

**MUNI
ECON**

Local finances management

Public Finance 2

Theory of Fiscal Federalism

Many authors – Tiebout, Oates and others

Tiebout model/hypothesis (1956):

- *„model yields a solution for the level of expenditures for local public goods which reflects the preferences of the population more adequately than they can be reflected at the national level“*
- individuals will move from one local community to another which maximizes their personal utility.

Oates „theorem“

- Oates' *Decentralization Theorem* (Oates, 1972) „stating that in the absence of cost savings from centralization and interjurisdictional externalities, fiscal responsibilities should be decentralized. This argument implicitly assumes that the center is unresponsive to preference heterogeneity and thereby is only able to implement uniform policies“ (Koethenbueger, 2007)

Decentralization

The process of redistributing functions or powers from center to localities in term of hierarchy.

Dentralization concept is widely used in public administration, economics, law, but also in private sector.

Decentralization of state power (public administration):

- ▶ Central government
- ▶ Regional government
- ▶ Local government

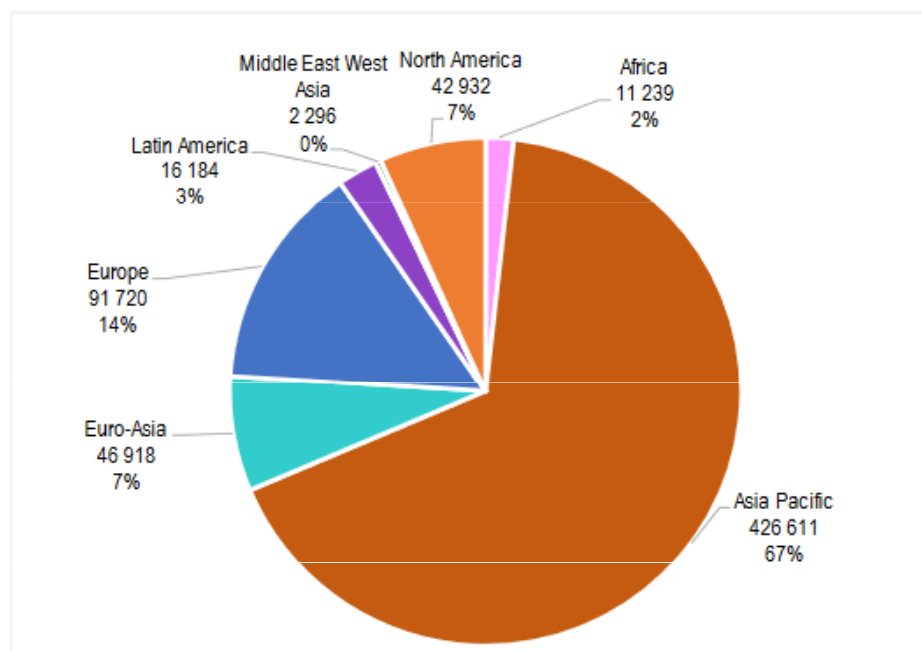
Fiscal Federalism (FF)

division of responsibilities: finance, tasks, policy

(central government-localities)

- important questions:
 - Who makes the decisions about the programs?
 - Who pays for these programs?
- examples
 - Government rule – Localities administer
 - Government pays – Localities carry out

Number of subnational governments by geographical areas (2018)



Source: Authors' calculations based on SNG-WOFI database. www.sng-wofi.org

Breakdown of responsibilities across SNG levels: a general scheme

Municipal level	Intermediary level	Regional level
<p>A wide range of responsibilities:</p> <ul style="list-style-type: none"> • General clause of competence • Eventually, additional allocations by the law 	<p>Specialised and more limited responsibilities of supra-municipal interest</p>	<p>Heterogeneous and more or less extensive responsibilities depending on countries (in particular, federal vs unitary)</p>
<p>Community services:</p> <ul style="list-style-type: none"> • Education (nursery schools, pre-elementary and primary education) • Urban planning & management • Local utility networks (water, sewerage, waste, hygiene, etc.) • Local roads and city public transport • Social affairs (support for families and children, elderly, disabled, poverty, social benefits, etc.) • Primary and preventive healthcare • Recreation (sport) and culture • Public order and safety (municipal police, fire brigades) • Local economic development, tourism, trade fairs • Environment (green areas) • Social housing • Administrative and permit services 	<p>An important role of assistance towards small municipalities</p> <p>May exercise responsibilities delegated by the regions and central government</p> <p>Responsibilities determined by the functional level and the geographic area:</p> <ul style="list-style-type: none"> • Secondary or specialised education • Supra-municipal social and youth welfare • Secondary hospitals • Waste collection and treatment • Secondary roads and public transport • Environment 	<p>Services of regional interest:</p> <ul style="list-style-type: none"> • Secondary / higher education and professional training • Spatial planning • Regional economic development and innovation • Health (secondary care and hospitals) • Social affairs e.g. employment services, training, inclusion, support to special groups, etc. • Regional roads and public transport • Culture, heritage and tourism • Environmental protection • Social housing • Public order and safety (e.g. regional police, civil protection) • Local government supervision (in federal countries)

Source: (OECD, 2018^[1]; OECD, 2019^[4])

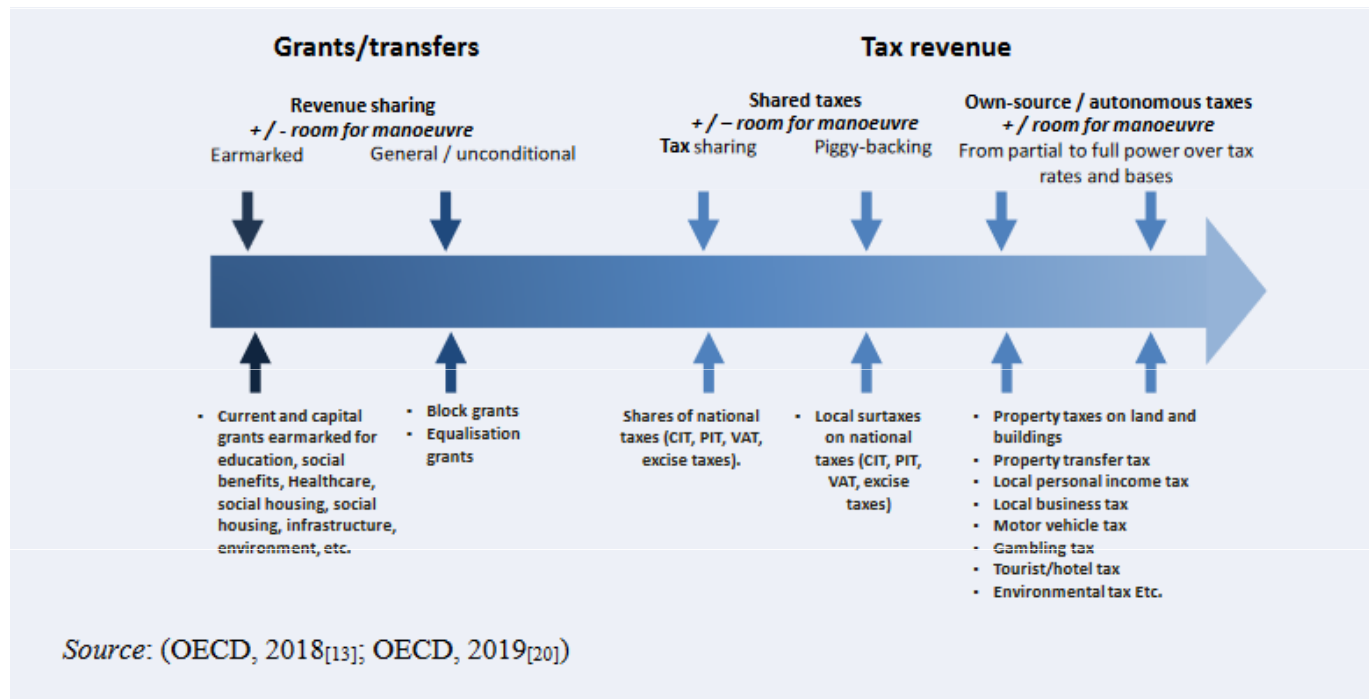
Source: OECD/UCLG (2019), 2019 Report of the World Observatory on Subnational Government Finance and Investment –Key Findings

Subnational government expenditure as a percentage of GDP and general government expenditure (2016)



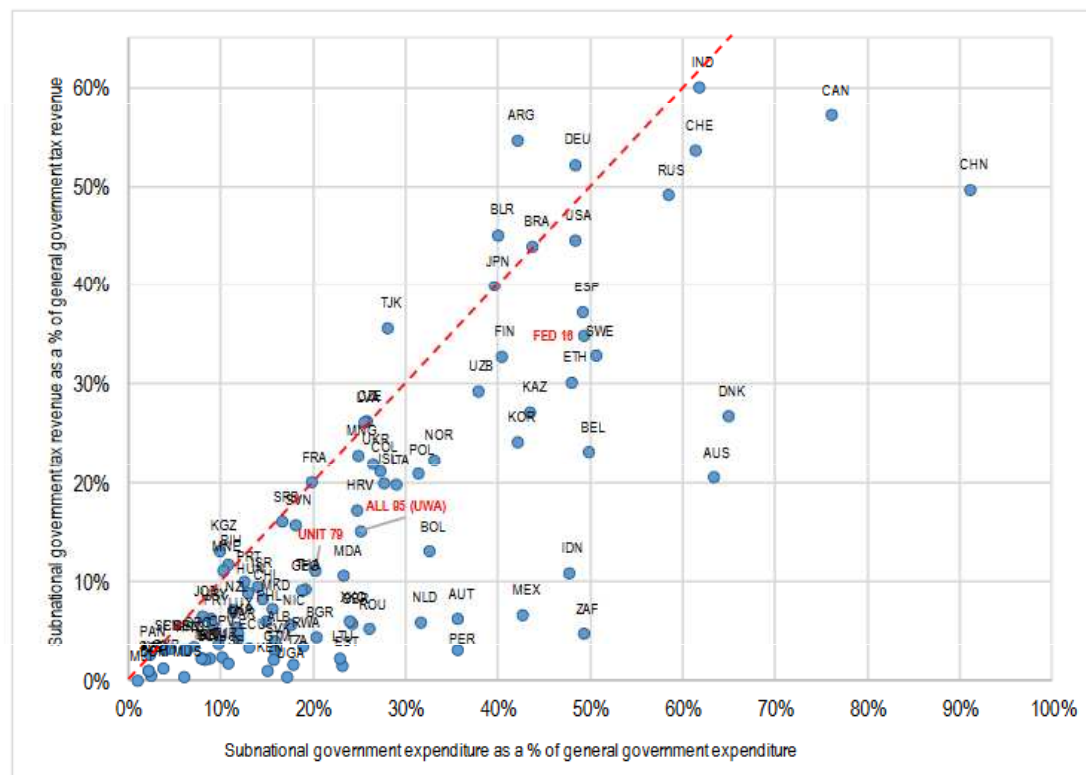
Source: Authors' calculations based on SNG-WOFI database. www.sng-wofi.org

Subnational resources and autonomy: no clear cut frontiers



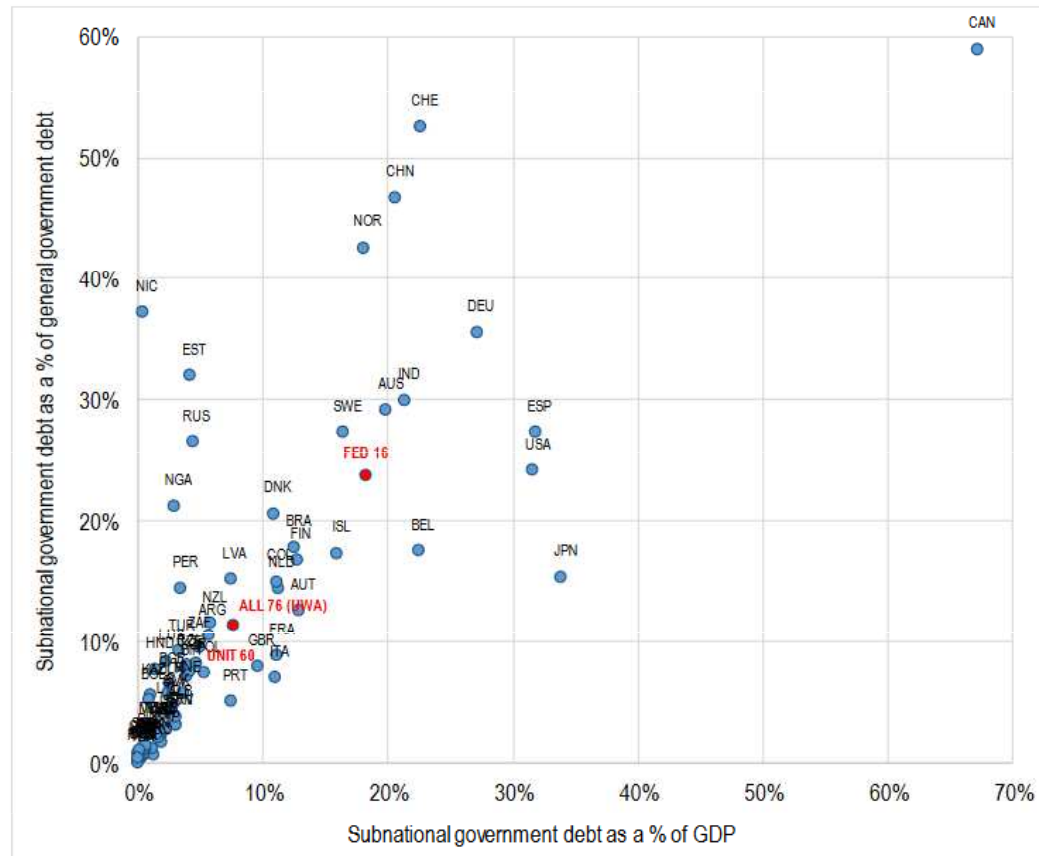
The gap between subnational government expenditure and tax revenue is often large

Expenditure as a percentage of public expenditure and tax revenue as a percentage of general government tax revenue (2016)



Source. Authors' calculations based on SNG-WOFI database. www.sng-wofi.org

Subnational government debt as a percentage of GDP and general government debt (2016)



Source: Authors' calculations based on SNG-WOFI database. www.sng-wofi.org

Czech republic and fiscal federalism

- ▶ Inhabitants 10 532 770
- ▶ 14 regions (Prague–municipality and region)
- ▶ 6 253 municipalities
- ▶ Special case– NUTS II. (created for monitoring EU statistic)

- ▶ Fiscal decentralization involves the transfer of taxing and spending powers to sub–national levels of government

– Q & A