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Enhancing the efficiency of local government in the context of reducing the administrative expenditures

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ENHANCING THE EFFICIENCY OF LOCAL GOVERNMENT IN THE CONTEXT OF REDUCING THE ADMINISTRATIVE EXPENDITURES

I. Efficiency, effectiveness and enhancing the efficiency in the public sector

Efficiency, often found in the economic terminology, may be considered in two senses:

a) performance – very good outcomes – of an activity;

b) maximum effects of an activity related to the allocated or consumed resources.

We find both senses in the private and public sector. In the above context, the public sector is considered efficient when it provides maximum of public goods and services, within the limit of the available resources[1]. We shall not insist on the quantitative evaluations of *efficiency*, specific for the economic approaches, we shall rather focus on the significance of enhancing the *efficiency* of public administration.

The approaches on public administration related to efficiency are more frequent both in theory and practice. An explanation derives from ongoing situations when both central and local government take into consideration especially the degree of meeting the citizens' needs, ignoring or minimising the topic of costs. This situation is not only a matter of attitude, it might be justified stating that *efficiency* in the public sector should be understood as a consequence of economic factors, as well as of the political, cultural, legal and especially human factors, as „human resources represent the basis for success or failure"[2].

Mayer (1957), attempting to substantiate the study on the organisational typology in public administration, expresses his reticence related to introducing *efficiency* in the public organisations, underlining the indefinite matters assumed by introducing the above concept in the mentioned field, thus referring directly to the relation between the administrative measures and their social effects.

In the middle of 1990s, New Public Management (NPM) provides a new alternative to the managerial approach of public administration. NPM will emphasise the values of *efficiency*, economy and *effectiveness* in the public sector, based on the fact that the governmental actions should be result-oriented and not process-oriented. *Efficiency* represents the main objective of the administrative reform, as well as responsibility and accountability towards the consumers.

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[1] Details on efficiency in public economics may be found in Connolly, S. and Munro, A. (1999), "*Economics of the public sector*", Prentice Hall Europe, Chapter 3, pp. 40 – 56 or Matei, A. (2003), "*Economie publică. Analiza economică a deciziilor publice*", Ed. Economica, Bucharest, chapter III.3, pp. 110 – 115.
[2] Bonnet, Fr (1993), *"Management de l'administration"*, De Boeck Université, Paris, p. 47.

The papers recently published by the European Central Bank (ECB), „Working Paper Series (WPS)" on assessing the *efficiency* and performance of the public sector[3] reveal both indicators of „opportunity", concerning the administrative, education and health related outcomes, quality of public infrastructure, support to rule of law and a level playing – field in a market economy, and „Musgrave" indicators, concerning the tasks for government: allocation, distribution and stabilisation. This period is dominated by the economic crisis, imposing also a series of conditional elements concerning in general, the *efficiency* of the public sector, and in particular public administration. In this respect, Ul Haque et al (1998) paper, concerning the quality of employees, analyses how the situations generating constraints for the public sector may lead to improving *efficiency*[4].

Effectiveness represents another concept accumulating several references. While *efficiency* represents the ratio between the outcome obtained and the means involved, *effectiveness* refers to the ratio between the outcome obtained and the objective to be attained[5]. More pertinent for the public sector or public administration, *effectiveness* means, on one hand to define previously an objective and on the other hand, to measure (or at least, to estimate) the outcome obtained.

Regarding *effectiveness*, the authors state that one cannot speak about *efficiency* without *effectiveness* because "it is more important to make well what you planned to make – *effectiveness* – than to make well something else – *efficiency*"[6]. They also state that the relationship between *effectiveness* and *efficiency* is a part/whole relation, *effectiveness* having a direct impact on *efficiency*, especially the *efficiency* of the staff, being in fact, one of its intrinsic elements.

In order to produce results, that is to be efficient, public administration should apply the rules of market competition in providing goods and services, which implies privatization through the reorganization of the public organisations according to the principles that operate in the private sector or through determining the public organisations to enter into competition with the private ones.

The public organisations should be responsible towards the consumers and the degree of the consumers' satisfaction should be measured by their appreciation of the goods, services, information, products and facilities offered by these organisations.

Public management authors condition the *effectiveness* of the public managers on their managing abilities as shown during the management processes as they exercise their functions; the authors also acknowledge that *efficiency* is a main matrix in the application of management logic in the public sector[7], as a ratio between performance

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[3] See the papers published by Afonso, A., Schuknecht, L., Tanzi, V., „*Public sector efficiency : on international comparison*", ECB, WPS242 or „*Public sector efficiency Evidence for New Member States and Emerging Markets*", ECB, WPS581.

[4] Ul Haque, N., Montiel, P, J., Sheppard, St., C., (1998), „*Public Sector Efficiency and Fiscal Austerity*", IMF Working Paper No. 98/56, pp. 1-28.

[5] Matei, L., (2001), *"Management public"*, Editura Economica, Bucharest, pp. 195 – 197.

[6] Drucker, P.(2001), „*Eficienţa factorului decizional*", Bucharest, Editura Destin, p. 147

[7] Matei, L. (2006), *Management public"*, op. cit., p. 106

and costs[8], as a ratio between the outcome obtained and the means involved[9], while *effectiveness* is looked upon as the ratio between the result obtained and the objective that has to be attained[10]. In the last mentioned paper, it is also stated that the total neglect of *efficiency* in the public sector had long been a source of waste and non-performance.

The values of *efficiency* and *effectiveness* are expressed in terms of cost-effectiveness, which synthetically means "how to get more outputs for each dollar spent"[11]. The cost-effectiveness analysis is also the study object for economic analysis of public decisions, the authors pointing out the fruitful consequences of cost-effectiveness measures when the government's objective is defined largely enough to allow the comparison of more alternatives for different policies necessary to fulfil this objective[12].

Rosenbloom and O'Leary (1996) points out what the New Public Management mentions as being obstacles for *efficiency* and *effectiveness*, namely:
- the focus on economy and administrative *efficiency* and not on the consumer and the satisfaction of the client's requirements;
- centralized rules of public procurement, not result-oriented ones;
- public organisations dominated by excessive rules regarding the staff, the way of spending public money, methods of work;
- the focus on procedures, instead of depoliticizing, responsibility and preventing corruption; in this respect, the values of public administration that forward a strongly hierarchical control are the source of many restrictions of the constitutional rights that the employees of the public sector had as citizens.[13]

In United Kingdom, the Audit Committee established at local level in 1982, as a non-government entity, financed by the Ministry for the Environment and the Welsh Office, carried out important studies at national level, aimed to promote *economies, efficiency and effectiveness* in providing services[14].

However, when speaking about the budgetary reform in United Kingdom, D'Souza states that the effectiveness of the practices of financial management instituted by the New Public Management leaves many questions without an answer, as for instance

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[8] idem, p. 145
[9] idem, p. 194
[10] idem, p. 192
[11] Rosenbloom, D. H., O'Leary, R. (1996), „*Public Administration and Law*", second edition, CRC Press, p. 180
[12] Matei, A. (2003), „*Economie publică*", p.242
[13] Rosenbloom, David H., O'Leary, *op. cit.,* pp.7-8 and p.183
[14] Cowper, J., Samuels, M. (2001), „*Analiza comparativă a performanţelor în sectorul public: experienţa Regatului Unit al Marii Britanii*", in Matei, A. (coordinator), "*Analiză comparativă, evaluare şi management strategic în sectorul public*", (translation in Romanian language), Editura Economica, Bucharest, p.26

those about fiscal policies or the use of performance indexes[15]. Other authors reveal that the process of change is complex and long lasting, requiring high costs, so that only those who consider themselves capable to cover these expenses will be the first beneficiaries of the advantages offered by public management at an international level[16].

The major problem, when analysing comparatively the *efficiency* of the public sector and the *efficiency* of the private sector is that the objectives of *efficiency* are fundamentally different in the case of the two sectors. While the private enterprises have a relatively limited objective, which is the maximization of profit, the public enterprises have a large set of objectives consisting in the attempt to maximize the social welfare along with the fulfilment of long term economic objectives.[17]

Although the *efficiency* of public administration is incompletely treated in a legal approach - which is explicable by the economic origin of this concept - we note that the Romanian administration law specialized literature had emphasized the importance of the *efficiency* of administrative acts[18] even prior to the 1980s. At the same time, in recent years, at an international level, focus is laid on the necessity to enhance the *efficiency* of public administration (Seerden and Stroink (2002), Verwez (2004)).

Concerning the public organisations, Bartoli (1997) addresses some question marks concerning the pertinence of the objective defined, the means involved in order to attain the outcomes, motivation of satisfaction and actors' identity, eventual negative effects etc.[19]

Taking into account the context related to the topic of *efficiency* and *effectiveness* in the public sector, *enhancing* the *efficiency* of public administration will represent a complex process, involving and revalorising both the resources required and the means for using them. For local government and public sector, in general, the resources are heterogeneous and refer both to financial resources and human resources, infrastructure, opportunities etc. In a systemic approach, *enhancing* the *efficiency* of public administration will represent a deeper link between the system outputs and objectives, in the context of using the inputs in a rational way, no matter their nature.

[15] D'Souza, J., *„Public Administration and The New Public Management: A Case of Study of Budgetary Reform in The United Kingdom”*, in "Public Administration and Management: An Interactive Journal", 9 (2):2004, p.40

[16] Androniceanu, Armenia (2000), *„Management public internaţional”*, Editura Economica, Bucharest, p.68

[17] See Clifton, J., Fuentes, D. (2003), *„Privatisation in the European Union: Public Enterprises and Integration”,* Springer, pp.12-13

[18] Iovănaş, I. (1977), *„Dreptul administrativ şi elemente ale ştiinţei administraţiei”*, Editura Didactica si pedagogica, Bucharest

[19] Bartoli, A., (1997), *"Le management les organisations publiques "*, Ed. Dunod, Paris, pp. 80 – 90.

II. Reducing the administrative expenditures

II.1. Introduction

The concerns for adequate administration of public expenditure have always been present with the main objective focused on efficient use of resources in view to obtain high economic performance.

In the latest years, to these efforts, some concrete initiatives were associated on reducing public expenditure, both for the public sector and private sector.

The terminology and contents of administrative costs are different and depend on the analysed situations and contexts. In various situations, they refer to expenditure for achieving the information obligations. According to the International Standard Cost Model Manual, the administrative burden refers to „expenditures generated in companies, when they meet the information obligations, required by public administration based on the legislative rules"[20].

The extension of this issue towards the public sector will lead to an extension of the sphere of administrative burden to „compliance costs for enterprises, services and citizens, including administrative and bureaucratic (operational) costs as well as capital costs[21].

It is worth to remark, from this perspective the occurrence of some networks concerning the application of the Standard Cost Model (SCM), aiming to reduce the administrative expenditures for businesses. Even the European Commission aimed to elaborate and implement a strategy for reducing the administrative costs for the businesses inside the European Union. We find similar initiatives in OECD and several European states as well as other countries, for ex. United Kingdom, Denmark, Netherlands, Sweden, Norway etc.

SCM Network comprises for the time being 19 states and organisations, and recently also Romania. In fact, for Romania, the "Strategy for better regulation at central government level", 2008 – 2013 comprises as priorities on medium term, „preliminary analysis of the issue of administrative burden, development of a general methodology to assess the administrative costs and to elaborate a concrete action plan in order to implement the Standard Administrative Cost Model"[22].

II. 2. Public expenditure

Public expenditure represents „the ensemble of annual expenditure with public nature of a country, financed on the basis of public budgetary resources"[23]. In fact, public

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[20] „*International Standard Cost Model Manual; measuring and reducing administrative burdens for business*", SCM Network, Oct., 2005, www.administrative-burdens.com.
[21] *"Good Practice Guidelines for the Management of the Evaluation Function"*, http://europa.eu.int/comm/dg19/evaluation/eu/goodpracticieen.htm.

[22]Government of Romania – "Strategy for better regulation at central government level", 2008 – 2013, pp. 13, www.sgg.gov.ro
[23] Dobrotă, N., (coord), (1999), „*Dicționar de economie*", Editura Economica, Bucharest, Romania,, pp. 98.

expenditure reflects the political choices of the Government, representing costs of the elements of economic policy aiming to deliver public goods. These costs relate to delivering goods through the budget of the public sector or represent expenditure in the private sector, induced by regulations and laws made by the public sector.

What we called in the introduction the administrative burden (AB) of private companies can be framed in this second category of expenditure. The costs from the first category are in fact public expenditure, as such, of which a part represents the costs of bureaucracy in any public administration. In an extended meaning for the administrative burden, the costs of bureaucracy are in this category for a public administration.

In the structure of the national or local budgets we find:

- *Exhaustive public expenditure* focused on procurement of goods and services (for ex: labour, consumables) and capital goods (for ex. investments of the public sector in streets, schools, hospitals);

- *Transfer public expenditure*, such as public expenditure for pensions, subsidies, interests, unemployment allowances.

Consequently, the administrative burden (AB) in the public sector comprises, mainly, procurement of goods and support services for bureaucracy as well as payment of some charges etc.

II.2.1. Public expenditure and administrative burden

The weight of public expenditure is different and depends on the development levels for the public or private sector. Reported to the latter, the administrative burden in the public sector will have a certain non linear evolution. In this prospect it is worth to mention the models formulated by Musqrave (1974) and Rostow (1960), stating that in the earlier stages of growth and economic development, investments in the public sector are high, providing the core social infrastructure. The purpose of these investments is to help economy to reach higher development stages, where, although the state will continue investments, their role will be to complete the private investments. The conclusions of the two economists are relevant also for the evolution of the administrative burden, both in the public and private sector.

- While total investments increase as proportion from GDP growth, the relative share of the public sector decreases[24].

- When economy reaches the maturity stage, the mix of public expenditure will be oriented from the expenditure for infrastructure to expenditure for education, health and welfare services [25].

Therefore, if we take into calculation, the total administrative burden, obtained by summing up those from public and private sector:

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[24] Musqrave, R., A., (1974) *„Expenditure Policy for Development"*, University of Florida Press, U.S.A., pp. 35.
[25] Rostow, W., (1960), *"The Stages of Economic Growth : A Non – Communist Manifesto"*, Cambridge University Press, U.K., pp. 9 – 10.

$$PA_{tot} = PA_{public} + PA_{private} \qquad\qquad (1)$$

it will have the following characteristics:

- PA_{tot} can be considered constant, for certain periods of economic development;

- PA_{public} and $PA_{private}$ are variables in time;

- between PA_{public} and $PA_{private}$ there is bidirectional transfer due to effects of dislocation between public and private expenditure, specific for different periods of economic and social development.

The above assertions are based on Peacock-Wiseman analyses, stating that „Governments have the trend to spend more money and the citizens do not wish to pay many taxes. Consequently, the Governments should take into consideration the wishes of their citizens"[26]. In this context, it occurs the so called *effect of dislocation,* namely the public expenditure dislocates the private expenditure in certain periods, such as crises periods.

II.2.2. Assessing the administrative burden

The idea to assess the administrative burden is based on simple judgements, focused on the structure of the public sector, respectively private sector. In the specialised literature, public expenditures are grouped depending on different administrative or economic criteria. An administrative classification of expenditures could be as follows:

- *organic*, when expenditures are grouped depending on institutions: ministries and other central bodies, administrative − territorial units, other public institutions;

- *functional*, when expenditures are grouped depending on the profile of the activity of public institutions: public power and general administration, justice and police, international relations, army, culture, education, social actions, economic actions.

Taking into account the economic criterion, the classification is as follows: operational expenditure, transfer expenditure and investment expenditure. In this context, the administrative burden in the public sector will be included, mainly, in the operational expenditure and it will be direct proportional with the number, size and structure of the institutions concerned.

The assessment of the administrative burden in the business environment, consequently in the private sector, takes into consideration another philosophy. The roots of such activity are situated in the Netherlands, when at the beginning of 1990s, it formalised the first methods for assessing and reducing the administrative burden for small and medium sized enterprises. The practical experience and positive results of the

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[26] See Payne, J., E., Ewing, B., T., Mohammdi, H., (2006), „*Wagner's hypothesis: new evidence from the U.S. using the bounds testing approach*" in Ott, F., A., Cerbula, R., J., (2006), „*Empirical Public Economics*", pp. 37

Netherlands were undertaken by several EU Member States, representing general concerns of each organisation to reduce bureaucratic expenditures.

The administrative burden, as shown in the introduction of this paper, represents those expenditures done by a company to achieve its information obligations to the state. Consequently, the assessment activity for the administrative burden should start with precise identification of information obligations. „An information obligation (IO) represents the duty to draw up and keep record of certain information and to make them available to public administration or other authorised institutions. It is a compulsory activity for companies. Each information obligation comprises a number of data requirements, and the companies should submit them"[27].

The assessment of the costs for administrative activities imposed by I.O. respect the following scheme, which represents in fact the structure of the standard cost model
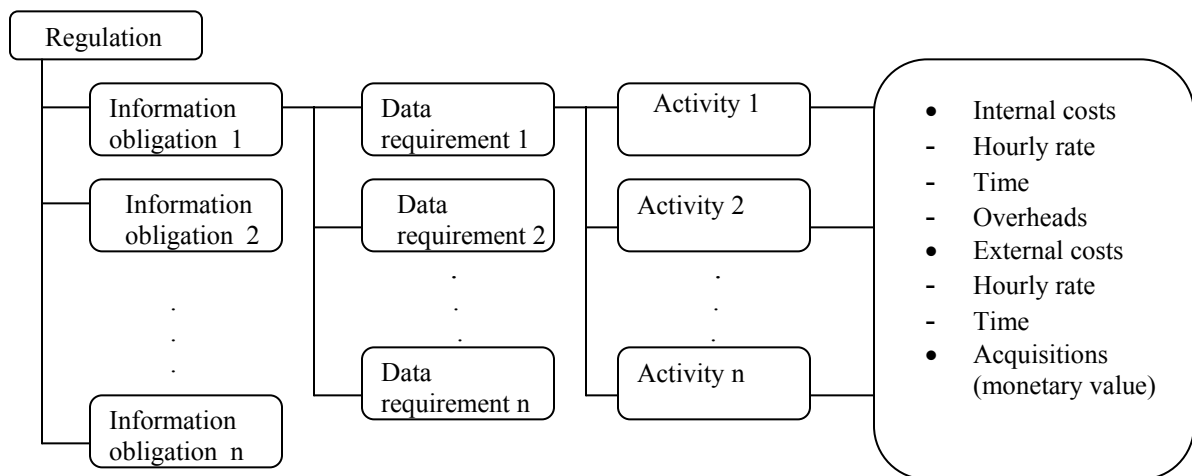

Fig. 1. Structure of the Standard Cost Model (SCM) [28]

Combining the components above described, we obtain the core formula for SCM:

Administrative cost[29] = Price x Time x Quantity (population x frequency) (2)

where:

Price: price consists of a tariff, wage costs plus overhead for administrative activities done internally or hourly cost for external service providers;

Time: the amount of time required to complete the administrative activity;

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[27] *"International Standard Cost Model Manual; measuring and reducing administrative burdens for business"*, SCM Network, oct., 2005, p. 8.

[28] *Idem*, p. 9

[29] Idem, p. 9. See also *„Méthodologie commune de l'Union Européene pour l'estimation des coûts administratifs imposés par la legislation"*,
http://www.europa.eu.int/comm/secretariat_general/impact/docs_en.htm, p. 3.

Quantity: comprises the size of the population of businesses affected and the frequency the activity must be completed each year.

II.2.3. *The efficiency of European regulations through cost reducing.*

Besides political and administrative reasons, the economic and budgetary reasons are the basis for gaining *efficiency* in EU regulations. Regulations have a cost and, in the debates regarding the quality of regulation, cost is crucial.

In the European Parliament Resolution of 4th September 2007 concerning better law making: application of the principles of subsidiarity and proportionality – the 13th annual Report mentions the support of this institution in the European Commission's efforts to reveal useless administrative obstacles resulting from the new European legislation through integrating SCM in the procedure of impact evaluation; it is essential that the interested parties help in collecting the required information for SCM use; it emphasizes that the quality of impact evaluation should be controlled by the Commission for impact evaluation by way of notifications accessible to the public. Furthermore, the Parliament should not take into consideration those legislative proposals of the European Commission that are not accompanied by an independently controlled impact evaluation that should include the evaluation of any useless administrative obstacle by SCM.

SCM has its origins in the United States and it was called "The system of estimative costs". The essence of the method consists in making a comparison between the standard cost and the effective cost, establishing the deviations from the standard cost.

In an economic approach, the standard costs are the estimate costs calculated on rigorous scientific grounds, when there is a certain structure of the organisations and technological methods and procedures are used in the process of production. The rigorous establishing of standard costs makes them be considered "real costs" and any modification that occurs during the process of production is considered a deviation and is therefore ascribed to the final results of the enterprise.

SCM application implies the following stages:

1) The calculation of the product standard cost, which consists in:
- determining the standard volume of the activity according to which are established the standard costs;
- determining standards for indirect costs, that is for the production indirect costs (overheads of departments), the general costs of administration (general overheads) and the distribution (sales) costs;
- the actual establishment of product standard costs;

2) The account of deviations. The registering, calculation, supervision and analysis of the deviations from the standard costs are made according to the types of the costs, namely the deviations from the standard costs of materials, human resources and overheads. The account of deviations implies:

- making a comparison between the effective costs and the standard costs and establishing the deviations;
- evaluating the amount of deviations and their causes;
- taking measures to avoid negative situations and generalizing the positive aspects.

3. The organization of standard cost accounting. Three main alternatives of accounting that can be applied:

- the partial cost standard method;
- the single cost standard method;
- the double cost standard method.

SCM main advantages are as follows:

- by supervising the deviations from the standard costs, solutions can be found which regulate the activity of the organization, with positive impacts on its profit;
- the method obliges the organisation to choose those methods which guide its future activity towards attaining basic and ideal standards.

According to the European Commission, the efforts of the European Union in light of reducing administrative costs in the legislative system, demonstrate the adjustment of SCM to the EU administrative system, identified by the Commission as the "EU Net Administrative Cost" Model, synthetically expressed under form (2).

	Standard Cost Method	**The "EU Net Administrative Cost" Model** (adjusted to the integrated and proportional approach specific to the European Union)
Purpose	Estimates only the costs of the administrative obligations imposed on enterprises, distinguishing between the national level and the European level	Estimates the net costs of the administrative obligations imposed on enterprises, the private sector, public authorities and citizens, distinguishing among the national, European and international level)
	It has a microeconomic purpose	It has a microeconomic purpose
	It has a macroeconomic purpose (to estimate the cost reducing – administrative obstacles- on the economy as a whole	A macroeconomic purpose is not taken into consideration

Synthetic equation	Σ P x Q P: Price = Tariff x Time; Q: Quantity=number of actions (affairs) x frequency Focus on labour force costs and added value, estimated as representing the main resource for cost reducing	Σ P x Q P: Price= Tariff x Time; Q; Quantity= number of actions (affairs)x frequency) When necessary, other types of costs will be considered apart from those of labour force and added value

All the above actions aim to reduce bureaucracy and administrative expenditures on authorising the company activity, improving the transparency and simplifying the administrative procedures, enhancing the relation of administration with the companies.

Since January 2008, Romania, through the General Secretariat of the Government belongs to the network of the users of standard expenditure instrument. The governmental strategy has a chapter dedicated to reducing bureaucracy. In this chapter the focus is on the financial aspect and simplification of legislation. The Government established the percentage to reduce the bureaucratic expenditures. At EU level, this percentage represents 25%. For Romania, the objective is to have a competitive percentage.

The initiatives to reduce the administrative burden of enterprises were focused on the SMEs sector, for the beginning.

In 2006, it was achieved the inventory for authorisations, certificates, licences and permits for the activity of companies, finding out that 34 public institutions have competences in their issuance. It is a total number of 534 authorisations, certificates, licences, permits and there are authorisations under the responsibility of several public institutions.

The real number of authorisations, certificates, licences and permits is 488; the difference between the total number and the real number results from the existence of double competences for issuance.

The legal duration to issue authorisations, certificates, licences and permits is between 5 working days and 90 days, only 21.3% from the authorisations (only 104) apply for the procedure of tacit approval.

III. The efficiency of public administration and services in the context of reducing the administrative burden

III.1. A practical example: Pilot regions for reducing bureaucracy

Miele, Melitta, Dr. Oetker, Bertelsmann, situated in Ostwestfalen-Lippe – represent companies that have made history in German economy with their brands and performance. These companies turn into account the tradition, have high performance and are very active in their branch.

The economic structure of the region is balanced:

Branch	Employees	Turnover (billion €)
Industry for manufacturing cars	40247	8.01
Food industry	18988	7.47
Industry for office and electric equipment	24929	5.31
Industry for producing furniture	24931	4.94
Steel industry	25753	4.68
Industry producing paper	14978	2.72

The public administration of the region has removed many barriers for companies and citizens.

If in the past in Minden-Lübbecke, on an extended area there was an army house "Tunis", now we witness a place with several houses and offices, including an elder house, a business center of 42000 m². The design for the construction of all buildings, the authorisation of the design plans for the elder house, the approval of the requests to change the use of the area – "all have been solved in less than one year, although initially the town hall presented a general interdiction for construction", asserted Friedrich Hilldebrad, the project investor. Nine years ago, Mr Hilldebrad faced another situation, on the occasion of achieving another project: "even after three-four years I had to struggle to obtain the authorisations."

Since 2004, Ostwestfalen-Lippe (OWL) Region was officially selected for three years: "Model region for reducing bureaucracy", and since 2001, the region administration, through its office, OWL Marketing (Action: OWL Administration close to Economy/"Initiative Wirtschaftnahe Verwaltung in Ostwestfalen-Lippe**")**, is focused on reducing bureaucracy. "This initiative shows that by bottom-up action, there is a great possibility for reducing the bureaucracy", declares Jürgen Heinrich, coordinator of this model project.

The government of Nordrhein-Westfalen (NRW) Lander supported the achievement of this project by the Law on reducing bureaucracy in Ostwestfalen-Lippe in 2004, and certain regulations were suspended in the region for three years. It was the region that decided on the regulations. Also the region proposed 128 regulations to the government, of which 80 were undertaken by the Lander government and Federal government. Other 27 are in OWL in the pilot stage and since 15 April 2007 at the level of the whole Lander. In this way, many communal and regional administrations simplified the process for approving the requests. Other procedures of administration were simplified in order to make easier the activity of the companies.

For example, OWL proposed the elimination of a Lander regulation, so that the taxi cars should have a unitary colour, "butter colour". The colour is expensive and the value to resell the cars is cheaper, due to this colour. The speed of action for the public services is high; for example, a producer of special metallic cables in Lüdke, increased

the production capacity Normally, the formalities to obtain the approval last 25 weeks, for the company in Lüdke only 10 weeks.

The attempts in OWL to transform this area into a region of short bureaucratic roads are not unique. 16 different state services/institutions from the country are audited for their performance by the German Institute for certifying and guaranteeing performance/das Deutsche Institut für Gütesicherung und Kennzeichung (RAL). If they receive the seal of quality they receive the certificate: "communal administration favourable to SMEs". Three such institutions are situated in OWL.

The project for reducing bureaucracy in OWL will finalise. This project was financed by the governmental fund of NRW Lander for reducing bureaucracy in the region. Jürgen Heinrich states: "The quality of the performance of our administration has increased".

This aspect was also recognised by the federal administration. The commission to control the rules, supporting the Federal government to reduce bureaucratic expenses, selected Ostwestfalenn-Lippe region as partner.

Jürgen Heinrich has also other plans. He prepares for the next three years the project „Innovation and science", in order to improve cooperation between economy and higher education institutions in the region. Professional foundations will be set up for all the powerful traditional branches of the economy in the region. The idea is to attract graduates with engineering background and high competences. Heinrich states: The project „Reducing bureaucracy" showed that we can foster innovation on a healthy land.

III.2 The impact of reducing the administrative expenditures on the efficiency of public services

The following example[30] that we shall describe is based on a classical approach, for the production process in an enterprise, using the function of production, Cobb-Douglas.

$$Y = A K^{\alpha} L^{\beta} \quad \text{where:} \tag{3}$$

Y – output resulted from the production process;

K – fix capital of the enterprise used in the production process;

L – labour force involved in the production process;

A, α, β are constants with economic significances, well established, namely:

A – coefficient of dimension, α - elasticity of production related to capital, and

β - elasticity of production related to labour force.

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[30] The model is adapted according to Matei, A., (2008) „*Performance of Public Expenditure Management at Local Governance Level in Romania*", Fourth TransAtlantic Dialogue „*The Status of Inter-Governmental Relations and Multi-Level Governance in Europe and the US*", June, Available at SSRN://ssrn.com/abstract=1317292.

From (3), we define a series of performance indicators, mentioning the average productivity (average output) as well as the marginal productivity (marginal output). On its turn, the average productivity can be determined depending on capital (R_K) or labour force (R_L) as follows:

$$R_K = A K^{\alpha-1} L^{\beta} \text{ , respectively,} \tag{4}$$

$$R_L = A K^{\alpha} L^{\beta-1} \tag{5}$$

We opted for the indicator concerning productivity on the ground of two reasons:

- Productivity represents the necessary way forward to be approached during the period of crisis in Romania and in the world.

- Productivity is determined by production/service obtained (effectiveness) in the light of the effort invested in order to attain the outcome (efficiency).

At the same time, we should take into consideration the fact that, for public services, the economic *efficiency* refers to the economic results of the public organisations. The social *efficiency* is closer to the objective proposed. It refers to the outcomes of the service activities from the consumers' point of view, expressed through the degree of meeting the needs or the qualitative level of the services. The qualitative level of services may be expressed by means of models, such as L.S.Simon's model or indicators, such as number of units of services per 1000 inhabitants etc.

III.2.1. The formal model

The model describing the influence of reducing the administrative burden on the economic *efficiency* is based on the following important hypotheses:

- in enterprises there is a policy for reducing the administrative burden, determined both by own, internal measures and external measures;

- the administrative burden is within a relation of proportionality both with the total capital, K_t, and total labour force, L_t.

  In a simplified expression, this second hypothesis is translated through existence of positive, sub unitary constants λ, μ so that the administrative burden PA is as follows:

  $$PA = \lambda K_t + \mu L_t \tag{6}$$

- under the situation of reducing the administrative burden, the flows of money are used exclusively in production, assuming that they will determine its increase.

  Consequently, in the absence of other influences, we shall have:

$$K_t = K + \lambda\, K_t \tag{7}$$

$$L_t = L + \mu\, L_t$$

Solving (7) and introducing in (1) we obtain:

$$\frac{Y}{(1-\lambda)^\alpha (1-\mu)^\beta} = A\, K_t^\alpha\, L_t^\beta \tag{8}$$

If we write:

$$Y_t = Y / (1-\lambda)^\alpha (1-\mu)^\beta \tag{9}$$

Y_t will have the significance of a total production that will be obtained using totally the capital and labour force.

The expression: $\quad k = (1-\lambda)^\alpha (1-\mu)^\beta \tag{10}$

will be defined as a *factor of influence for the administrative burden on production.*

- In the case of a policy for reducing the administrative burden spread out on several years, n, we obtain a succession of effects overlapped, due to annually factors of influence,

$k_1, k_2, ..., k_n$ and consequently:

$$Y_t = Y / \prod_{i=1}^{n} k_i \quad \text{where:} \tag{11}$$

$$k_i = (1-\lambda_i)^\alpha (1-\mu_i)^\beta \tag{12}$$

represents the factor of influence of the administrative burden on production in the year i.

Through a similar judgement we obtain factors of influence on average productivity depending on capital, k_K, or depending on labour, k_L, namely:

$$k_K = (1-\lambda)^{\alpha-1} (1-\mu)^\beta \text{, respectively,} \tag{13}$$

$$k_L = (1-\lambda)^\alpha (1-\mu)^{\beta-1} \tag{14}$$

III.2.2. An empiric example

In order to provide an example on the above mentioned issues, we turned into consideration the autonomous regies R.A. „Apa", Braila, Romania, (R.A. „Water"), whose general objective is to develop the system of water and sewerage at local level through modernisation and its enlargement to peripheral areas of Braila Municipality.

Analysing the statistic data during 2000 - 2005[31], we obtain:

Year	Production (Y)	Capital (K)	Wage expenses (L)
2000	12,510,578	24,253,760	4,821,499
2001	11,430,219	18,552,430	5,675,151
2002	12,490,810	20,537,752	5,122,277
2003	13,821,040	25,003,426	6,069,335
2004	15,733,981	25,683,846	6,841,239
2005	18,844,835	31,368,067	7,813,556

Tab. 1. Empirical data on the variables of function Cobb – Douglas.

The determination of constants for the function of production (3) imposes, first of all, its logarithmic process. Consequently we obtain[32]:

$$\ln Y = \ln A + \alpha \ln K + \beta \ln L \qquad (15)$$

From Table 1, in the same manner, through approximation:

Year	ln Y	ln K	ln L
2000	30.3	30.8	19.5
2001	29.7	30.5	20.2
2002	28.7	30.7	19.8
2003	30.2	30.8	20.2
2004	30.3	30.9	20.3
2005	30.8	31.3	20.6

Tab. 2. Empirical logarithmic data of the function of production Cobb-Douglas

From calculation reasons, in order to determine in a unique manner, the constants A, α, β, we shall divide the analysed period in two sub periods, 2000 – 2002, respectively, 2003 – 2005 and we shall obtain for the first period:

$$\alpha = \frac{3}{2}, \beta = -1/4.$$

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[31] Data undertaken from the Bulletins of the National Statistics Institute, 2000 – 2005, as well as from financial reports transmitted by R.A. „Apa" to local authorities.
[32] Matei, A., Matei, L., (2007), *„Systemic Models of Local Development"*, in „Theoretical and Applied Economics", No 1(506), 2007, pp. 11-24, Bucharest, Romania.

In order to ensure that these constants are unique we shall repeat the procedure for the second period of time. After checking, the results are compatible.

Formulating a hypothetic situation for reducing the administrative burden at the level $\lambda = 5\%$ and $\mu = 10\%$ we obtain, using (10) that the value of the factor of influence on production is:

$$k = \sqrt{\left(\frac{19}{20}\right)^3} \cdot \sqrt[4]{\frac{10}{9}} = 0.951 \tag{16}$$

Consequently the limitation of the administrative burden at the level above described will involve an increase of production with $1/k = 1.051$ namely 5.1%.

Calculating the average productivity depending on capital or labour we shall discover that the reduction of administrative burden does not lead necessarily, at least for the present example to its increase.

In fact, using (13), respectively (14) we get:

$$k_K = 1.0006, \quad k_L = 1.056 \tag{17}$$

leading to the following finding: an insignificant reduction of the average productivity depending on capital and a reduction by 5.6% of productivity depending on labour force.

Therefore, the conclusion is as follows: while reducing the administrative burden there are necessary measures to change the structure of production so that the average productivity increases, in the same time with the increase of the total production.