Public Finance and Transport

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ABSTRACT: The common market is considered to be one of the greatest benefits of European integration. The single European transport area with optimal modal split is a basic precondition for a common market in goods and the required high mobility of passengers. To assure smooth traffic flow, with the minimum of traffic accidents, and to be more environmentally friendly and energy efficient necessitates the maximum utilization of all current transport facilities that are available. However this shall not be enough. Regarding the delay in adapting the transport infrastructure to the enormous growth of traffic, it is necessary to increase investments into bottleneck removal and add new links according to new requirements. Some prioritization of investment in transport infrastructure is connected with the broad effort of public authorities to increase growth and employment in order to facilitate solutions to end the current crisis and assure the further development of the economy; the contribution of public funding is considered to be an important incentive for private capital inflow.

KEY WORDS: Spending on transport infrastructure.

1 HIGHEST POSSIBLE QUALITY OF TRANSPORT AS A PRECONDITION FOR AN EFFECTIVE COMMON MARKET

In the mid-seventies the share of transport expenses in the budget of Member States (MS) of the EU was 1.5% of GDP, which was considered for MS to be rather low (EC, 1991). This rate was also adapted by the European non-MS as a recommended dimension within the European Transport Committee of the Economic Council of Europe of UNO as the lowest standard. There were only some exceptions, caused by the military needs within the period of the “cold war”. Nevertheless, to the detriment of the transport sector transport services were provided at a satisfactory level during seventies and eighties. For this reason the amount of transport expenditure within the budget of European Communities has dropped to 0.8% of GDP in 2008, despite a broadening and deepening of the common market (EC, 1991).

The level of transport services has had an adverse influence on the transport market in goods and the worsening of passenger traffic. The main troubles have been found in road transport; the steep growth of road vehicles and their performance were contrary to the slow rate of growth in the capacities of road infrastructure. Therefore it has been impossible to remedy the disproportion partially caused by the poor growth of road capacities for decades.

The first two White papers on the European transport policy of the European Commission 1991 - 2000 and 2001 - 2010 (EC, 1991; EC 2001) were significantly affected by the inability to raise the capacity constraints in the relevant decades, (though the main aim was environmental and energy sustainable development). In the first White paper these ideas were stated in a more general form. In the second White paper a more general approach was stated as the main reason for the lesser success in the implemented provisions and nearly identical principal requirements were made more concrete after being split into about 120 sub-items. In these two documents the European Commission made a great effort to slow down the traffic growth in general, paying special attention to separate the growth of transport and the growth of GDP, reduce traffic volumes (particularly in road transport) by transferring a part of road traffic to rail and water transport (with a subsequent task to transfer only a part of new transport to rail and water).

The second White paper was revisited in the middle of the planned decade 2001-2010 (EC, 2006) after many objections to the possibility of limiting transport too much, especially road traffic, as such an attitude could be dangerous on account of undermining the global competitiveness of the European economy.

As necessary further steps the European Commission proposed within the framework of the new medium-term financial outlook 2014 - 2020 a fourfold increase to the share of funding from the Union budget in comparison with the period 2007 - 2013. Instead of programming the European transport policy for only decades, further development in some basic indicators has been scheduled up to the thirties and, in connection with energy and environmental impact, until the fifties. As an additional source proposals to allow bonds as supplementary funding of major projects of transport infrastructure have again been negotiated. Such bonds when guaranteed on a pan-Union level make for cheaper investment loans.

The latest White paper “Roadmap to a single European Transport Area” (EC, 2011) from the year 2011 which has only 17 pages but details in 5 annexes (Transport matters, Putting sustainability at the heart of transport, Plugging into smart solutions, Reducing barriers to free movement and mainly Investing in the network) is indicatively prolonged to the year 2050, with an intermediate stage 2030 (2030 is the last year of the recently prepared period of TEN-T); many main indicators are proposed in parallel with energy savings, especially as regards the decreasing sources of fossil fuels and emissions from transport.

2 ADDITIONAL EFFECTS OF INVESTMENT IN TRANSPORT INFRASTRUCTURE

Priorities of support for the eligible sustainable development of transport infrastructure could apply a larger necessity to the use of mass passenger transport instead of individual transport, in some cases even with a lower energy efficiency per passenger because of a lower than minimal necessary occupation, if it could save capacities of the transport infrastructure. This applies especially to road transport. Notably at the time of the crisis and lower employment a transfer of passengers from cars to railways and buses could be more acceptable because of lower costs and the prices of public transport services. The strength of such a transfer is then evidently influenced by the taxation of public transport services. Such services have been taxed with decreased rates in all Member States of the European Union; the decisive percentages of taxation are excise duties on fuel that could be partially eliminated by fueling abroad, with lower value added tax (EC 2012a; EC 2012b). The level of decreased rates of value added tax- VAT- differs from 5% to 15%. (Some MS even have had super decreased rates of VAT below 5%). The level of decreased rates as a reduction in comparison with the standard rate differs in EU MS from 5% to 15%. (The standard rate,

with only some exceptions, is higher than 20%, but the only EU state in 2011 with a standard rate of 23% has been Denmark).

The growth of taxation and cuts in state budget expenditure, despite relatively healthy public finance, led to the stagnation and later recession of the Czech economy.

It is possible to demonstrate it using data describing the growth and the level of government expenditure in the period 2009-2012 in the EU (Eurostat, 2013).

Table 1: Government deficit and debt.

	Government deficit				Government debt			
	2009	2010	2011	2012	2009	2010	2011	2012
EA17	-6.4	-6.2	-4.2	-3.7	80.0	85.4	87.3	90.6
EU27	-6.9	-6.5	-4.4	-4.0	74.6	80.0	82.5	85.3
BE	-5.6	-3.8	-3.7	-3.9	95.7	95.5	97.8	99.6
BG	-4.3	-3.1	-2.0	-0.8	14.6	16.2	16.3	18.5
CZ	-5.8	-4.8	-3.3	-4.4	34.2	37.8	40.8	45.8
DK	-2.7	-2.5	-1.8	-4.0	40,7	42,7	46,4	45,8
DE	-3.1	-4.1	-0.8	0.2	74.5	82.4	80.4	81.9
EE	-2.0	0.2	1.2	-0.3	7.2	6.7	6.2	10.1
IE	-13.9	-30.8	-13.4	-7.6	64.8	92.1	106.4	117.6
GR	-15.6	-10.7	-9.5	-10.0	129.7	148.3	170.3	156.9
ES	-11.2	-9.7	-9.4	-10.6	53.9	61.5	69.3	84.2
FR	-7.5	-7.1	-5.3	-4.8	79.2	82.4	85.8	90.2
IT	-5.5	-4.5	-3.8	-3.0	116.4	119.3	120.8	127.0
CY	-6.1	-5.3	-6.3	-6.3	58.5	61.3	71.1	85.8
LT	-9.8	-8.1	-3.6	-1.2	36.9	44.4	41.9	40.7
LV	-9.4	-7.2	-5.5	-3.2	29.3	37.9	38.5	40.7
LU	-0.8	-0.9	-0.2	-0.8	15.3	19.2	18.3	20.8
HU	-4.6	-4.3	4.3	-1.9	79.8	81.8	81.4	79.2
MT	-3.7	-3.6	-2.8	-3.3	66.4	67.4	70.3	72.1
NL	-5.6	-5.1	-4.5	-4.1	60.8	63.1	65.5	71.2
AT	-4.1	-4.5	-2.5	-2.5	69.2	72.0	72.5	73.4
PL	-7.4	-7.9	-5.0	-3.9	50.9	54.8	56.2	55.6
PT	-10.2	-9.8	-4.4	-6.4	83.7	94.0	108.3	123.6
RO	-9.0	-6.8	-5.6	-2.9	23.6	30.5	34.7	37.8
SI	-6.2	-5.9	-6.4	-4.0	35.0	38.6	46.9	54.1
SK	-8.0	-7.7	-5.1	-4.3	35.6	41.0	43.3	52.1
FI	-2.5	-2.5	-0.8	-1.9	43.5	48.6	49.0	53.0
ŠE	-0.7	0.3	0.2	-0.5	42.6	39.4	38.4	38.2
UK	-11.5	-10.2	-7.8	-6.3	67.8	79.4	85.5	90.0
CZ order	14	13	11	20	8	8	9	12
Innovation	15	17	17	17				

In the last line of the table it is possible to find the effects of cuts for future development described by innovation capacity. The European Commission has prepared a yearly Innovation Union Scoreboard (EC, 2009, 2010, 2011, 2012). The innovation performance of the MS is divided into 4 groups:

- Innovation leaders: Denmark, Finland, Germany, Sweden ("well above the EU27");
- Innovation followers: Austria, Belgium, Cyprus, Estonia, France, Ireland, Luxembourg, the Netherlands, Slovenia,UK ("near to EU27");
- Moderate innovators: the Czech Republic, Greece, Hungary, Italy, Malta, Poland, Portugal, Slovakia ("below that of the EU27");
- Modest innovators: Bulgaria, Latvia, Lithuania, Romania ("well below that of the EU27").

The Czech Republic has been, from the beginning, in the 3rd group. But the groups of states in each group are relatively wide. A more detailed view is possible from the year by year overall global chart 2009-2012. The figures show the performance results for 27 EU and indicates a steady and slow decline in the Czech Republic. The chart for 2009 was formally modified in the following years (Mourre et al., 2013).

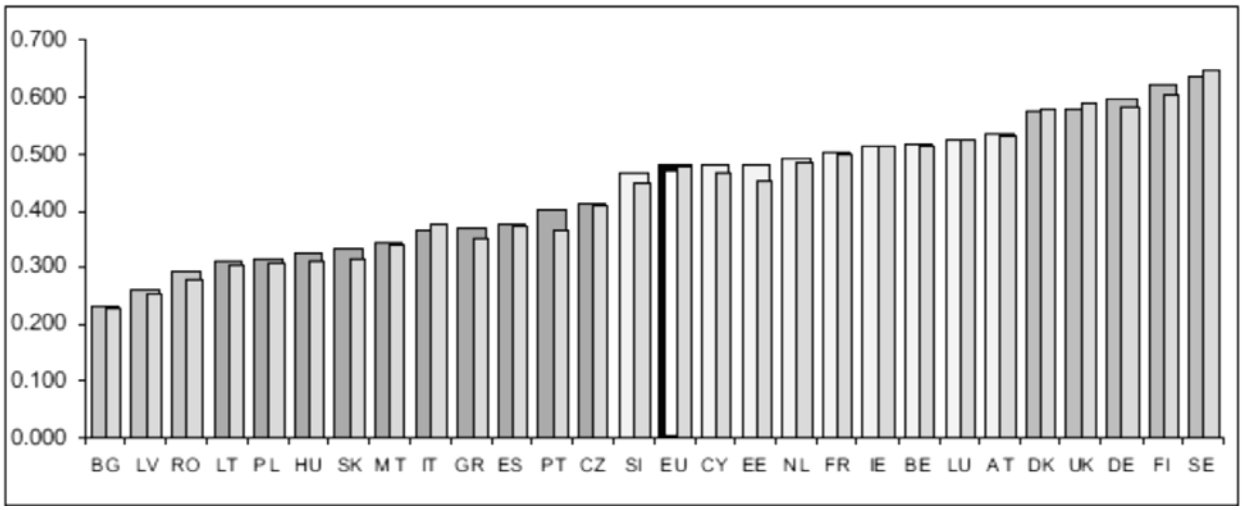

Figure 1: Charts of innovation level in 2009
(In 2010 there was a change in the methodology).

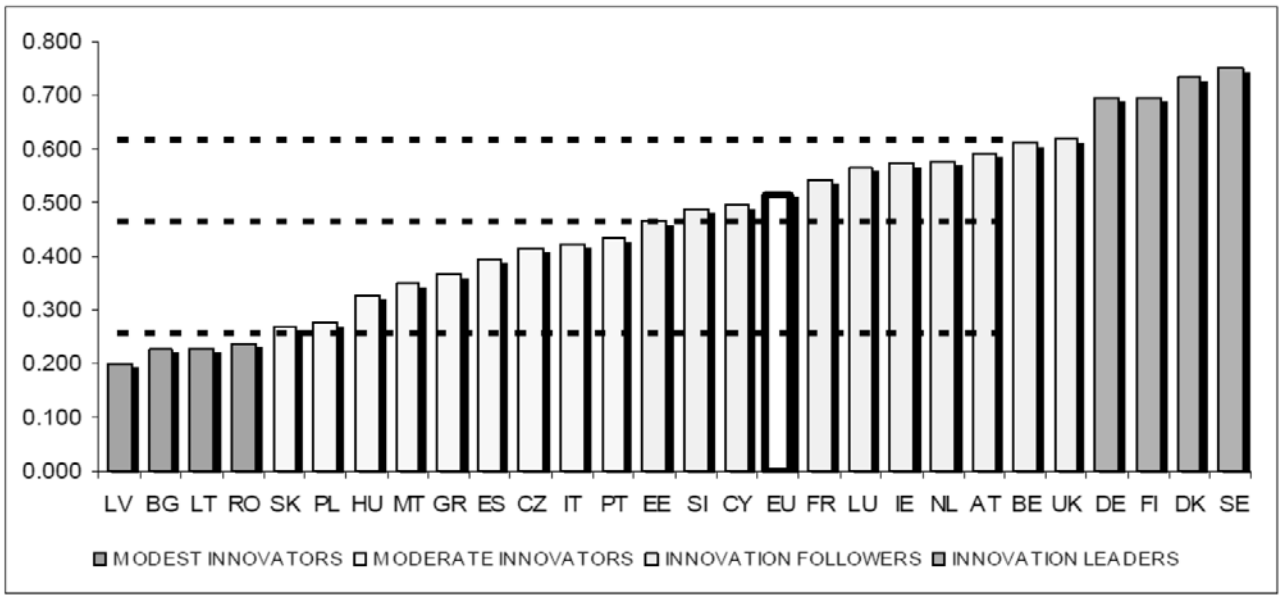

Figure 2: Charts of innovation level in 2010.

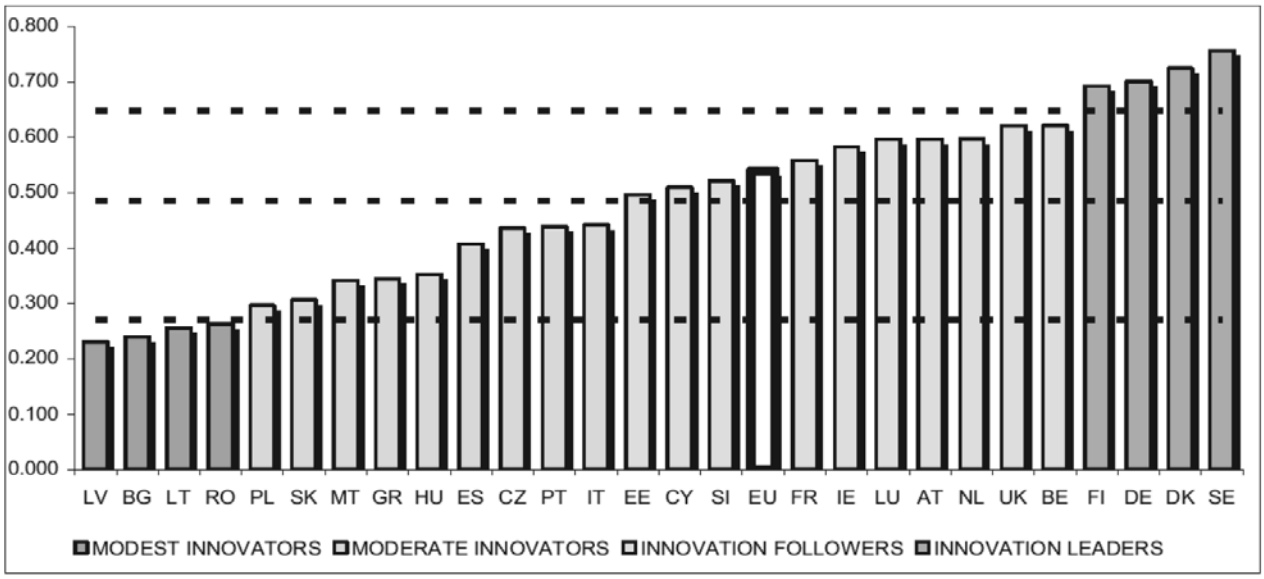

Figure 3: Charts of innovation level in 2011.

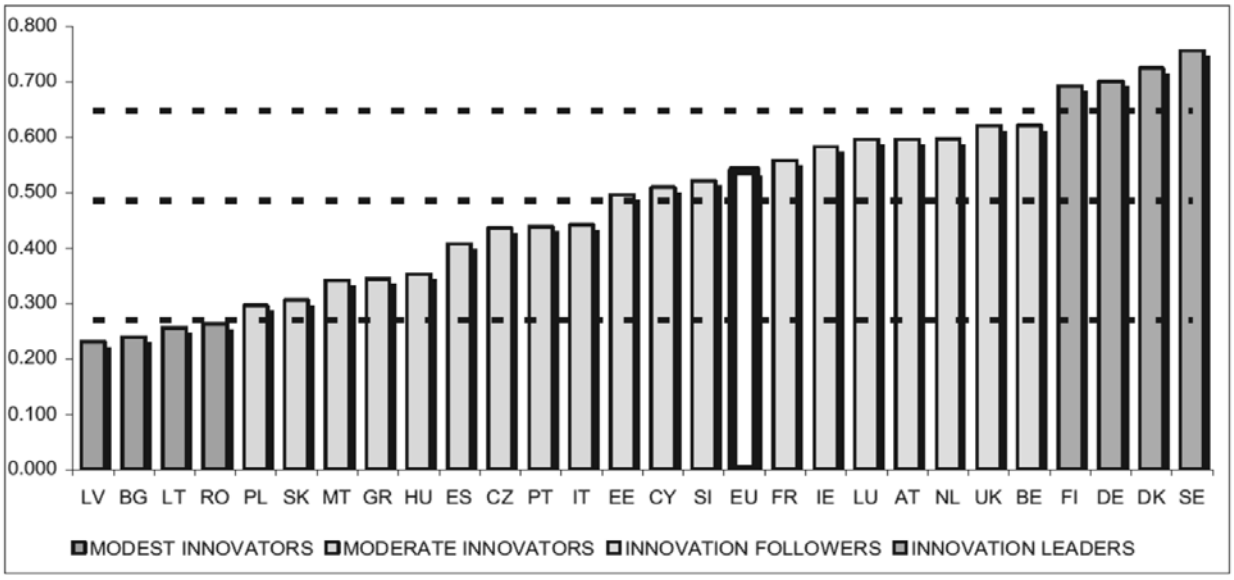

Figure 4: Charts of innovation level in 2012.

3 UTILIZATION OF INVESTMENT IN TRANSPORT INFRASTRUCTURE AS A WAY OUT OF THE CRISIS TO FURTHER DEVELOPMENT OF A COMMON MARKET AND THE GROWTH OF ECONOMY

If we take as a basis for further consideration the data from the speeches of the vice-president of the European Commission, Siim Kallas, a new investment in transport infrastructure co-financed by the EU Union-wide and averaging € 1 bill. could create 18 000 new jobs (Kallas, 2012). In addition it could draw a fivefold amount of private capital after the obligatory co-financing of the MS.

After converting these figures from € to CZK (1€=25 CZK) and the purchasing power parity in the Czech Republic (about 75% of EU average), it can be estimated that CZK 1 bill. enables the creation of 1000 new jobs (CZK 25 bill. x 0.75) If the estimated state spending on unemployment in the construction sector is at least CZK 100000 yearly per unemployed

in the Czech Republic, the CZK 1 bill. decreased spending by the state on unemployment is at least CZK 100 million. Additionally, there is a naturally important leverage effect on the input of a four to fivefold inflow of private finance.

It is interesting to compare generally the efficiency of transport (and other development) investments as a tool for further income into the state budget using the higher volume of taxed services or necessary expenditure used in the state budget to produce or save value added tax.

It should be emphasized that the reduction of budgetary resources for investment plays a decisive role in the operation of programs with projects co-financed by the EU by up to 85% of the eligible costs of investment.

For the Czech Republic quotas have been allocated or have been supposed in the middle-term financial outlooks for:

- May 2004-2006 nearly CZK 420 bill., with drawing 98.1%;
- 2007-2013 about CZK 680 and till now assumed;
- 2014-2020 less than CZK 500 bill.

Quotas for middle-term financial allocation are possible extend by another two years in the case that the projects have started in the last year of the allocation period.

Quotas for the Czech Republic and other MS have been decreased for the period 2014-2020 because some MS want to decrease expentitures and through that their contribution to their own sources of the EU. This was also influenced by a lower than expected level of drawing of co-financing however.

Until now the transport sector in the Czech Republic has had slightly less than one quarter of the total allocated quatas. On account of the crucial importance of transport for the common market the Facility Connecting Europe was newly established with co-financing from the EU as in the case of operational programs. It has been designed for all 10 new MS, without national quotas, with the only selection criteria the quality of the submitted projects.

Respecting the initial orientation of EU co-financing as an additional and not replacement source, it would be an impressive amount of money.

4 SAVINGS IN PUBLIC EXPENDITURE BUDGETS

The yearly report of the European Commission DG Taxation and customs union: “Taxation trends in the EU – Data for the Member States, Iceland and Norway” 2012 has described in detail the development of all types of taxes and their revenues as a share of GDP up to the period 2000-2011 (EC, 2012a). In table I-1.1 of the report “Tax revenue sensitivity – percent change in tax revenues (as a ratio to GDP) in reaction to a 1% change in the output gap” are sensitivities for all MS in the range 0.26 to 0.48; for the Czech Republic it is 0.36.

This means that a 1% GDP output gap shall reflect the increase of overall tax burden of 1% GDP x 0.36. Nonetheless at least the same sensitivity is in the ratio output gap-tax revenues. The share of taxes in GDP was in 2009 34.5% - 34.8% of GDP – lower than GDP 2011. After the conversion of GDP and the GDP tax ratio for 2011, the tax ration grew by 1%. With the growth of expenditures to unemployment the effect of tax increase and cuts in budgetary expenditures was negative. With the removal of losses through tax evasion caused by the relocation of about 13000 headquarters of Czech business entities abroad, which can be limited, and with the Czech Republic joining the taxation of financial transactions, the results from continuous growth of economy and employment would highly overweight the effects from increased taxes and cuts in budgetary expenditures.

One of the occasionally discussed issues is the effectiveness of some public expenditures. It is effective if the expenditure covers the necessary costs of measures oriented towards

either the growth of value added tax (e.g. investments in well prepared projects), or at least protect the fair operation of the market, protect the law, produce public services at an adequate level of quality. (See attempt in "Charter of citizens of the United Kingdom" during the governments of Mrs. Thatcher and Mr. Major, with the idea that the quality of public services should give adequate value for money).

5 CHANGES IN THE METHODOLOGY FOR THE CALCULATION OF SENSITIVITY

Up to the year 2011 the original methodology OECD was used, accepted and agreed with the European Commission in 2005; it was used both for the forecasting of cyclically-adjusted budget balances and even for the parameters of the preventive arm and repressive arm of the Stability and Growth Pact. For the year 2012 amended methodology (Mourre et al., 2013) was used with updated data and slight modifications (Kallas, 2012). The cyclically-adjusted predominant part of budget items has been really dependent on cycles; a much smaller part, mainly connected with public administration, may not be directly linked to economic cycles. So the original calculated sensitivity is reduced by subtracting the items and identified as semi-elastic. The difference for the Czech Republic is 1% GDP. For the cyclically-adjusted revenue of the state budget for 2012 there is a sensitivity of 0.409, as semi-elasticity 0.399.

It seems to be most important single point: the only way to start the growth of economy and employment within the milieu of global economy is efficient investment. Cursory assessment leads to the conclusion that the same relations are valid in all MS. The Czech Republic has been, despite growing government debts, in the first third of MS. Conversely it is a pity that the Czech Republic is, at the same time, in the last third in the EU in the slow rates of growth of economy and innovation.

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