CHAPTER 8

Local Budgeting in the Czech and Slovak Republics*

Introduction

To understand more completely the process of fiscal decentralization in the transition countries, it is important to determine how local decisions are made and what constraints are binding upon those decisions in the process of preparing municipal budgets. Planning for effective allocation of whatever revenues cities may anticipate, whether those cities are large or small, will have common aspects. In cities where effort is being made to overcome the excessive centralization of the central planning legacy, some unique commonalities will be associated with the process. This is the case for the Czech and Slovak republics, both of which have spent a decade and a half attempting to establish anew the principles of local government autonomy.

Under the regime of central planning associated with Marxist-Leninist socialism, all governance decisions for cities and towns were made at the center by the party. Peripheral local governments had only one role to play, which was to carry out delegated tasks (přenesené působnosti) of “state administration” (státní správa) that the central government assigned to them. The point

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of fiscal decentralization is to achieve local self-government (samospráva) on the basis of autonomy.

This chapter will review the process of local budgeting in the Czech and Slovak republics, which are ideally suited to model as a comparative study. The two republics were paternally joined under communism and had become a federation after the Prague Spring of 1968. When the Velvet Revolution came in 1989, the two countries began their joint transition to a democratic market orientation by modifying their fiscal systems, ostensibly to provide for greater local autonomy. They established joint legislation and institutions for their financial systems, which were in place when the Velvet Divorce set them on separate paths in 1993. For some time they retained the legislation and institutions with which they began the transition, but before joining the EU in 2004, they each pursued reforms of public administration as a part of the accession process. With these reforms they began their first substantive diversion from their common beginnings. The deviation from the common path was undertaken primarily by the Republic of Slovakia, which initiated reforms in local finance that began to produce divergent financial outcomes in 2005. This evaluation of Czech/Slovak local budgeting, therefore, was undertaken at the end of the common transition era when the historic similarities of the two countries were likely the greatest.

A simple theory of local budgeting is presented in the next part of the chapter, where a modified Leontief model is used to consider local revenues as financial inputs and local expenditures as financial outputs. The model contains a method of measuring the degree of local autonomy as part of the budgeting process. Then, an attempt will be made to determine how local budgeting in the Czech and Slovak republics actually functions, and responses to a questionnaire revealing the perceptions of Czech and Slovak local government officials about their financial relations with the central government will be reviewed. The questionnaire probes the process by which local Czech and Slovak officials pursue financial strategies on the basis of available resources. The questionnaire was presented to mayors, city managers, and financial officers in late 2005. The last part of the chapter provides an analysis of the responses to the questionnaires and draws some conclusions about the implications of those responses.

**A Leontief Model of Local Budgeting**

Municipal budgets consist of diverse receipts and expenditures. Because in transition governments few of the revenue sources are “own revenue” sources, the municipality is bound to accept the strings-attached revenues (SARs) with