



Současný evropský recept na řešení krizí – centralizace a regulace v kontextu ekonomických teorií Rakouské školy a základních principů Evropské unie

The current European recipe for crisis management - centralization and regulation reflecting the context of the Austrian School economic theories and the fundamental principles of the European Union

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Abstrakt: Článek hledá odpověď na otázku, zda jsou stále zásada subsidiarity a decentralizace hlavními motivy politik EU. Srovnává postup EU s ekonomickými přístupy Rakouské školy a snaží se zhodnotit dopady dotační politiky na ekonomiky členských států.

Klíčová slova: decentralizace, dotační politika, Evropská unie, rakouská škola, regulace, zásada subsidiarity

Abstract: The article seeks to answer the question whether the principle of subsidiarity and decentralization prevail as the main motives of EU policies. It compares the EU economical action with Austrian School's economic approach and tries to assess the impact of the subsidy policy on the economies of the Member States.

Keywords: decentralization, subsidy policy, the European Union, the Austrian School, regulation, the principle of subsidiarity

JEL Classification: H5, H59, H730, H760

Introduction

The European Union had been forming based on the policies the aim of which was to ensure the competitiveness of the European region. It strived to do so by the incorporation of the common market and the economical and monetary union. Moreover, these mechanisms were to help the development and growth of economies, the employment rates; improve living standards and increase the quality of the environment. The functionality of these aims was articulated in four freedoms: the free movement of goods, people, services and capital. Furthermore, other common EU policies have been defi-

ned in the fields of e.g. economic competition, common export policy and in agriculture. Additionally, the European Union was also based on the principles of subsidiarity and decentralization.

Considering the present development it may be claimed that the European Union is abandoning these principles and is on the contrary taking the opposite direction towards more intense centralization and regulation. We can see a major problem in the dependency of the individual Member States on the subsidy policy and in the difficulties that occur in case of its failure. Another problem is the increasing of regulation from the EU part whenever a new problem arises.

The article should confront the current EU *modus operandi* with the macroeconomic ideas of the Austrian School and confirm or contradict the hypothesis that the principles of decentralization and subsidiarity are still claimed by the EU, but in fact the real EU policy is getting diverted from these values.

The principle of subsidiarity is a frequently quoted term. What does this principle actually mean? Let us investigate closer what the EU itself declares: 'The principle of subsidiarity (...) determines when the EU is competent to legislate, and contributes to decisions being taken as closely as possible to the Union citizen. It appears alongside two other principles that are also considered to be essential to European decision-making: the principles of conferral and of proportionality. (...) In all cases, the EU may only intervene if it is able to act more effectively than Member States. (...) The principle of subsidiarity aims at bringing the EU and its citizens closer by guaranteeing that action is taken at local level where it proves to be necessary. However, the principle of subsidiarity does not mean that action must always be taken at the level that is closest to the citizen. (...)'¹⁴³

Also decentralisation constitutes one of the basic fundamental principles of European governance. 'The White Paper on European Governance furthermore emphasises the concept of law through intensive participation in state administration. Member State governments as well as regional and local communities, along with representatives of business and civil society, individual experts and concerned citizens, are entitled to being involved in the process of European governance. The European governance should further on develop in the scope of the subsidiarity principle and in the framework of both vertical and horizontal decentralisation (presenting the necessity of a larger respect to the opinions of non-governmental institutions and equal individuals and that on all levels). The efforts of bringing the European governance closer to regional and local governments and all subjects remain the centrepiece of attention.'¹⁴⁴

It is clear from what has been declared that the principles of subsidiarity and decent-

143) The European Union/the principle of subsidiarity

144) Pomahač, R., 2010

realisation are key issues for EU politicians. However, how does EU treat the principles nowadays? Is the proceeding regulation and expansion of the European bureaucratic apparatus in compliance with these principles?

To be implemented consistently, the principles of subsidiarity and decentralisation presuppose not only the political but also financial independence of regions. Considering the state of affairs in the Czech Republic, the political independence has been accomplished. The financial independence appears to be a problem of a larger extent. The present fiscal-federalism system of reallocating financial means from centres to regions – including the subsidy system – does not provide for much of financial independence; even though an optimum rate of fiscal decentralisation of public expenditure is declared to be one of its principles.

For instance the EU Committee of Regions in its resolution of the 100th plenary session showed a moderate optimism concerning the progress of decentralisation; although the Committee rather feels efforts of individual Member State governments encountering the present crisis to centralise.¹⁴⁵

So far we have spoken about the financial dependence of regions – i.e. self-governing units and municipalities; however a major problem of the Czech economy (and not only it) is the growing dependence of companies on the state as well as on EU subsidy policies, which shall be elaborated further on.

The European Union defines a general course in which the whole community should evolve. The European Commission issued the strategic priorities for the forthcoming decade called Europe 2020 whereby it states on its webpages:

‘The European Union is working hard to move decisively beyond the crisis and create the conditions for a more competitive economy with higher employment. The Europe 2020 strategy is about delivering growth that is: smart, through more effective investments in education, research and innovation; sustainable, thanks to a decisive move towards a low-carbon economy; and inclusive, with a strong emphasis on job creation and poverty reduction. The strategy encompasses five ambitious goals in the areas of employment, innovation, education, poverty reduction and climate/energy.’¹⁴⁶ The EU thus strives to play an active role in solving the present crisis and searches new ways to overcome the crisis and prevent its repetition. No economist would dispute the goals declared above. However, the question of how the European Union intends to reach them remains open.

Unfortunately we have to remind the failure of the previous Lisbon strategy elaborated for the years of 2000-2010, which the EU itself has admitted. It stated that the industrial

145) Draft Opinion of the Committee of the Regions from the 11th and 12th April 2013

146) The European Commission, Europe 2020 in a Nutshell

production in 2010 dropped to the level of the 1990s and the unemployment rose up to 10% of the productive population of the EU. (...) The deficit is 7% GDP and the level of indebtedness exceeded 80% of GDP.¹⁴⁷ Has the EU changed its tools and policies so that this failure would not be repeated or at least it would have a much smaller impact? Is an institution like the EU whatsoever capable of preventing or diminishing the impacts of individual crises that economies experience regularly? May the efforts to save economies at all costs in fact be damaging?

What Is the Correct Solution of Crisis Situations?

Viewed from the point of neo-classical economic theories and theories of the Austrian School, the solution of crisis situations lies in curbing the bureaucratic apparatus and transferring the initiative to the private sector. Viewed from the point of the EU the most common solution is the creation of a new supervisory and regulatory agency that ensures transparent supervision and control of the issue. What do the neo-classicist economists say about regulation?

Rothbart's evaluation of the governmental intervention into the economy is fairly blunt: 'What, then, have we learned about government and money? We have seen that, over the centuries, government has, step by step, invaded the free market and seized complete control over the monetary system. We have seen that each new control, sometimes seemingly innocuous, has begotten new and further controls. We have seen that for governments are inherently inflationary, since inflation is a tempting means of acquiring revenue for the State and its favored groups. The slow but certain seizure of the monetary reins has thus been used to (a) inflate the economy at a pace decided by government; and (b) bring about socialistic direction of the entire economy. Furthermore, government meddling with money has (...) fragmented the peaceful, productive world market and shattered it into a thousand pieces, with trade and investment hobbled and hampered by myriad restrictions, controls, artificial rates, currency breakdowns, etc.'¹⁴⁸ Jörg Guido Hülsmann states in the Epilogue to Rothbart's book: 'It is a matter of time when both North America and Europe reach the dead-end road where their economies, built upon worthless (unsecured) paper banknotes, have ended up. (...) Western economies will then become subject to absolute government supervision as was the case during the German National Socialism, or else hyperinflation awaits us ahead. This moment may come in several years or perhaps just decades. It may be postponed by the monetary union of dollar and euro (and yen?). The dead-end street – at the end of which there lurks socialism or hyperinflation – however remains. Only radical economic reforms (...) can lead us out of here.'¹⁴⁹

The decisions the European Union has made alas confirm Rothbart's words about each

147) exceeded 80% of GDP

148) Rothbart Murray W., *What Has Government Done to Our Money*, p. 87

149) Rothbart Murray W., *What Has Government Done to Our Money*, p. 138

new control begetting new and further control. How has it handled the present-day crisis? We learn from the information published on the European Commission websites the following: ‘The crisis exposed fundamental problems and unsustainable trends in many European countries. It also made clear just how interdependent the EU’s economies are. (...) *Repairing the financial sector: **The EU has established new rules and agencies to prevent any forthcoming problems and ensure their brisk detection; and to make sure all financial players are properly regulated and supervised.***¹⁵⁰ This yet again confirms Rothbart’s words about multiple control and the establishment of more and more bureaucratic agencies regulating something they cannot even understand. As Vláčil observes: ‘The concurrence of bureaucratic and risk systems is symptomatic for the state administration apparatuses. These mostly hold the monopoly to diagnose problems and their solutions. Not rarely does their decision result in an illusory intervention resolving nothing whilst rather re-enforcing mechanisms that had given rise to the problems.’¹⁵¹

Are we to find an optimum solution to the present situation, we have to respect the interconnectivity of the EU Member States economies. Is the European Union capable of being reformed into an institution that guarantees the free-market advantages while performing minimal intrusion into the Member States economies? The European Union encounters a crucial problem expressed in its motto: ‘United in Diversity’. The European countries appear to be so diverse that they are not capable of absorbing the unified rules.

The European Union should not solve the aftermath of individual problems but focus on exterminating their causes. One of the causes may be its meddling with too many spheres in individual states, which in the Union’s diversity appears to be an unsustainable concept in the long-term outlook, although the European policy is quite successful in many an area – e.g. free market, security cooperation policy, the environmental area etc. The solution may lie in the decreasing of the policies of the European Union or in the reduction of the number of present Member States – i.e. only to those that are able to fully meet the rules of the Union. A kind of “*partial*” membership may also present a possibility for those states that are not capable of standing up to the Union requirements. However, these options are so radical and complicated that a consensus on such a solution is hardly imaginable. On the other hand escalating regulation and repeated aid to states incapable of fulfilling the Union rules are measures that cannot be applied endlessly. The European Union finds itself at a crossroads. The question is which way it will venture. What is important is to decide. The European Union cannot afford any procrastinating.

150) The European Commission, Economic Governance

151) Vláčil, J. Veřejná správa: Sociálně psychologické problémy v historii a současnosti, p.162

The Banking Union – Another Example of the Centralization Activities of the EU

Another step confirming the above-stated approach is the solution concerning the financial sector regulation. The EU has come up with a new project of ‘the Banking Union’ that should foresee and prevent Cyprus-like situations. Although the outline of the Banking Union is very rough, a debate on its functioning has already developed a vivid character. Even the Czech Republic, although it is not a member of the EMU (European Monetary Union), has taken part in the discourse; most recently, in the public debate called ‘the Banking Union and the Czech Republic’ that was organized by the analytical centre Glopolis in cooperation with RSJ, a.s. at the Centre for Economic Research and Postgraduate Education CERGE-EI on 9th April 2013. CERGE-EI in its Briefing Paper summarises the three pillars of the Banking Union of the EU: ‘The proposal of the Banking Union stands on three pillars: (i) the single supervisory mechanism (SSM) that transfers the banking supervision powers from national to European level; (ii) the common European deposit-guarantee scheme that will lead to a limited though shared deposit guarantee in European banks; (iii) the common resolution mechanism that will provide appropriate tools and will ensure cross-frontier cooperation to solve the insolvency of banks.’¹⁵² Apparently, the debate that has evolved around the theme of the Banking Union is perceived as quite awkward. The ČNB (the Czech National Bank) is hesitant in its approach to yet another regulation in the banking sector. The director of the Financial Market Regulation and Analyses Department at the Czech National Bank, Pavel Hollmann, already expressed his worries concerning the regulation at the Conference of Insurance Brokers in 2011, which is regularly organised by the Association of Czech Insurance Brokers. In his opinion the up-coming legislation storm could bring about destruction.¹⁵³

The Banking Union project has its radical opponents in the circles of the Members of the European Parliament. For example, Daniel Hannan, the British Member of the European Parliament for the Conservative Party stated on his blog on 14th September 2012: ‘The European Parliament is back in full session, carrying on as if nothing untoward were taking place beyond its walls. (...) MEPs are regulating private industries whose workings they barely understand. Their chief target in this session is the financial services sector, which they find at once baffling and frightening.’

Instead of pretending that an outside agency can police the system, we need to shift the personal incentives. (...) All you need to do is ensure that the people running it (*the bank*) will suffer if things go wrong.

Sadly, the EU is going in precisely the opposite direction, passing regulations which are at once expensive and ineffective, killing off small operators, encouraging mergers and

152) Briefing paper for the debate BANKOVNÍ UNIE A ČR 9th April 2013, CERGE-EI

153) ČNB se bojí nadměrné regulace finančních trhů, 11. 10. 2011

raising barriers to entry. In other words, Brussels has itself created the phenomenon of 'too big to fail' which is at the root of the problem.'¹⁵⁴

Thus yet again the European Union seems not to be solving the problems as it does not focus on defining and gradually removing the causes; it creates yet another supervisory and regulatory mechanism that will not prevent the repetition of the whole disaster but will exploit financial means from the EU budget for its operation. As a result it will produce 'sterile' recommendations that will prove too little to remedy the situation.

The Subsidy Policy – The Right Way or a Way to not Being Self-Sufficient?

Most of the developed economies are characterized by increasing the proportion of public budgets. 'In the Czech Republic, the public budget constitutes over 40% of the GDP.'¹⁵⁵

'The share of the public sector in the national economy had been growing in all countries during the past century. The explosion was triggered by the economists' strong belief in J. M. Keynes's theory that public expenditure and budget deficit motivate the creation of new jobs and reduce unemployment. The 1913 public expenditures in France and Germany totalled approx. 17% and 14% of GDP respectively; while by 1994 it had already reached 55% and 49% respectively. Also Great Britain has experienced this trend (1910 – 13%, 1976 – 54%).'¹⁵⁶

If we looked at some of the developed countries, we would see a constant growth in the importance of the total governmental expenditures that cumulates diverse trends of partial components, fluctuation of government consumption and government investments. The proportion of the government expenditures in relation to the GDP varies in individual countries, from 11-12% in Paraguay and Guatemala, around 77% in Israel and 54% in Sweden and the Netherlands. Except for those countries having large expenditures for defence purposes, the ratio is higher in the developed countries than in the less developed ones; therefore the economic development seems to lead to an extensive control and large transfers.'¹⁵⁷

At the present economists declare 'that expelling private investments by government investments (financed by the deficit) is a standard textbook example of the negative budget deficit impact on the economy. The subsequent call for loan funds that was initiated by the issue of government bonds has been pushing up the interest rates, which in turn leads to the fact that some private investments will never occur. As a result, whi-

154) Laisses Faire, Regulace z EU nevyhnutelně způsobí další krach. 31. 12. 2012

155) Holman, R. Makroekonomie. Středně pokročilý kurz., 2010 p.383

156) Holman, R. Makroekonomie. Středně pokročilý kurz., 2010 p.383

157) Kadeřábková, B. Makroekonomie, Neoklasický přístup. 2003 p.226

le the overall investment volume remains all the same, the ratio of the government (state) investment has risen at the expense of the private investments.’¹⁵⁸

The governments appear to be heading in the opposite direction, despite all the recommendations of neoclassical economists and economists of the Austrian School. Instead of encouraging private investment, they are taking the reins of the investment activity themselves. The European Union encourages the trend especially with its subsidy policy. Is the current system of fiscal policy the only alternative for the developed world? For instance, J. Peková states that the present crisis marks the end of the social state epoch and the banking crisis is only its fuse. The situation where non-democratic states play the role of economic tigers and the democratic ones are experiencing economical problems deserves at least some thought, according to Peková.¹⁵⁹

Are the Bureaucrats Able to Define the Proper Goals of Subsidy Programs?

A frequent problem of individual subsidy programs is the fact that their targets are not harmonized in accordance with the real needs of the target group. Who really defines the target needs that determine where the EU billions are to be redistributed? The answer is at hand. It is the state servants of individual Member States who follow the research outcome and data provided by the regional governments; however, the final outcome is mostly far from the original requirements. The targets are once more ‘sterilized’ on the part of the EU that yet again assesses whether these targets are defined properly or not. Thus at first sight the EU appears to accept the requirements of the decentralized administrations and regions; however, the endorsement mechanism itself virtually excludes the sustainability of the original targets. Additionally, the decentralization principle ceases to have credibility at determining the future regional priorities.

The above-mentioned argument gives rise to justified criticism that the financial means are wasted on projects lacking any deeper sense and activities that the individual regions could easily go without. The target of this reproach is very often the European Social Fund (ESF) whose clerks are flooded with a myriad of various educational projects and trainings the sense of which we may successfully doubt. What advantages would a Municipal Authority gain from letting its clerks attend a course of ‘creative thinking’ or a two-day training in telephoning skills? Ivan Pilip contributed his comment to the discussion on the blog ‘hn/ihned’: ‘Nonetheless the criticism is justifiable in many cases: the system is too bureaucratic, the processes take too long and in part of the projects (esp. the so-called ‘soft projects’ by ESF etc.) it turns the attention of the states to financing those projects that would otherwise not be a priority.’¹⁶⁰

158) Šíma, J. Fiskální disciplína jako žádoucí reakce veřejných rozpočtů na nepříznivý hospodářský vývoj. Ne-datováno

159) Peková, J. Veřejné finance, p. 23

160) Dialog IHNEED, Jsou evropské dotace přínosem?

As the financial means shrink, the European Union itself seems to be dissatisfied with its subsidy policy. This will be demonstrated in the next planning period as the EU will apparently strive to curb the bureaucratic structures created to redistribute the EU funds means in individual states and will decide on the allocation of the subsidies itself. Let us give the example of the transportation area and the financing of the trans-European transportation network. The next programming period will be specific in that a part of the money will be diverted to a specific fund CEF (Connecting Europe Facility) and the individual projects from various countries will compete against each other. The main stated criteria are to be: the project maturity, European added value and the project's quality.

What is the Impact of the Subsidy Policy on the Economy?

It poses a very broad question and it is too early to be evaluated. Besides the positive effects as increasing employment and improving the situation in many areas; a warning sign appears and that is the growing dependence on the subsidy policy. Is it desirable to accelerate the economic development through the subsidy policy? What will happen to the economy of a Member State at the moment the inflow of subsidies slows down or even ceases completely? There are companies that are now existentially dependent on the subsidies. Primarily, they are consulting agencies that process the subsidy applications for their clients, but also agencies that provide various services. And it again belongs to the ESF subsidy sphere. A number of these companies may vanish by the end of the planning period in the years 2007-2013 as their services will no longer be sought after. One can object that it deals with only a small section of the economy. However, we will illustrate further on what the disruption in the flow of finances from the EU funds caused to the transport infrastructure in the Czech Republic.

The Impact of Terminating Construction Projects on the Transport Infrastructure Business

After Vít Bárta had ascended the post of the Minister of Transport and Communications in 2010, one of his early resolutions was the termination of planning road and railway constructions that were financed by the state budget as well as by EU funds.¹⁶¹ His leitmotif was to reduce the justly-criticized high price of the transport infrastructure construction, and to change the priorities of the transport infrastructure based on the new so-called 'Superstrategy'. However, the ministerial decision came in the middle of the programming period of 2007-2013 when it was unrealistic to expect the European Commission to be willing to approve of such a fundamental change. The measures that had stopped the planning and construction of the transport infrastructure took about nine months and had a negative impact on the institution receiving contributions from the State Budget – Ředitelství silnic a dálnic, p.o. (ŘSD; Road and Motorway Directorate of the Czech Republic) that ensures the repairs of the road network in the Czech Re-

¹⁶¹) SŮRA, Jan. Bárta zastaví 31 staveb na železnicích, nejvíc silnic stopne na severu Moravy, IDnes.cz, 2010

public through contracting private suppliers. However, the Správa železniční dopravní cesty, s.o. (SŽDC; the Railway Infrastructure Administration, a state organization) that ensures the same for the railway network was struck even more. SŽDC had 31 constructions interrupted, while ŘSD dealt with 15 closures. One of the other aims of the minister was to transfer part of the means from the 1 and 3 priority axes meant to finance the railway infrastructure to the 2 and 4 priority axes to pay for the road infrastructure.

The above-mentioned suspension of construction preparatory works incurred a significant drop in the construction works themselves. The report issued by ÚRS Praha, a.s. (a budgeting, engineering and consulting agency) shows a decline in public tenders as well as in the volume of financial means in the period of 2008-2012. In 2010, 27% less of public tenders were open than in 2008. 'In comparison with the prosperous year of 2008, the value of the contracted construction orders in 2012 dropped by 46.4%, by CZK 96.6 billion in absolute numbers, out of which the traffic infrastructure accounted for 75.9%, CZK 88.1 billion in absolute numbers.'¹⁶² Metrostav a.s. (a universal construction joint stock company) states in its Annual Report for 2012 that the number of employees dropped by 11.2% in the period of 2008-2012. The yearly revenue per an employee sunk from CZK 229,000 in 2008 to CZK 92,000 in 2012.¹⁶³ Subterra a.s. (a construction joint stock company) states in its Annual Report for 2011 alike that in consequence of the construction market and prevailing uncertainty in winning specific orders the first half of 2011 saw a significant reduction of the number of employees, mainly in blue-collar professions. The decline meant 7% in 2008-2011. The Subterra a.s. Company also declares that transport construction constitutes 44% of its activities and public assignments reach 70% of the completed projects.¹⁶⁴

Table no. 1 The development of the number and volume of public tenders acquired in the construction industry

Development of construction	Year 2012		Year 2011		Year 2010		Year 2009		Year 2008	
	No.	CZK(mil)	No.	CZK(mil)	No.	CZK(mil)	No.	CZK(mil)	No.	CZK(mil)
ENGINEERING CONSTRUCTION	2 684	70 542	1 961	82 557	2 198	75 664	2 279	140 631	2 202	160 622
Out of which: transport infrastructure	1 028	27 963	736	27 559	761	23 721	935	97 502	1 006	116 014
Technical infrastructure	1 656	42 979	1 225	54 998	1 437	51 932	1 344	43 129	1 196	44 607

Source: ÚRS Praha, a.s., designed by the author

The pace of drawing financial funds that resulted in a lower amount of launched constructions and subsequently a crisis of this market, slowed down, which in parallel

162) ÚRS Praha, a.s. Monitoring stavebního trhu, Veřejné stavební zakázky 2013

163) Metrostav, a.s., Výroční zpráva 2012

164) Subterra, a.s., Výroční zpráva 2011

brought about the reduction in employment not only in the construction companies but also in project engineering companies (especially in the area of railway construction design). After the restart of the project preparation, the project engineering companies have not succeeded in recreating the original number of construction designers, thus the preparation of these highly demanding projects has been suffering from a crucial lack of experts.¹⁶⁵ The number of employees dropped by more than a quarter according to the project engineering companies. Therefore, after the re-launch of the projects preparation, the companies were not able to start their activities immediately in the same scope and quality as before the lapse.

More Examples of Companies and the Public Sector Being Dependant on the Subsidy Policy

There is still another situation frequently debated nowadays that afflicted some of the NUTS II regions. The Karlovarský and Ústecký regions are now searching for a solution to the issue of how to handle a penalty that they are to pay for the faulty drawing of the subsidies from the ROP Severozápad (Regional Operational Program North-West). The penalty is so high that it endangers the budgets of both the regions. It reaches CZK 2.6 billion. If the regions fail to pay the penalty, they will not be entitled to receive the subsidies for the already implemented projects. According to the chair of the Regional Committee of ROP NW Petr Navrátil, the suspended ROP NW would lock up CZK 4.8 billion for projects that have already been completed and that are only waiting to be reimbursed as well as for projects for which the contracts have only just been concluded. In this context, it would mean the largest detriment for villages and towns that are expecting about a billion Czech crowns in the Ústecký region.¹⁶⁶ A heated discussion is taking place now as to who shall pay the penalty and who is responsible for the failure. The regions state firmly that the Ministry of Finance is to blame, while the Ministry insists on the contrary. One of the problems stems from the fact that the NUTS II regions have been created artificially and were assigned no legal personality. That gave rise to the different approach adopted by each of the regions, in both cases with the tacit support of the state. The Ministry of Finance has commented the issue in that regions may borrow the financial means whilst Regional Committees may not. This situation originated in the non-systemic division of regions in 2000 when the region boundaries were not laid out logically, in discontinuity with the NUTS nomenclature.

What happens to the companies and municipalities that do not obtain the promised financial means from the European subsidies? Their indebtedness will logically increase, which may eventually result in bankruptcy. The mistakes of the whole system will be paid for by those who have not participated in creating them. Ludwig von Mises comments on the government expenditure: 'It is obvious that if governments make it

165) The findings are based on the outcome of the Personnel and Organisational Audit at SŽDC and the information from the Ministry of Transport and Communications obtained by BNV Consulting

166) Aktuálně.cz Ústecký kraj nezaplatí pokutu za chyby v čerpání dotací 18:49 | 25.3.2013

impossible for their subjects to accumulate and to invest additional capital, responsibility for the formation of new capital, if there is to be any, devolves upon government. The welfare propagandist, in whose opinion government control is a synonym for God's providential care that wisely and imperceptibly leads mankind to higher and more perfect stages of an inescapable evolutionary progress, fails to see the intricacy of the problem and its ramifications.¹⁶⁷

By returning to the previous case of ROP NW, we may claim that Mises's words suggest that the consequences of the faulty subsidy policy should be dealt with by the state administration rather than the end-user of the subsidies who accepted the state bid. The question now is whether the government and the regions will bicker about who is to pay the penalty for so long that the European Commission will lose patience and stop the financial funding for ROP NW indefinitely.

The Financial Independence of Municipalities and Regions as a Condition of the Decentralization

What is the real situation of the financial independence of municipalities, which I hold fundamental for the decentralization and the condition for fulfilling the subsidiarity principles? According to the data of the Ministry of the Interior, more than a half of the municipalities are indebted. The Ministry of Finance states that the debt of the regional self-governing units increased by CZK 2.5 billion in 2012. The year 2013 anticipates the debt to grow by CZK 1.9 billion, out of which approximately a half falls to the municipalities.¹⁶⁸ In 2010 the amount of the debt of the municipalities including the chartered towns totalled CZK 80.6 billion, out of which credit loans constituted CZK 55.8 billion.¹⁶⁹

Considering the structure of the municipality income, the Ministry of Finance presents the following outline for the year 2013:

Table no. 2 The structure of municipality income in the Czech Republic in 2013:

Item	%
Tax Income	66,3
Transfers	17,7
Non-tax Income	12,2
Capital income	3,8
	100

Source: Designed by the author based on the information provided by the Ministry of Finance.

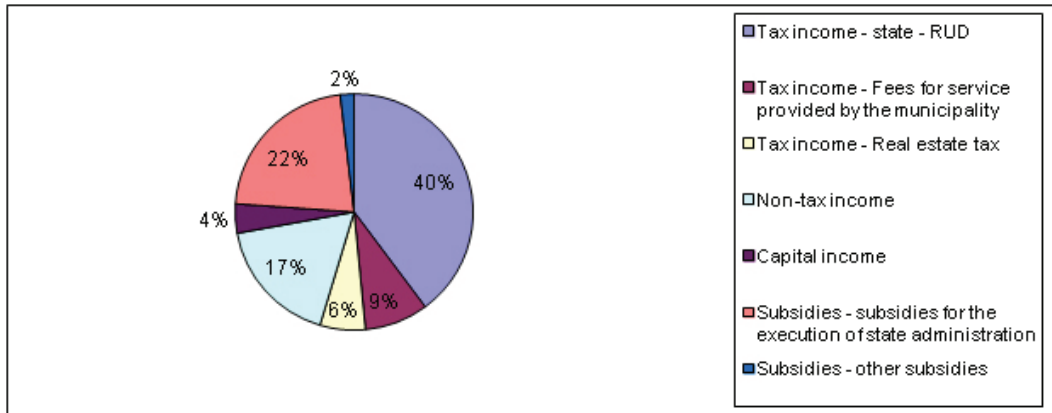
167) Mises Ludwig von., Human Action: A Treatise on Economics, p. 758

168) Ministerstvo financí ČR, Rozpočty územních samosprávných celků, dobrovolných svazků obcí a regionálních rad regionů soudržnosti, č.j. MF- 53 900 /2012/11-114

169) Peková, J. Veřejné finance, p. 532

Considering in detail the income structure of a municipality with extended powers (the income of the town of Hustopeče in the year 2012 in our case), it is as follows:

Graph no. 1 The income structure of a municipality with extended powers



Source: Designed by the author based on the information provided by MěÚ (Municipal Authority) Hustopeče

The graph clearly shows that the income from the state makes up for 62%. While the only stable income of the municipality is the real estate tax that only constitutes 6% of the income. The volume of other parts of the income may change year by year. The municipalities are obviously dependent on state financing by more than half of their income, and what is more, 94% of the income may vary considerably on a yearly basis. This reveals an insufficient financial decentralisation and disadvantaged position of the municipalities in the sphere of financial planning as they are prevented from successfully predicting the level of the income in future years. These findings are also summarised in J. Peková's book *Veřejné finance (Public Funds)*: 'In the Czech Republic the allocating function of public funds is decentralized in quite a significant way. (...) The redistributing function of public funds is less decentralized, although in a relatively larger extent on the level of regions. Nevertheless, the regions have not aggregated enough funds so far so that they would be able to offer subsidies to municipalities from their own budgets at their own discretion, especially in the framework of the regional policy. (...) Nowadays a combined model of fiscal federalism is applied in the Czech Republic. (...) Neither municipalities nor regions are financially fully self-sufficient. The largest tax revenue flow into the state budget. (...) Although the rate of fiscal decentralisation in the Czech Republic has proceeded significantly, (...) the crucial part of public income still passes into the state budget.'¹⁷⁰

The majority of municipalities implement investment operations through various subsidy programmes. However these suppose co-financing on the part of the municipality, which may cause serious problems. The municipalities do not have enough own funds

¹⁷⁰) Peková, J. *Veřejné finance*, pp. 455-457

at their disposal; therefore they often take loans. That is the source of their significant debts, which are considerably increased in case they do not receive the promised subsidy.

Transparency and Trust

The European Union encourages its Members to adopt transparent and open politics. Which should increase the trust of both the citizens and enterprises in the public sector, in its decision-making and consequently in the EU itself. That poses a question that we have to elaborate on; and that is how much does the public administration and the EU institution actually cost us, and how many people they employ. The task of finding out the number of civil servants in the Czech Republic is rather complicated. The total number of employees receiving a salary is over 614 thousand according the Ministry of Labour and Social Affairs of the CR, which constitutes over 6% of the population. The Ministry of the Interior states that the number of civil servants was 159 854 in 2010, out of which the number of central state administration bodies employees was 16 977.

The EU itself does not present a good example. The information about the number of employees in EU institutions is very hard to reach. The book by P. Konig reveals the following numbers:

Table no. 3 The number of employees of selected EU institutions

Institutions	2006		2008	
	permanent staff	contemporary staff	permanent staff	contemporary staff
EP	4883	918	4998	935
European Council	3393	47	3461	36
European Commission incl. ECSC	23680	486	25530	483
Court of Justice	1346	411	1453	429
Court of Auditors	657	134	714	140
European Economic and Social Committee	642	34	668	27
Committee of the Regions	425	34	446	35
European Ombudsman	13	44	15	42
European Data Protection Supervisor	24		32	
Total	35063	2108	37317	2127
Growth in %			6%	1%

Source: Petr Konig and coll. *Rozpočet a politiky EU, příležitost pro změnu (The EU Budget and Policies, an Opportunity for a Change)*

However, neither is this a final list. The European Union establishes a whole number of agencies. These agencies are divided into three main categories. The first group is formed by the so-called 'decentralized agencies and bodies'. There are more than 30 of them in total seated in various Member States. The EU declares that: 'They have an important role in the implementing of EU policies especially tasks of a technical, scientific, operational and/or regulatory nature. This frees up the EU institutions, especially the Commission, to concentrate on policy-making.'¹⁷¹ Furthermore it lists six so-called 'executive agencies' and the EURATOM agencies and bodies where there are two agencies. Besides the institutions listed above the EU structure includes the European Data Protection Supervisor; the Publications Office the task of which is to publish information about the EU; European Personnel Selection Office that recruits staff for the EU institutions and other bodies; the European School of Administration that provides training in specific areas for members of EU staff; and the European External Action Service. A more detailed investigation would certainly discover some more institutions. The number of EU employees is the topic of many discussions; some sources state a number reaching up to 170 thousand employees, for instance the data published on Marek Knapp's Blog. He also counts the employees of agencies, experts working in various groups, employees dealing with EU issues in the Member States, etc.¹⁷²

We shall content ourselves with the information that the EU expends approximately 6% of its budget on salaries and building management. If the growth of employment is one of the EU's strategic priorities, it may be declared that the EU itself strives intensely to do so. However, the fact that it is not willing to publish more detailed data about the number of people it employs is not encouraging trust in it.

The above-stated information again proves the criticism of excessive bureaucratization. As long as the EU reacts to every problem by establishing a new regulatory and supervisory agency, the number of its employees will be rising interminably.

Conclusion

We can conclude from some of the above-presented examples that, unfortunately, the EU has taken the direction of gradual centralisation and excessive regulation, and it is reaching a 'socialistic' way of government. Loosely expressed in Mises's words, interventionism is a method of adopting socialism in parts.¹⁷³ The more plentifully the principles of decentralisation and subsidiarity are discussed, the less they are observed. On the contrary, we experience a growing number of areas that the EU intends to control centrally. The European Union is significantly turning away from the neoclassical economic theories and theories of the Austrian School; it is continually strengthening its institutions and carrying on the policy of redistributing subsidies. As the conversion of

171) The European Commission/Agencies

172) Knapp, M., čtvrtek 13. listopad 2008 08:05, 'EU zaměstnává 170 000 úředníků a ne 25 000'

173) Mises, L. von, 1958

the EU policies to the Keynesian economy is obvious, it is a question whether the principles of fiscal federalism can at all be applied successfully in the framework of the EU.

The EU partially realises the present bleak situation. For instance the Committee of the Regions adopted the following resolution on its 100th plenary session on 11th and 12th April 2013:

‘3. points out that in many policy areas, decentralised executives are significantly more efficient, both from the point of view of cost and in terms of the quality of services and their proximity to the public

22. regrets the growing trend towards centralisation that has been noticeable since the economic and financial situation began to deteriorate, a trend that is based on the mistaken assumption that transferring public services to the central government level will make them more cost-effective;

23. is firmly opposed to the economic and debt crises and the austerity measures that are required across Europe being used in some Member States as an excuse to further centralise powers, to devolve powers without providing corresponding financial resources or to rationalise, reduce or abolish sub-national bodies altogether, which will end up weakening local and regional democracy;

24. vigorously opposes such a policy, which violates the European principle of subsidiarity, according to which political and regulatory decisions should be taken at the most appropriate level in order to achieve the desired goals and as close as possible to the people;

46. also recalls that the Lisbon Treaty made it explicit for the first time that the subsidiarity principle applies to the whole range of EU governments, at European, national, regional and local level. The principles of subsidiarity and proportionality are prerequisites for multilevel governance to work in practice;¹⁷⁴

If we return to the formulated hypothesis, the principles of decentralisation and subsidiarity are still the main EU targets, at least according to its written documents. The real worry that prevails is that these principles will gradually disappear as a result of the need to solve any new crisis. The crucial issue is whether the time has not come to implement real reforms of the EU and re-evaluate its intervention into the Member States economies. Unfortunately, the goals of the policies defined in the Lisbon strategy for the period of 2000-2010 have still not been reached. The question is whether the strategic vision of Europe 2020 will be fulfilled successfully.

174) Draft Opinion of the Committee of the Regions, 11th and 12th April 2013

We are left with no choice than to hope that the EU takes the recommendations of the Committee of the Regions to heart and steps out of the vicious circle of excessive regulation and the boosting of the bureaucratic apparatus. And that this happens before the EU is no longer 'United in Diversity' but killed resisting regulation.

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