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Fiscal Decentralization Reforms

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

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Preface

One of the problems of the current theory of public administration is examining the impact of factors influencing the efficiency of local governments. This book deals with the issue of the impact of fiscal decentralization reforms on the efficiency of local governments in Central and Eastern European (CEE) countries. Fiscal decentralization has been a problem in Western European countries and the United States for decades (see, for example, Oates 1972; Tiebout 1956) and remains a current question of theory.

The situation is different in CEE countries. These are countries where, until the fall of the communist regimes, there was a strong state centralism that also involved local governments. In these countries, public administration at all levels took the form of a centrally managed government. Problems related to fiscal decentralization in CEE countries were therefore only on the agenda after the fall of the communist regimes. This led to public administration being reformed. It includes the de-etatisation (reversing the nationalizing of enterprises into privately or joint private-state owned enterprises) of local governments and the transition to fiscal decentralization. This change is known as the fiscal decentralization reform process. However, the process of fiscal decentralization in CEE countries has significant differences compared to other European countries that were not marked by the communist era. Following the idea of “path dependence” (Peters 2000; David 2007), previous practices have left their evolutionary footprint on the current evolution of public administration in CEE countries. This is a problem that has not yet been sufficiently explored. Therefore, the authors of this book aim to analyze the impact of fiscal decentralization reforms on the efficiency of local governments in CEE countries and to contribute to the scientific explanation of the relevant factors affecting local government efficiency. This corresponds to the selected book structure.

The book is divided into three parts. In the first part, we have created a theoretical-conceptual framework. Based on an analysis of current scientific discourse, we then present the concept of fiscal decentralization and define seven basic factors that we believe have an impact on local government efficiency. These are the factors of: Information asymmetry, rational ignorance and rational abstention, the

behavior of bureaucracy, municipal competition, the fiscal illusion factor, inter-governmental grants and transfers, municipal size, and the environmental and institutional environment factor.

The second part examines local self-government in the following CEE countries: Bulgaria, the Czech Republic, Hungary, Poland, Romania, Slovakia, and Slovenia. An analysis of these countries is then carried out in terms of the quality of decentralization and the level of fiscal decentralization. From this (mostly qualitative) analysis, general theoretical conclusions are drawn.

The third part deals with empirical analysis of the impact of fiscal decentralization on the efficiency of municipalities in the Czech Republic. The Czech Republic was chosen for the following reasons: First, the availability of the necessary data. In the case of the Czech Republic (unlike other CEE countries) we were able to obtain all relevant data for empirical analysis. The second reason is that the Czech Republic is a country that, after the establishment of Czechoslovakia,¹ was one of the democratic countries with a Western European standard of democracy. After the communist regime came to power, the Czech Republic (or Czechoslovakia) became a typical country of Central and Eastern Europe, where a tough centralist regime ruled for 40 years. Similarly, the Soviet model of public administration was established in other CEE countries. After the fall of the communist regime, public administration was reformed. This included the decentralization of public administration. In this book, having a large data set, we examine the link between decentralization and the efficiency of local government. As other CEE countries have undergone and are undergoing similar developments, the Czech Republic is in a way a “social laboratory” where we can examine the impact of path dependence on the evolution of public administration and analyze the impact of fiscal decentralization on the efficiency of local governments. On the basis of quantitative data analysis (especially using DEA and second stage DEA) we seek the answer to the main research question, “What impact has fiscal decentralization had on the efficiency of municipalities in the Czech Republic and what impact do the identified factors have on local government efficiency? Conclusions and recommendations for public policy are formulated from the achieved results. The book therefore contributes to enriching the scientific debate on the decentralization of public administration and the factors affecting the efficiency of local government.

¹Czechoslovakia was founded in 1918. In 1938, on the basis of the Munich Agreement signed by fascist Germany, Great Britain, France and Italy (without Czechoslovakia), Czechoslovakia was forced to withdraw from the border areas with a German population (the so-called Sudetenland), which went to Hitler's Germany. Subsequently, in 1939, Slovakia disconnected from Czechoslovakia and formed its own state. Regarding the rest of the Czech territory, the Protectorate of Bohemia and Moravia was founded under the patronage of fascist Germany. The post-war political development in Czechoslovakia was influenced by the fact that at the end of World War II, at a conference in Tehran and Yalta, the victorious powers agreed that Czechoslovakia (along with other CEE countries, where the communist regime later assumed power) would belong to the sphere under the Soviet Union. This predetermined further political developments in Czechoslovakia. The local communists took power in 1948 and ruled until 1989. Czechoslovakia was divided into two independent states in 1993 (the Czech Republic and the Slovak Republic). The Czech Republic became a successor state of Czechoslovakia.

The contribution of the book lies in the fact that it examines the unexplored issue of CEE countries (countries which are already part of the EU.) For non-European readers, it provides information on the development of self-government in the CEE countries and the factors affecting local government efficiency. We also see this publication as scientific.

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