 5.61; 8,87
Other own incomes	40	–	Other own incomes 5.61; 8,87
General-purpose grants	40	–	General grants 22.23; 35.21
– grants related to objective criteria	35	Current grants 3.67; 20.5	–
– grants also related to own tax effort	45	–	–
Specific grants	10	Investment grants 0.16; 0.9	Specific grants 9.38; 14.86
Discretionary grants	0	–	–
Total taxes and grants		Total taxes and grants 17.91; 100	Total incomes 63.12; 100

Source: Finnish Local Government Association, 23.3.2004, www.kunnat.net; Report on implementation of state budget – information on local government budgets for 2002, published by the Cabinet in 2003 in Warsaw.

In the case of Finnish local governments the current grants have not yet been allocated to the main groups of general-purpose grants or specific grants although they were overwhelmingly general-purpose grants. This shall be tried later. Anyway, about 90% can be estimated to be general type of grants of the current grants. Investment grants are all specific grants. In the Finnish case the percentages have been calculated from the income other than tax and grant income excluded.

The table above includes also the proposed **weighing indices** for all classes of incomes. These indices are to reflect, subjectively, what level of autonomy and decisionmaking power a given class of incomes provides the local governments with. These indices were used to weigh particular classes of incomes so that an income autonomy index could be worked out.

A calculation of such an index for Poland (based on the proposed values for weighing) gives the following result (the calculation is carried out by multiplying the shares of particular income sources through the weighing indices assigned to them and adding them to receive a joint index): **47.4%**. This means that Polish communes are capable of controlling and deciding over 47.4% of the incomes that they receive. Carrying out a similar calculation for Finland shows that the value of this index is **69.1%**. The difference is thus substantial.

3.3. The expenditure autonomy concept

The aforementioned OECD survey did not eloborate the expenditure side of financial autonomy. Although it is harder to measure the level of financial autonomy analysed from the expenditure side quantitatively, it is still necessary to at least do that in a more qualitative way and to explain the near concept of expenditure autonomy. In order to do that we classify expenditure into three crude categories, based on the type of tasks that are performed:

a) voluntary local tasks completely decided by the local government council;

b) obligatory tasks defined in a more flexible way by framework laws. In this case the citizen may not demand the service in a specific mode irrespective of local government budget appropriations reserved to that service;

c) obligatory tasks defined in detail by legislation. The strongest case of this category is a law that gives the client a subjective right to get a certain service from the local government. The local government must provide it irrespective of its budget appropriations.

These three groups of tasks create a continuum of decreasing expenditure autonomy, meaning the extent to which the expenditure is generated and controlled by locally made decisions. Depending on the local government model that is adopted tax incomes, other own sources of income and general-purpose grants may therefore be allocated to financing more or less restrictively defined tasks, thus providing local governments with varying scope of financial autonomy. Specific restricted grants may also give some latitude depending on the expenditure autonomy in the specific task in question.

In the Polish case most of expenditures are related to tasks belonging to groups b) and c) thus the level of financial autonomy (its expenditure side) is not as great as it could be. In the Finnish case most of the tasks are in the category b).

3.4. Combining the income and expenditure autonomy for fiscal autonomy

In this section we combine the assessment of financial autonomy from both the income and the expenditure side. Only after doing this one can make an evaluation of the consistency of the central government policy towards local governments.

So, let us briefly compare the expenditure side of financial autonomy of Polish and Finnish local governments with the income one. Firstly let us look at the income structure in 2002, which is presented in Tab. 4:

Table 4

The income structure of Polish and Finnish local governments in 2002 (%)

Income sources	Poland	Finland
Tax incomes and other own sources	49.93	78.6
General-purpose grants	35.21	20.5
Specific grants	14.86	0.9
Total	100.0	100.0

Source: prepared by the authors.

It is clearly visible that the income structure is more favourable in the case of Finnish local governments. Specific grants, which are the most restrictive group if incomes, do not play virtually any role in financing Finnish municipalities. However, also in Poland the role of specific grants in financing communes is relatively small (it is much greater in the case of counties and regions), although one issue needs to be raised here. It is the fact that the amounts of specific grants that are transfered to communes are insufficient for financing all the tasks that were commissioned to communes (and which were meant to be financed fully by specific grants). This has led to a situation where local authorities need to cover some of the costs of commissioned tasks out of their tax incomes or general-purpose grants, which ought to be devoted to other issues.

The last issue that needs to be considered here is the type of tasks that are carried out using tax incomes, other own sources of income and general-purpose grants. It has already been stated that in Poland most tasks are obligatory tasks which vary as far as the level of detail provided by legislation is concerned. They are classified to categories b) and c). In the Finnish case most are in class b).

These three classes of tasks together with three main categories of incomes create a matrix of financial autonomy which measures the extent to which the expenditures and incomes are generated and controlled by locally made decisions. In order to assign Poland and Finland to certain positions on this continuum the authors have identified the countries in the matrix in the conclusion section.

Figure 1 presents the matrix of financial autonomy which combines the income and the expenditure aspect of financial autonomy.

		Expenditure decision-making autonomy Decreasing level of autonomy →		
		a) free voluntary tasks	b) obligatory tasks (frame laws)	c) obligatory tasks (detailed specific laws)
Income source autonomy Decreasing level of autonomy ↑	1. Tax own incomes and other own incomes	**Strongest autonomy**	Strong autonomy	SYSTEM INCONSISTENCY
	2. General-purpose grant income	Strong autonomy	Average autonomy	Weak autonomy
	3. Specific grant income	SYSTEM INCONSISTENCY	Weak autonomy	No autonomy at all

Fig. 1. The matrix of financial autonomy

Source: prepared by the authors.

The strongest possible financial autonomy would mean that local governments have no centrally decided (by law) obligatory tasks and that they could themselves decide what kind of taxes, fees and charges and so on they use. If own incomes would be added with grants from central government that are general-purpose grants with no strings attached to them, the financial autonomy would still be very strong.

The opposite situation would be if local governments had no own taxes but only specific grants awarded to perform only obligatory tasks defined by specific detailed laws. The specific grants would have tight rules how to use the money. If local governments have also some tax income but the central government decides both base and rate unilaterally without local government having any decision-making power on these matters (actually shared taxes), the autonomy would not be much stronger either.

We want to emphasize that we are not taking a normative stand that claims that box 1a (strong autonomy) is always better than box 3c (weak or no autonomy). There are situations when strong autonomy is not a good solution – for instance, if there are not enough preconditions for local authorities to practice good governance and democracy at the local level. Globally there are wide differencies in competency and integrity of local authorities and economic resources of local communities. This means that local power will not always mean responsible and efficient decision-making for the best of the majority of local citizens.

One must also take into consideration that the optimal level of autonomy varies between different tasks. In elementary education we need certainly some country wide standards and central supervision. In recreation and sports services there are normally not so strong central interests and intervention needs.

Still, our argument is that central government should aim to provide consistency. If the central government decentralization policy is consistent, then the cells marked as "SYSTEM INCONSISTENCY" should be avoided. If no expenditure autonomy is given, then the money should be given centrally or in a centrally steered way to all local governments. The specific grants ought to be graded in a way that would take into consideration different expenditure needs of particular municipalities. Other boxes than the two marked as "system inconsistency" lie within the consistency area, although three diagonal boxes – 1a), 2b) and 3c) represent the highest consistency.

Also should the services and expenditures that they cause by completely freely decided upon at the local government level, then the income responsibility should also lie with local tax payers. In this case there would still be a need for grants in order to equalise disparities in tax bases but this could be done with general-purpose grants.

4. CONCLUSIONS

In the next picture we have allocated Finland and Poland onto the matrix which we presented in the previous section.

The development has gone in Finland during the local government history from the top left-hand corner in the beginning to the bottom right-hand corner and finally has settled more or less in between those two extremes. During the second half of the XIX century and at the beginning of the XX century municipalities had very few obligatory tasks and financing responsibilities lay mainly on local tax-payers. After the independence and more notably from the 1960s to 1980s, during the welfare state building, local governments got many new obligatory tasks and specific grants directed to those obligatory tasks. This combination was very effective to enlarge the welfare service provision at local level. This meant also a growth of local governmment expenditure and specific grants. In the late 1980s and especially during the recession in the 1990s welfare state model had to be revised. For the local governments this meant general grants spurring to economy and rationalizing in municipalities. This meant also grant cuts which further enhanced economizing in municipalities. At the same time – even if detailed laws had been changed more and more to frame laws – there were still many obligatory tasks with heavy expenditures. From the local government point of view the central government steering model in the 1990s became unbalanced. Consistency would have required that if central government cuts grants so strongly as Finnish cabinets did in the 1990s, also task responsibilities should have been diminished accordingly. This did not happen and that is why many municipalities had to resort to deficit budgeting.

		Expenditure decision-making autonomy Decreasing level of autonomy →		
		a) free voluntary tasks	b) obligatory tasks (frame laws)	c) obligatory tasks (detailed specific laws)
Income source autonomy Decreasing level of autonomy ↑	1. Tax own incomes and other own incomes	**Strongest autonomy**	Strong autonomy Finland	SYSTEM INCONSISTENCY
	2. General-purpose grant income	Strong autonomy	Average autonomy Poland	Weak autonomy
	3. Specific grant income	SYSTEM INCONSISTENCY	No autonomy	Weak autonomy

Fig. 2. The matrix of financial autonomy – comparison of Poland and Finland
Source: prepared by the authors.

Going over to the Polish case it needs to be said that the contemporary history of Polish local government is not nearly as long as the Finnish one. In Poland local governments were reestablished in 1990 after a 50-year long period when there had been no local governments. Initially, in the early 1990s, Polish communes enjoyed a significant amount of autonomy. They were financed mainly by the tax incomes, other own sources and general-purpose grants. As time went on the communes were obliged to carry out an increasing number of commissioned tasks. They were financed primarily by grants transfered from the state budget. Initialy those were mainly specific grants which were later replaced by general-purpose grants. That is why the current income autonomy is at a visibly lower level than 10 years ago. As for the expenditure autonomy it needs to be said that legislation provides for most tasks in detail.

4.1. Policy recommendations

We urge for consistency in the central government policy. In order to have the information basis for this there should be a negotiating system between central government and local governments and a common data basis agreed upon and relied upon. The data base is necessary to follow the expenditure and income development in the local government sector. The system should include also reliable forecasting of the influences of the laws prepared by the central government and budget decisions on local government economy. This should create the preconditions for a balanced steering policy and consistent level of financial autonomy consisting of both income and expenditure autonomy for the local government sector. When central government does not aim to ensure balanced steering and consistent financial autonomy for local government sector, this should be done in a transparent way with all the political consequences.

We need to remember that both Poland and Finland have ratified the European Charter of Local Self-Government. Article 9 of the charter says that "local authorities shall be entitled, within national economic policy, to adequate financial resources of their own, of which they may dispose freely within the framework of their powers". Further the same paragraph says that the financial resources shall be commensurate with the responsibilities provided for by the constitution and law. Article 9 is thus clearly speaking for a balanced steering of local government sector and for strong financial autonomy within the framework of the country specific circumstances.

From the point of view of local governments stability and predictability is also important in fiscal relations between local and central government. Sudden changes in grant and tax systems that affect local government finances – especially in a negative way – may decisively harm local government economic planning and may cause hasty decision making at the local level.

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AUTONOMIA FINANSOWA JEDNOSTEK SAMORZĄDU TERYTORIALNEGO – PRZYKŁAD FINLANDII I POLSKI

Jednostki samorządu terytorialnego stanowią integralną część zarówno systemu ekonomicznego, społecznego jak i politycznego we wszystkich krajach demokratycznych. Jednakże zauważalne są znaczne różnice w roli, jaką w różnych krajach odgrywają samorządy, i w poziomie ich autonomii. Różnice te wynikają z odmiennych uwarunkowań historycznych, kulturowych oraz społecznych.

Niniejszy artykuł opisuje dwa systemy samorządowe (polski i fiński), które rozwijały się w bardzo od siebie odbiegających warunkach. Dopiero po roku 1989 Polska rozpoczęła proces nadrabiania zaległości względem rozwiniętych krajów europejskich. Dotyczy to także kwestii rozwoju samorządów – zmienił się system polityczny, dokonała się przemiana gospodarki z centralnie planowanej na rynkową, odtworzone zostały jednostki samorządu terytorialnego.

Celem niniejszego artykułu jest przedstawienie i porównanie poziomu rozwoju systemu samorządowego w Polsce i Finlandii. Szczególny nacisk został położony na kwestie autonomii finansowej leżące u podstaw samorządności jednostek terytorialnych. W artykule wykorzystane i rozwinięte zostały ustalenia projektu badawczego OECD zatytułowanego „Fiscal Design Across Levels of Government".