

Three Essays on Local Public Finance

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Abstract

The dissertation studies spending decisions of local governments. It consists of three parts; theoretical model is developed in the first part and empirical analyses of Czech municipalities of extended scope are presented in the other two parts. The theoretical model analyzes whether it is beneficial to decentralize policy decision-making when local public goods in two symmetric regions are complements. Strategic delegation when a voter intentionally votes for a politician whose preferences do not coincide with those of the voter and in-kind transfers, used to support local public goods production in the other region, are allowed. According to Oates' decentralization theorem, centralization pareto-dominates decentralization for symmetric regions regardless level of spillovers. However, for complementary public goods and when strategic delegation and in-kind transfers are considered, the tradeoff may be exactly opposite and decentralization may pareto-dominate centralization.

The second part aims to test fiscal interaction among local governments in the Czech Republic which can be driven by spillover effects, competition, mimicking, or cooperation. Spatial dependence of local public spending (i.e. whether spending decisions in neighboring municipalities play an important role in the decision-making of domestic municipality) is estimated for Czech municipalities in 2006. The results suggest that municipalities mimic each other in cultural spending, compete in capital spending on housing construction, and spillovers are found for environmental spending and capital spending on industry and infrastructure.

The third part evaluates cost efficiency of Czech municipalities in period 2003-2008 and aims to find key determinants of inefficiency. Efficiency is measured through indicators of the provision of local services. The data envelopment analysis and the stochastic frontier analysis are employed, and scores are compared under alternative specifications. Additionally, robust strong and weak performers are detected. The determinants that robustly increase inefficiency are population size, distance to the regional center, share of university-educated citizens, capital expenditures and subsidies per capita, the share of self-generated revenues, and the share of left-wing representatives in local council. On the other hand, party concentration and the voters' involvement increases efficiency. The analysis is conducted also for the period 1994-1996, where political variables appear to influence inefficiency in a structurally different way. From comparison of the two periods, we obtain that small municipalities improve efficiency significantly more than large municipalities.