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PhD Dissertation Referee Report

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Three Essays on Local Public Finance

In all three essays, this doctoral thesis contains a clear contribution to the existing literature. This contribution is theoretical in its character in the first essay and empirical in its character in the second and the third essay.

The first essay entitled *Inefficient centralization of imperfect complements* builds on Besley and Coate (2003). The author extends the literature on tradeoff between centralized and decentralized provision of local public goods. This analyses - in contrast to Besley and Coate (2003) –deals with cases in which local spending in two identical regions are imperfect complements; in other words she introduces the imperfect complementarity idea to the Besley and Coate framework. She solves for the social optimum which later serves as the benchmark for a normative analysis. Then she solves for equilibria in decentralization both with and without transfers, and examines cooperative centralization under fixed cost-sharing rules and for Nash bargaining. Her results indicate that when comparing centralization to decentralization transfers enhance the efficiency of decentralization and strategic delegation worsens cooperative centralization. Consequently, the famous decentralization theorem depends on the feasibility of transfers and/or strategic delegation, rather than the level of spillover. Also she argues that the benefits of centralization are not related to high but rather to lack of interdependence among the regions. In this essay she shows high competence handling the problem technically, presenting it in a sophisticated way.

The second essay entitled *Spatial interdependence of local public expenditures* tests fiscal interactions among local governments in the Czech Republic, i.e. deals with effects of spending decisions in neighboring jurisdictions on the decision making of domestic jurisdiction. The author test the hypothesis that when local government councils make decisions concerning public spending they take into consideration the decision of other local councils as there are different types of interaction between these councils (spillover effects, competition, mimicking, cooperation). The author focuses on total local expenditures and various expenditure groups as industry, culture, sports, housing, utilities, and so. The

author finds positive spatial interdependence in different types of expenditures. However, for some expenditures negative spatial inter-dependence was observed. The author also provides additional interesting results as the higher is the disagreement among parties in municipality councils, the lower is the amount of spending on investment projects, housing and infrastructure. Left-wing parties reacting to preferences of their voters spend more on culture, sports and have higher spending on housing and spend less on industry and infrastructure. Interestingly Czech local power focuses more on attracting residents than firms. A very high amount is spent on leisure activities. Also very interestingly, the author shows that in infrastructure- and industry-spending Czech municipalities tend to free ride upon each other. Appendix is particularly appreciated. Also this essay shows high competence in handling the empirical problems in a sophisticated way.

The third essay entitled *Local governments' efficiency* is a cross-sectional analysis which searches for important determinants of inefficiency at the level of local governments in the Czech Republic. The last essay measures cost inefficiency of more than two-hundred Czech local governments for the time period 2003–2008. The author defines input as current spending, and output as provision of core services. The variables increasing inefficiency are population size, distance to the regional center, share of university-educated citizens, capital expenditures per capita, subsidies per capita, and the share of self-generated revenues. Also increase in party concentration and the voters' involvement increases efficiency, and local council with a lower share of left-wing representatives also tend to be more efficient. A comparative analysis for the period 1994–1996 shows that small municipalities improve efficiency more than large municipalities as initially low differences between efficiency scores, especially between medium-size and large municipalities, have magnified over time.

Generally, this dissertation deals with classic problems in public finance. It makes a theoretical contribution to the literature (first essay) and makes two innovative studies into empirical reality of these issues in Czech context. This work is done in a way which satisfies the requirement for awarding the doctoral degree.

Overall, this dissertation fulfils the requirement for awarding doctoral degree at the Charles University in Prague.

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