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Normative Versus Positive Approach to Fiscal Decentralisation and the Measures of Decentralisation. An Analysis based on the Example of Selected Countries of Central and Eastern Europe

Abstract

This article deals with the problem of a discrepancy between the recommendations of the theory of public finance, in its various trends, and decentralisation processes in practice. The analysis is both theoretical and empirical. The aim of the discussion is to present the theoretical findings regarding fiscal decentralisation as well as to compare them with the recommendations of the fiscal decentralisation doctrine and with the trends in the practice of local government finances in Poland and selected countries of Central and Eastern Europe. The literature on the subject, studies by international institutions, as well as data from Eurostat and the European Commission are used in the deliberations. Two groups of countries were subject to a comparative analysis: the Visegrad Group Countries and the three Baltic states. These countries differ significantly in the scope of their fiscal decentralisation. Latvia, the Czech Republic and Poland seem to be most advanced in the process. In the conclusion of the study, a recommendation for a wider use of property taxes and the so-called 'additions to state taxes' is put forward.

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

JEL: *H70, H71, H77*

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1. Introduction

Local government is an integral part of modern democratic states. However, the institution of local government may only exist if the obligation to organise public tasks imposed on local governments by the state is accompanied by the sources of revenue necessary to finance such tasks. On one hand, local governments do enjoy neither their own independent rights, which would challenge the interests of the states, nor unlimited autonomy. On the other hand however, real, full and effective decentralisation requires a significant degree of financial independence for local communities. This independence constitutes a fundamental link between the financial decisions of local politicians and their responsibility for the consequences. This is a basic prerequisite for effective decentralization and the elimination of opportunistic attitudes among local politicians, administrations, and decision–makers.

Effective decentralisation in the political, social and economic spheres depends on the transfer of certain tax instruments to the local tier. This is currently one of the most serious challenges in public policy, as the processes of decentralisation, which have been underway for several decades, and the increase in the costs of many public tasks have led to a large disproportion between the public tasks delegated to local governments and the revenues in the form of taxes and local fees which can be transferred to the local administration.

This study is both theoretical and empirical in nature. The aim of the discussion is to analyse and evaluate the theoretical findings in the area of fiscal decentralization, to indicate doctrinal recommendations and to confront such recommendations with the trends in the practice of local government finances in Poland and selected Central and Eastern European countries. The analysis of the specific gap between the principles of fiscal decentralisation and the directions of public finance in practice makes it possible to draw conclusions related to the negative consequences of incomplete decentralisation, and to formulate recommendations *de lege ferenda*. The article uses both Polish and foreign literature on the subject as well as studies by international institutions. The theoretical considerations were supplemented with data from Eurostat and the European Commission. A comparative analysis was conducted on selected countries of Central and Eastern Europe, namely two groups of countries: the Visegrad Group Countries, and the three Baltic states. All of the seven analysed countries are EU members and they belong to the group of unitary countries.

2. The need to decentralise public tasks and finance: the first and second generation of fiscal federalism

Local government is a direct manifestation of democracy and the decentralised form of public decision-making, the organization of public tasks, and their financing (Gajl 1993, p. 12). However, a widely understood decentralisation of the governance system is not a value in and of itself, neither at the microeconomic nor macroeconomic levels. The literature points to both various benefits and negative consequences of decentralization (Patrzałek 2010, pp. 60–65, Ziółkowska 2005, pp. 221–222). However, the literature points out that spending public funds is more effective when the administrators of the funds and the implementers of the public tasks function close to the local community for the benefit of which they act. Apart from a better recognition of the needs, it enables the monitoring of financing decisions taken by far less anonymous decision-makers (Owsiak 2017, p. 168). The foreign literature, especially in the new political economy, emphasizes the importance of the correlation between the quantity of specific goods or services provided by the public sector and the level of fees and taxes that residents have to pay for these goods and services, the importance of competition between local communities, and political conditions for the processes of decentralisation and fiscal decision-making (Breton 1996, Buchanan 1997, Stiglitz 2004). Bearing in mind the theoretical considerations concerning the advantages, disadvantages and conditions for decentralisation, it should be stated that in the practical processes of decentralisation we always have to deal with certain choices of the state structure along the centralisation – decentralisation axis, which have an impact on the specific financial instruments. These choices are conditioned by the consequences of the so-called vertical and horizontal fiscal imbalances in specific socio-economic systems (Herber 1979, p. 329).

The views on the scope of decentralisation and the financial tools used in this process have evolved. The abundance of long-standing findings in this field is primarily connected with the doctrine of fiscal federalism, which distinguishes between the so-called first and second ‘generations’ of this theory (Oates 2005, pp. 349–373). The theory of fiscal federalism developed first in those countries with a federal system. The unitary states drew upon it while decentralising their own public authorities. In its traditional approach, the theory of fiscal federalism emerged in the 1950s and 1960s. W.E. Oates lists K. Arrow, R. Musgrave and P. Samuelson amongst its main proponents. The traditional approach was rather naïve, in that the public authorities at different tiers would act only to maximise the welfare of their communities. The distribution of public revenue between the state and local government should depend on the division of functions between the various tiers of government. The first stage is the distribution of tax and quasi-fiscal revenues between the state and other, higher and lower level, public law entities, the so-called vertical distribution. In the normative approach, this distribution should be closely linked to the allocation of tasks among the different territorial communities and the taxes should be allocated to the different tiers according to their structure and economic consequences (Musgrave, Musgrave, 1973, pp. 513–539, Hockley 1970, pp. 69–72). Individual taxes existing in a given tax system should be distributed among the state, local communities, and other local government units that are present in the vertical organisational structure, taking into account primarily the tasks assigned to individual units (Tiebout 1956, pp. 416–424). The essence of full and effective fiscal decentralisation is the provision to local governments of their so-called 'own revenues' – revenues assigned to them by law, which directly affect their budgets and whose selected structural elements local government units can shape. Tax revenues should be transferred through supreme and/or primary legislation, i.e. the constitution and legislative acts adopted by parliament. The vertical distribution of public funds reflects the extent to which public tasks and public finances are decentralised (Spahn 1993, p. 71). The next supplementary revenue allocation is carried out between the local government units at the same tier of the territorial organisation of public authority. The redistribution of funds may consist in the fact that richer local government units transfer part of their own revenues to other, financially weaker, entities. The burden for individual communes may be equal or different, depending on the adopted criteria. Differentiated burdens may be calculated according to the economic potential of individual communes or the extent to which the commune makes use of the services provided by the municipal association. The problem of subsidising territorial self-government is a vibrant, extensive, and separate section of the theory of fiscal federalism.

The public choice theory constituted a milestone in a more realistic, normative view of fiscal decentralisation, which took into account the role of political processes and the fact that decision-makers and politicians are opportunists in their motivations, striving to maintain power and influence, and generating high wages for the administration. In other words, they strive to maximize, rather than optimize, public budgets (Brenan, Buchanan 1980, p. 18). Realization of their own particular interests was an important element which was taken into account in the so-called 'second generation' of fiscal federalism. This was accompanied by the issues of asymmetry of information, which characterizes the analysed processes of fiscal choices and activity of various lobby groups (Oates 2005, pp. 349–373). New Political Economy is an institutional concept of the neoclassical school of economics. Its subject matter is a multidimensional economic analysis of such institutions as the state, administration, bureaucratic structure, and the military. The representatives of New Political Economy believe that the economy and the institution of the state are closely interlinked. In this approach, politics is often treated as a specific type of exchange, while politicians are seen as actors – entrepreneurs involved on one side of the exchange. Moreover, it is stressed that economic decisions are often politically driven; in the light of the findings of New Political Economy, it seems obvious that the conditions for decisions within the public finance sector are politically tinged.

3. Normative and positive theories of public revenue allocation

Undoubtedly the problem of the *sources* for local government financing is the crux of all disputes and discussions devoted to the effective and complete decentralisation of state finances. The dispute is dichotomous, i.e. it takes place on two levels. The first level is related to a specific distribution of tasks and public revenues between the state and local government. The second level is connected with the decisions related to the local government sector itself and the scope of financial compensation within this sector. What makes them so difficult is that these processes take place against the background of conflicting priorities of citizens (voters) at the state level and the members of individual local communities. The adequacy of legally-assigned public tasks and own revenues (local taxes and fees) is a fundamental guarantee of the real autonomy of local government and a manifestation of true decentralization. Adjusting the amount of financial resources, in the form of local taxes and compensatory transfers from the state budget, to the tasks and competences delegated is a basic prerequisite for the construction of the financial system of local governments. In practice, the scope of local taxes is often too small, which undermines the essence of local government. The principles of adequacy and subsidiarity, which are undisputable in the theory of public finance, are often hindered in the process of their practical implementation.

The theory of fiscal federalism provides a normative approach and some answers to the question on how public tasks and revenues should be distributed among the various levels of public authority. The literature also formulates the features that should be fulfilled by the so-called ideal local tax. Following the traditional division of the functions of public finances into allocation, redistribution, and stabilisation, both the redistribution and stabilisation functions should remain the responsibility of state authorities. This approach excludes the basic element of the tax system, i.e. income taxes, which local governments are not allowed to levy. Local taxation should include taxes levied on a relatively immobile tax base; the tax base should be distributed evenly between different territorial units; and the sources of local taxes should be relatively stable over time and fiscally efficient (Ahmad, Brosio (ed.) 2015, pp. 239250). The catalogue of model features that an ideal local tax should have is quite comprehensive. R. Bird (1993, pp. 207–227) lists, for example, the following elements:

- the tax should be levied by local authorities;

- local authorities should have the autonomy to determine the tax rate;
- the tax should be collected at the local level and should directly contribute to the local government budget.

Bird also stresses the importance of the principle of benefits in local finance systems, and therefore underscores the importance of fees for goods and services as a crucial source of local budgeting in the context of decentralisation.

P. Swianiewicz (2004, pp. 43–46) lists the following as the features of local taxes which are particularly important in the case of local government financing:

- efficiency appropriate for the tasks;
- a balanced spatial distribution of the tax base;
- territorial clarity;
- a stable spatial relationship of the tax base;
- "transparency" of the tax;
- flexibility in relation to inflation;
- a common tax burden and simplicity of the local tax system.

Although considered a traditional source of local income, property taxes are insufficient to finance the numerous and costly public tasks delegated to local governments. Therefore, the literature suggests that consumption and turnover taxes should be used as an effective source of financing local budgets. In these proposals, VAT could be used as an independent source of revenue for the state budget and local governments, or as a form of common tax (the so-called Dual VAT, CVAT or VIVAT), highlighting at the same time both the many advantages and disadvantages of each of these instruments and solutions (Bird, Gendron 2000, pp. 753–761). The various advantages and disadvantages of the central and local tax administrations in relation to all taxes are also important.

While the recommendations springing from the theory are clear, as is the postulate to make the income of local communities more realistic, there remains the question of why, in practice, transfers of various forms play such an important role in the systems of financing local governments. And why do local taxes play an increasingly marginal role? Apart from an obvious issue of financial equalisation (subsidies and grants), the so-called 'shares' in state taxes (tax sharing) are in practice quite often used as a source of revenue. One of the most frequently stressed issues in the literature promoting full fiscal decentralisation concerns the limitations on transferring full taxing authority to local governments while ensuring uniformity of the tax system across the country (Kornberger-Sokołowska, 2001, p. 165). S. Owsiak (2017, p. 175) draws attention to a similar aspect, stating that the vast majority of public revenues are taken over by the state, as for many decades the central tax authority has been dominant. The basic reason for this is the fundamental importance of tax policy for the economy and society. Nevertheless, political and power-related issues cannot be overlooked.

In the traditional literature (Oates 1998, p. 633), shares in state taxes are treated as a kind of general transfer from the state budget. They need to be collected in this budget and then to be allocated according to the rules that are adopted. As in the case of typical subsides, local governments are free to spend funds that come from shares in taxes. Sometimes subsidies are similar in nature to shares. This is the case when, in order to guarantee a certain level of transfer, its total amount is related to a percentage of state budget revenue from taxes, either in total or to specific taxes.

The system of the so-called ‘pure’ shares of local government in state taxes is based on the fact that the shares transferred are calculated pro rata to the amount of taxes paid by the inhabitants of a given territorial unit. In such a solution, local authorities have no control over the level of shares or the design of the taxes in which the shares are established, even though the source of the tax is located in the jurisdiction of the unit concerned. The literature describes an approach where shares are considered to be a method of tax administration. Another approach treats shares as a form of transfer from the state budget (i.e. a general subsidy). The spectrum of taxes in which shares are defined is very broad, but each solution has its advantages and disadvantages. One of the most serious drawbacks is that the system of ‘pure’ shares is not designed to compensate for disparities in the income of individual local government units, and thus may deepen disparities. Shared revenues may take different forms and involve substantially different degrees of local government autonomy, both with respect to the level of revenue and to the elements of the tax structure which they concern. In practice, they occur in three forms (Joumard, Kongsrud 2003, p. 184): as additions to state taxes; as shares in the taxes collected in the local government jurisdiction (in such a case, by promoting economic development, a local government has the possibility of influencing, albeit indirectly, the revenues from this form of shared income); and as shares in the revenues from a specific tax at the state level.

While the arguments justifying the necessity of ensuring a uniform tax system in the state are fully understandable, it is impossible not to notice the negative consequences of the considerably limited taxation power of local governments. Apart from the known consequences of a lack of financial independence, it should be pointed out that local politicians and decision-makers are not financially or politically accountable to local voters. This is related to the problem of fiscal illusions in self-government finance systems (Guziejewska 2016, pp. 483–489). Adverse consequences are also generated by relationships related to the so-called ‘optimal scope’ of the local public sector. Unfortunately, such relationships are rarely discussed in the Polish literature on the subject, though they are constantly present in the American literature. What is particularly stressed is the fact that the optimal scope and level of local goods and services is one for which the local community is willing to pay in the form of local taxes and fees. It is very important to determine and know the preferences of the beneficiaries of local public services (Stiglitz 2004, pp. 888–897).

Fiscal decentralisation makes sense if local voters are able to disclose their preferences with regard to the type and extent of local public goods at a certain level of the local tax burden. The policy of shaping the level and structure of local government expenditures is based on three elements:

- the scope of the delegated own tasks and their cost-absorption;
- the ability to finance the tasks on the basis of the level of revenue which can be generated by the budget;
- the local community's preferences as to the level and directions of spending.

From a theoretical (but also practical) point of view, the last of these is in particular an intellectually attractive element. The issue of public choice and disclosure of preferences in the public sector has long been of interest for theoreticians. It is also a huge challenge in terms of practical decisions, as can be evidenced by the recurrent issue of local referendums, or referendums on, for instance, European issues.

The preferences for private and public goods are decided upon differently. As J.E. Stiglitz (2004, p. 185) pointed out, spending on private goods is measured by prices, while expenditures on public goods are shaped by complex political processes. There are, therefore, two main problems with the public resource allocation mechanism: disclosure of preferences and aggregation of preferences. In the systems of representative democracy, it is a serious problem to determine the quantity and type of public goods that individual citizens prefer. An even greater challenge is posed by the practical aspects of aggregating preferences, which, according to the Nobel Prize winner mentioned above, boil down to issues such as different preferences of different individuals depending on their income and the tax system in the country (Stiglitz 2004, p. 191). The history of the public choice theory has come a very long way since the ancient Athenian and Roman democracies (Heckelman, Miller 2015, p. 15), and yet there are still no satisfactory answers to many questions and problems related to the endless cycle of voting as a tool for revealing preferences and making public (collective) decisions. To sum up, the theory does not provide a model for an ideal voting system that would provide information on the real preferences of citizens. Intuitive evidence suggests that local democracy and fiscal decentralisation should yield a more effective remedy to this problem than the centralisation of administration and public finance.

Finding the right compromises and reaching, in practice, the right balance between the legal and financial infrastructure characteristic of centralised and decentralised systems is a major challenge. Compromises are usually conditioned by political interests, different national and local interests, and real social needs. The fiscal gap in local government revenue systems is defined as the difference between the various categories of own revenue and the budget expenditures to be covered. This gap is particularly unfavourable in a situation where most of the revenues of a local government unit are covered with external revenues, especially transfers from the state budget. This prevents flexible budgetary management, and often results in debt or a reduction in the financing of those public goods which are needed. In such a situation, it often happens that local decision-makers and politicians are not held financially responsible to the local community. The consequence is a deficiency in the full and positive effects of decentralisation.

The importance of financial independence and stability of the local government sector has gained new importance following the global financial crisis of 2008. The analyses and discussions have noted that local and regional finance as an indispensable element of sustainable public finances and a certain buffer in crisis situations (Ahmad, Bordignon, Brosio, ed. 2016). On one hand, the legal and financial system of local government, the macroeconomic situation, and the sensitivity of local government finances to this situation determine the financial conditions of local governments. On the other hand, the legal and financial foundations of local government and its actual, current financial situation influence the financial situation in the entire public finance sector. Systems based to a large extent on full fiscal decentralisation are less exposed to the negative consequences of the income shocks discussed above.

4. Controversy over the assessment and measures of fiscal decentralisation – analysis based on the example of selected countries of Central and Eastern Europe

The essence of decentralisation is the self-government of local and regional jurisdictions, and its basic condition is financial independence. The problem of fiscal autonomy and the financial independence of local government units and its bodies manifests itself in several groups of issues, which are determined by the following elements:

- the amount of actual revenue of communes (or districts), including the so-called own revenues (taxes);
- the extent and efficiency of the sources of such revenues;
- the real power and methods by which communes can influence an increase in revenues;
- the extent and type of expenditures which may be effected by the commune;
- the possibility of incurring debt as part of financial autonomy and flexible financial management.

Evaluation of the degree of fiscal decentralisation is a complex process in which the financial independence is assessed in terms of revenue and expenditure autonomy. This relates to the actual capacity of local governments to shape both sides of the budget, and these processes are evolving in different directions in different countries (Wildasin 1997, p. 14). P. Swianiewicz (2014, pp. 292–311) underlines the great difficulties in such assessments and categorisations of local government finance systems. He proposes a new classification of the local government finance systems in the countries of Central and Eastern Europe, using such features as:

- territorial structure;
- functional decentralisation (measured as the share of local government expenditure in GDP);
- financial independence;
- horizontal power relations.

The analysis which used these criteria has resulted in the identification of five groups of countries: Group I consists of Poland, Hungary and Slovakia; Group II of the Czech Republic, Estonia and Latvia; Group III includes Albania, Bulgaria, Croatia, Macedonia, Moldova, Romania, Slovenia and Ukraine; Group IV consists of Georgia, Lithuania and Serbia; and Group V of Armenia and Azerbaijan. The author emphasizes the great diversity of these countries, which are often treated as homogenous, or at least similar to one another, and draws attention to the inadequacy of "old" typologies. He puts Poland into the first group of countries, which he calls the 'champions of decentralisation'.

When assessing the fiscal autonomy (i.e. actual financial independence) of local government units, we use specific statistical measures and a comparative qualitative analysis. Statistical measures are popular due to their universality, but a special role should be given to their construction and interpretation. In the case of comparative studies, it should be taken into account that public finance systems vary widely from country to country, both in terms of the degree of decentralisation and the construction of the tax system. This is particularly true of local government finance systems, which have developed historically and are characterised by large national specificities. When using statistical measures, the actual financial categories included in the numerator and denominator of the measure must be taken into account. This concerns in particular the heterogeneous nature of revenue categories, such as 'own revenues' in individual countries, and the complex systems of subsidisation and financial compensation. Similar problems occur in the assessment of the expenditure side of the budget, as a wide range of expenditures does not necessarily prove a high degree of financial independence if these expenditures are covered mainly with earmarked grants from the state budget. The multidimensional nature of the problem is evidenced by the figures in Tables 1 and 2 below. Table 1 presents the shares of tax revenues at different tiers of government and the shares of social security contributions in the total tax revenues in the Visegrad Group Countries. As far as the local level is concerned, the countries with the highest share of local taxes in tax and quasi-fiscal revenues are the Czech Republic and Poland. Viewed in this light, the local tax system and decentralisation are considerably weaker in Slovakia and Hungary. At the same time, the Czech

Republic is a country with a strong system of local taxes within the analysed years. In the cases of Slovakia and Hungary, however, it is possible to conclude that there are ongoing processes that weaken the financial foundations of local government.

Table 1. Tax revenue structure by level of government in the Visegrad Group Countries in 2004–2015 as the % of total taxation

Level of government	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Poland												
Central government	49.2	50.2	50.1	52.4	53.2	51.1	52.7	52.4	49.8	48.7	48.5	48.1
Local government	12.8	12.7	12.9	13.3	13.5	13.1	12.6	12.3	12.6	12.6	12.9	12.9
Social security funds	37.9	36.8	35.7	34.1	32.9	35.5	34.4	34.9	37.3	38.3	38.2	38.5
EU institutions	0.2	0.3	0.3	0.3	0.4	0.3	0.4	0.4	0.4	0.4	0.4	0.5
Czech Republic												
Central government	72.8	70.2	70.0	70.2	69.6	68.9	69.1	69.8	70.1	69.4	68.6	69.1
Local government	12.4	14.6	14.2	14.1	14.3	14.2	13.8	13.7	13.5	14.2	14.7	14.4
Social security funds	14.4	14.7	15.3	15.2	15.6	16.5	16.6	16.0	16.0	15.9	16.2	15.9
EU institutions	0.3	0.5	0.5	0.5	0.5	0.4	0.5	0.5	0.5	0.4	0.5	0.5
Slovakia												
Central government	55.5	58.8	58.2	58.2	58.6	54.9	54.7	55.3	54.1	53.9	54.9	55.9
Local government	4.2	2.3	2.4	2.3	2.2	2.5	2.4	2.4	2.5	2.4	2.3	1.6
Social security funds	40.1	38.4	38.9	38.8	39.4	42.0	42.1	41.5	42.8	43.2	42.2	41.9
EU institutions	0.2	0.5	0.6	0.7	0.8	0.6	0.8	0.8	0.6	0.5	0.5	0.5
Hungary												
Central government	57.8	57.3	57.3	57.1	61.7	62.2	62.8	59.1	60.6	60.2	60.8	60.5
Local government	12.0	11.6	11.7	11.1	6.4	6.7	6.5	6.5	6.3	5.9	5.6	5.8
Social security funds	29.9	30.6	30.6	31.3	31.3	30.7	30.4	34.0	32.9	33.6	33.2	33.3
EU institutions	0.2	0.5	0.4	0.5	0.5	0.4	0.3	0.4	0.3	0.3	0.4	0.4

Source: Data of taxation – European Commission, Taxation and Customs Union, http://ec.europa.eu/taxation_customs/business/economic-analysis-taxation/data-taxation_en (20.07.2017).

Similarly, a markedly different situation can be seen for the Baltic States, as shown in Table 2. Latvia, where local taxes account for over 19% of total tax revenue, is the only country that is characterised by a high share of local taxes in total tax revenue, which provides the local government with a significant means of financing from its own revenues. At the same time, both Lithuania and Estonia have a very low level of direct (which is the most important) sources of funding and weak foundations for fiscal decentralisation in the form of local taxes. The level of decentralisation and its direct bases in the form of local taxes are very different in each of the countries analysed.

Table 2. Tax revenue structure by level of government in the Baltic Countries in 2004–2015 as the % of total taxation

Level of government	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Lithuania												
Central government	66.7	67.6	67.9	67.8	66.9	56.4	56.4	57.0	57.7	57.8	57.4	57.5
Local government	1.7	1.5	1.3	1.2	1.2	1.6	1.8	1.6	1.6	1.6	1.7	1.7
Social security funds	31.2	30.2	30.1	30.2	30.9	41.3	41.1	40.6	40.0	39.9	40.1	39.8
EU institutions	0.4	0.7	0.7	0.8	1.0	0.7	0.7	0.7	0.7	0.8	0.9	0.9
Latvia												
Central government	51.9	54.2	54.4	53.7	51.8	47.2	47.9	48.7	50.0	50.8	51.1	51.5
Local government	17.7	16.7	16.9	17.9	19.0	18.4	20.6	19.5	19.1	19.1	19.4	19.3
Social security funds	30.0	28.4	28.0	27.8	28.7	33.9	31.0	31.2	30.4	29.7	29.0	28.6
EU institutions	0.5	0.7	0.7	0.6	0.5	0.4	0.5	0.5	0.5	0.4	0.5	0.6
Estonia												
Central government	83.8	83.0	84.0	83.8	82.0	81.5	80.3	80.4	80.8	81.7	81.9	82.3
Local government	1.2	1.2	1.0	0.9	1.2	1.2	1.4	1.5	1.3	1.1	1.1	1.0
Social security funds	14.6	15.1	14.4	14.6	16.2	16.9	17.8	17.6	17.4	16.7	16.6	16.2
EU institutions	0.4	0.7	0.6	0.7	0.6	0.4	0.5	0.6	0.5	0.5	0.5	0.5

Source: Data of taxation – European Commission, Taxation and Customs Union, http://ec.europa.eu/taxation_customs/business/economic-analysis-taxation/data-taxation_en (20.07.2017).

In practice, a wide range of various statistical measures are used to assess financial independence and the autonomy of local government. Among the most commonly used are:

- the share of revenues of the local government sector in total public revenue;
- the share of expenditures of the local government sector in total public expenditure;
- the share of own revenues in total revenue of local governments budgets;
- the share of local taxes in total revenue;
- the scope of transfers from the central budget.

The types and the specific legal and financial structure of transfers from the central budget are particularly important. The real problem is the heterogeneity of revenue categories and the difficulties in their allocation (OECD2013, Kim, Lotz, Blochliger (ed.), pp. 49–57). More specifically, problems are traditionally caused by the so-called tax sharing. International comparisons are also hampered by difficult access to data and the wide variety of small taxes and local fees that exist in individual countries. The overall scope of decentralisation based on the measures related to the expenditure side of public finances in presented in Table 3. The data showing the share of local government sub-sector expenditures in GDP shows a relatively high level of spending autonomy for Poland, the Czech Republic, Latvia and Estonia. However, according to the figures in Table 2, for Estonia local financial expenditure is very low in terms of local taxes. The type of subsidies, general or earmarked, that cover the expenditures of local government turns out to be decisive. Indeed, earmarked grants of any kind limit both the individual unit's revenue and expenditure autonomy. The data for Hungary, in turn, confirms previous observations regarding the presence of a strong process of centralising public finances in Hungary.

Table 3. Local government subsector expenditure in selected countries of Central and Eastern Europe as the % of GDP

Country \ Years	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Poland	13.3	14.0	14.5	15.0	14.0	13.3	13.1	13.3	12.8	12.9
Czech Republic	10.4	10.5	11.6	11.3	12.3	11.3	11.4	11.5	11.4	10.2
Slovakia	6.1	6.1	7.3	7.3	6.8	6.4	6.4	6.7	7.5	6.6
Hungary	11.6	11.3	12,0	12.6	11.4	9,3	7.5	7.8	7.9	6.1
Lithuania	8.2	9.2	10.7	11.1	10.0	9.3	8.3	7.9	7.9	7.8
Latvia	10.3	11.8	12.6	12.0	10.8	9.9	10.2	10.0	9.3	9.6
Estonia	9.4	10.8	11.2	9.8	9.3	9.7	9.9	9.3	9.5	9.4

Source: Eurostat, http://ec.europa.eu/eurostat/data/database (20.07.2017).

A good measure of actual fiscal autonomy, in comparative analysis, is the share of local taxes in the GDP. The indicators for 2005–2015 are presented in Table 4. They demonstrate strong financial foundations in the form of local taxes for Poland, the Czech Republic and Latvia. It is only in these countries that we can therefore speak of a certain degree of fiscal decentralisation, and thus full decentralization. Decentralisation based mainly on transfers from the state budget should be considered as flawed, i.e. one that does not meet the basic postulate of the European Charter of Local Self-Government and the requirements of science, both in the traditional approach to public finances and in the theory of fiscal federalism.

Table 4. Taxes received by level of government as the % of GDP- local government in selected countries of Central and Eastern Europe.

Country \ Years	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Poland	4.1	4.2	4.3	4.6	4.6	4.1	4.0	3.9	4.0	4.0	4.1	4.2
Czech Republic	4.3	5.0	4.8	4.8	4.7	4.5	4.5	4.6	4.6	5.0	5.0	5.0
Slovakia	1.3	0.7	0.7	0.7	0.6	0.7	0.7	0.7	0.7	0.7	0.7	0.5
Hungary	4.4	4.2	4.3	4.4	2.5	2.6	2.4	2.4	2.4	2.2	2.2	2.3
Lithuania	0.5	0.4	0.4	0.4	0.4	0.5	0.5	0.4	0.4	0.4	0.5	0.5
Latvia	4.9	4.7	4.9	5.1	5.3	5.0	5.8	5.4	5.5	5.5	5.6	5.6
Estonia	0.4	0.4	0.3	0.3	0.4	0.4	0.5	0.5	0.4	0.4	0.4	0.3

Source: Taxation Trends in the European Union. Data for the EU Member States, Iceland and Norway, European Commission, DG Taxation and Customs Union, Edition 2017, p. 186.

At the end of this part of the discussion, it should be stressed once again that a great deal of caution is needed when using statistical, highly aggregated measures of decentralisation and fiscal autonomy. The final assessment should take into account the specificities of individual countries, their historical and institutional conditions, and the specific characteristics of the whole system of public finances. A great deal of caution and attention should be paid to the actual content of the numerator and denominator of the individual measurements, as there are different classifications of individual sources of financing in different countries. In the countries where local government expenditure is financed with subsidies from the state budget, transfers from the central budget must be divided into general subsidies and earmarked grants. The measures and aggregated data presented above are a good tool for international comparisons and a starting point for a deeper assessment of individual systems. Qualitative evaluation should also be part of the final assessment.

5. Conclusions

Both the theory of public finance in its traditional approach, which was developed in the unitary countries, and the fiscal federalism theory, which originated in the federal countries, postulate that the financing for local governments should have its sources in local taxes and fees. In today's conditions, it is difficult to fulfil this requirement due to the large degree of decentralisation of public tasks and their high costs. The high fiscal decentralisation in the unitary countries does not favour a uniform and effective tax system. It also results in a high degree of fiscal imbalance between individual territorial jurisdictions. These consequences result in the need to build a system of subsidizing local government which equalizes financial possibilities and ensures the same level of access to social services in the whole of the country. While acknowledging these conditions, however, it should be noted that in many Central and Eastern European countries the level of local taxes is marginal and there is undoubtedly room for fiscal decentralisation. The lack of any connection or marginal link between local decisions and local fiscal responsibility are dangerous from many points of view: political, economic and social. The discussion and proposals for reforming local government finance systems should stress the need to grant sub-central governments local taxing authority as an important source for financing their tasks. In practice, this implies a 20–25% share of local taxes in total tax revenues in the country. On the other hand, the doctrine with respect to the prevailing share of local taxes in local government revenues seems unrealistic; nevertheless, it is still necessary to increase the importance of local taxes and fees. Given the specificities of the unitary countries, their traditions and already established financial systems, it seems reasonable to propose an increase in the efficiency of property taxes and a limited use of “additions” to income taxes. The latter solution is known in the literature. The system of “additions” to taxes consists of the fact that a given territorial community collects revenues as a result of an increase in the amount (addition) of the tax payable to the state. In the absence of an opportunity to increase the efficiency of property taxes, this could be an instrument that would combine local policy-makers’ decisions on the amount of the tax burden at the local level with the expenditure at this level.

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Streszczenie

NORMATYWNE VERSUS POZYTYWNE UJĘCIE DECENTRALIZACJI FISKALNEJ A MIERNIKI DECENTRALIZACJI. ANALIZA NA PRZYKŁADZIE WYBRANYCH KRAJÓW EUROPY ŚRODKOWO-WSCHODNIEJ

W artykule podjęto problem rozdźwięku pomiędzy zaleceniami teorii finansów publicznych w różnych nurtach a procesami decentralizacji w praktyce. Analiza ma charakter teoretyczno-empiryczny. Celem rozważań jest przedstawienie dorobku teoretycznego poświęconego decentralizacji fiskalnej wraz ze wskazaniem na zalecenia doktryny i skonfrontowanie ich z tendencjami w praktyce finansów samorządowych w Polsce i wybranych krajach Europy Środkowo-Wschodniej. W rozważaniach wykorzystano literaturę przedmiotu jak również opracowania instytucji międzynarodowych, dane Eurostatu oraz Komisji Europejskiej. Analizie komparatystycznej poddano dwie grupy państw: państwa Grupy Wyszehradzkiej oraz 3 kraje nadbałtyckie. Kraje te znacznie różnią się jeśli chodzi o zakres decentralizacji fiskalnej. Za najbardziej satysfakcjonujący proces ten można uznać na Łotwie, w Czechach i Polsce. W zakończeniu sfomułowano rekomendacje szerszego wykorzystania podatków od nieruchomości oraz tzw. dodatków do podatków państwowych.

Słowa kluczowe: *finanse publiczne, decentralizacja fiskalna, samorząd terytorialny, autonomia fiskalna*