Fiscal Decentralization and Efficiency: Small Municipalities in the Czech Republic

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Slide 1

Interested in more details about fiscal decentralisation in CEE?
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This book examines the impacts of fiscal decentralization reforms on the efficiency of local governments in Central and Eastern European (CEE) countries. By offering a comparative perspective and by applying econometric methods and regression models, it analyses various reform trajectories and their effects on individual CEE countries. Furthermore, the book discusses input and output indicators for evaluating the efficiency of municipalities. Readers will learn about the common features of these countries, the impact of path dependence, and future prospects for decentralization reforms. In closing, the book discusses modern management and administration methods, opportunities for cooperation between municipalities, co-creative service delivery, and other measures that could improve the efficiency of public service provision.

Public Administration, Governance and Globalization

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Fiscal Decentralization Reforms

The Impact on the Efficiency of Local Governments in Central and Eastern Europe

Springer

Slide 2

Motivation and context

three levels of government: central, regional and local
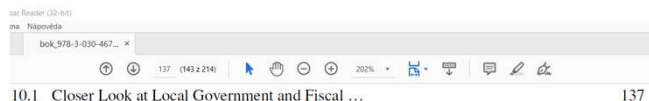
6250 municipalities

1632 average nr. of inhabitants per municipality

most municipalities have less than a thousand inhabitants

mixed system of fiscal federalism - the main share of revenue consists of shared taxes (VAT, share of personal and corporate income tax), transfers, local taxes and fees (property tax)

political discussions on merging municipalities

hot agenda due to economic crisis

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Table 10.4 Structure of municipalities in the Czech Republic by population

Municipality	Number of municipalities	Population	Percentage of total population
Up to 199 residents	1449	180,093	1.7
From 200 to 499 residents	1997	651,475	6.2
From 500 to 999 residents	1378	973,247	9.2
From 1000 to 1999 residents	745	1,042,569	9.9
From 2000 to 4999 residents	417	1,262,911	12.0
From 5000 to 9999 residents	141	964,031	9.1
From 10,000 to 19,999 residents	69	970,075	9.2
From 20,000 to 49,999 residents	44	1,324,522	12.6
From 50,000 to 99,999 residents	12	874,462	8.3
Over 100,000 residents	6	2,310,458	21.9

Source ČSÚ (2016)

Motivation and context

Activities of municipalities: Independent vs Delegated power

Independent power

- The creation of conditions for the development of social care and for satisfying the needs of its citizens in accordance with local prerequisites and local customs.
- These are primarily meeting the needs of housing, the protection and development of health, transport and communications, the need for information, education and training, overall cultural development and the protection of public order.

Motivation and context

Municipal activities: Independent vs Delegated power

Delegated competence means the performance of state administration, which the state has transferred to municipalities.

Table 10.3 Categories of municipalities by scope of delegated acts

Categories of municipalities	Characteristics (description) of the category
Municipalities of the first degree	They perform the most basic extent of government administration
Municipalities of the second degree	These are municipalities with designated municipal authorities. These municipalities are a lower link between municipalities with extended competence and other, lowest municipal authorities. There are about 380 in the Czech Republic
Municipalities of the third degree	These are municipalities with extended powers. These are usually larger cities with a large administrative district. These municipalities are an intermediary of delegated powers of self-government between regional authorities and other municipal authorities. There are about 200 of them in the Czech Republic. The Czech POINT is available at municipal offices with extended powers[a]

[a]This is a project in which municipal authorities with extended powers, regional authorities, notaries and legal entities (e.g. the Czech Post) can issue citizens extracts from the Land Register, the Criminal Register or the Trade Register. Citizens can thus obtain through Czech POINT all data, copies and extracts which are kept in central registers and registers about their person, property and rights

Motivation and context

Structure of shared taxes

Municipalities receive the following shares of statewide tax collections:

- 25.84% of VAT collection
- 25.84% of corporate income tax collection
- 25.84% of personal income tax

These revenues are shared between municipalities according to the following criteria:

- Population
- Area of the municipality
- Nr. of employees
- Number of children and pupils attending primary and kindergarten schools established by the municipality
- Multipliyng number of transition between population cathegories

Motivation and context

- the current situation also reflects developments after the Velvet Revolution, which were linked to democratisation and the right to self-government
- according to analyses by e.g. the OECD, this situation is too costly, this is reflected e.g. in education, where average administrative expenditure per pupil is almost 50% higher in small municipalities
- small municipalities also lack the administrative capacity to address problems and meet the needs of citizens
- difficult coordination in dealing with crisis situations Covid 19, influx of refugees from Ukraine
- a new phenomenon in some small municipalities, a government cannot be formed because no one wants to run for office

Some theoretical remarks

- there are multiple generations of theories of fiscal federalism

However, the following mechanisms remain key:

- Accountability (works differently for different types of local government revenue e.g. shared taxes vs own taxes)

- Information asymmetry (fiscal illusion, can voters estimate the true cost of the public goods services they receive from local governments, how can actors control local governments)

- Actors rationality (how local politicians behave and how voters behave, it pays to be an active citizen)

Some empirics

the technical efficiency of small municipalities in the Czech Republic is low and there is room for improvement

Fiscal variables (own income, shared tax ratio, indebtness etc) are associated with efficiency

Effects of political variables are inconsistent

Big municipalities benefit from economies of scale

Small municapilities benefit improving effectivity of resource used

Average technical efficiency (cons, var) in years by size category of municipalities. *Key*

1 = up to 199 inhabitants, 2 = 200–499, 3 = 500–999, 4 = 1000–1999, 5 = 2000–4999, 6 =

5000–9999 obyv., 7 = 10,000–19,999, 8 = Over 20,000 inhabitants
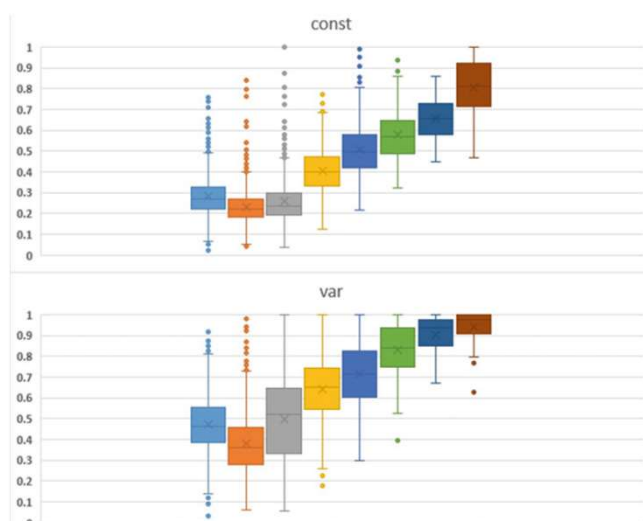
Deep dive into fiscal variables

- Higher municipality own income is negatively associated with efficiency (most significant variable)
- Transfers are negatively associated with efficiency
- Tax income is positively associated with efficiency (small effects)
- Deficits are positively associated with efficiency
- Debts are negatively associated with efficiency (contrary to the theory)

Deep dive into political variables

- Winning party ideology is not significantly associated with efficiency (contrary to partisan theory)
- Herfindal index (local power concentration) is not significantly associated with efficiency

Policy recommendation

Let´s start with the NPM tools

- there are a large number of municipalities that do not operate at an optimal scale, so let's merge them, but.... it is politically impossible, there is a large geographical distance between municipalities, evidence from other countries shows that this is not always the best solution

Use a proxy solution:

- intermunicipal cooperation - empirical evidence shows that it works well e.g. in waste management (fixed cost), there are also good practice examples from labour intensive sectors such as social services
- medium support unit - implemented mainly in the area of primary schools, which are among the most problematic areas, they serve as a tool to facilitate the management of primary schools

Policy recommendation

Lets be digital:

We can start with the citizens:

- Participation - digital tools will help improve participation and involve citizens in the cocreation of public services, cities commonly use different forms of participation e.g. participatory budgets, investments etc. These tools act as buzzwords, after the initial enthusiasm the wave subsides. The central government does not have the capacity to manage implementation.
- Citizen Control - most cities have e-budgets, these tools are not well used, too complex and time consuming. Rational Inattention Theory and AI provides a solution in the form of simple benchmarks (there are initiatives that combine data from different administrative sources and create indexes based on that data)

Policy recommendation

Lets be digital

Local government - division of administrative services into front office and back office, as in a bank. In the Czech Republic we have enough e tools for citizens, the problem is in the back office. Each municipality has several dozen information systems that are not integrated and do not communicate with each other. These systems don't even communicate with the state systems.

Local government - AI implementation: chatbots for communication with citizens, use for preparing simple administrative decisions or for preparing public procurement (screening suppliers, searching for suitable criteria, etc.)

Policy recommendation

We need to start building bridges to solve all the big challenges (a great idea of Don Kettl).

Cooperation between sectors - non-profit sector - social enterprises - companies sounds logical and there are many rational reasons for it. However, in the Czech Republic we still do not know how to do this, we still do not trust each other. There is also no major initiative to teach the public sector to do this. Learning to work together within the public sector would be enough to start with.

The experience of outsourcing and PPP projects in the Czech Republic is not positive.

Policy recommendation

Back to the Weberian bureaucracy?

One of the biggest problems of local governments and Czech public administration in general is the lack of administrative and managerial capacity

With increasing complexity and external shocks (Covid, Ukraine), this is becoming more and more evident

Paradoxically, however, there is more and more talk of shrinking the public sector.

It is necessary to first build sufficient capacity in key activities and then implement cool things like the entrepreneurial state (Drechsler) or bridgebuilding (Kettl)

Thank you and stay in touch.