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AN ASSESSMENT OF LOCAL FISCAL AUTONOMY: FACTS AND MYTHS

Abstract:

The presentation deals with the problem of shaping the decentralized system of public finance and interpretation of fiscal autonomy indicators. The analysis is theoretical and empirical. In the theory we can discuss two extreme scenarios: decentralised (60% own revenue, 40% external revenue) and centralised system of public finance (40% own revenue, 60% external revenue). If we assume only 40% share of own revenue, taxes, in the structure of financing sources for local government units, the consequence of this is low budget resilience to unfavourable external and internal factors and high probability of occurrence of broadly understood negative income shocks. The aim of the discussion is to analyse the trends in the practice of local government finances in Poland and selected countries of Central and Eastern Europe. The literature of the subject, studies by international institutions as well as data from Eurostat and EC are used in the deliberations. The discussed countries differ significantly in the scope of fiscal decentralisation. Latvia, the Czech Republic and Poland seem to be most advanced in the process. However the example of Poland shows limits and difficulties with interpretation of statistical measures. It is necessary to look at the categories of revenues which belong to the so-called "own revenues". It is questionable that in Poland we treat in the statistics the shares in Personal Income Tax and Corporate Income Tax as own revenues. Local government units do not exert any influence on the structure and amount of PIT and CIT (category of shared taxes). The autonomy in expenditure without real fiscal autonomy and responsibility leads to fiscal illusions and undermine the local democracy.

Keywords: 
public finance, fiscal decentralization, local self-government, fiscal autonomy

JEL Classification:  H70, H71, H77