SEARCHING FOR FISCAL DECENTRALIZATION CONSTRAINING EFFECT ON LOCAL EXPENDITURE: CASE OF VISEGRAD COUNTRIES

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Abstract: *Process of fiscal decentralization was stepwise run almost in all European countries without exception of Visegrad countries as countries in transition. The main goal of the fiscal decentralization is to improve the governing process, fortify the local financial autonomy and finally to increase the effectiveness of local public good provisioning. This has brought changes in the revenue side, but also in the expenditure side of local budget, which is directly connected with public good provision. But what is the real impact of decentralization processes on localities? In this paper the influence of revenue and expenditure decentralization on local government expenditure is estimated by OLS regressions for each V4 country separately and after by a panel model for all V4 countries together. Results of estimated models reveal the significant positive impact of fiscal decentralization (the type does not matter) on local expenditure which does not support the assumption about the restrictive effect of fiscal decentralization on public expenditure, also on local level.*

Keywords: *Local government, Local expenditure, Fiscal decentralization, Decentralization hypothesis, OLS model, Panel model.*

JEL Classification: *H31, H32, H77.*

Introduction

During two last decades of 20th century the fiscal decentralization attracted attention of many governments all over the world. Industrialized as well as developing countries began to refuse monopoly in decision-making process by central government. In the post-communist countries the decentralization of public sector, public finance and public administration was the result of economic transformation from central planned economy to market oriented one.

Currently the process of transition of Visegrad countries is finished yet, as well as process of fiscal decentralization. The question about the influence of this process on local self- governing persists. In many of the transition countries the process of fiscal decentralization was divided into two phases. Firstly, expenditure was decentralized, and secondly revenues were shifted to local governments. Additionally, an expected positive effect could be hardly evaluated, because of the disturbing effect of financial crisis in 2009 and because of the intangible nature of public goods. Observable increasing financial autonomy is in many cases only formal, the economic reality of localities confirms the dependence on transfers from higher level of government.

The aim of the paper is to investigate whether the local governments fall under the constraining effect of fiscal decentralisation by investigating their expenditure side of budget, which is purpose - oriented according to the public good provisioning.

1 Statement of a problem and literature overview

Fiscal decentralization is generally defined as the amount of independent decision -making power involved in subnational provision of public services, expenditure and revenue decisions. [2] Although the theoretical impact of fiscal decentralization on local expenditure is obvious (see [18] or [26]), the relationship between fiscal decentralization and local expenditures is not well documented empirically yet.

There exist only few studies as [8], [13] or [23] focusing on investigating the relation between fiscal decentralization and government size measured by its expenditure at the lower level of government with aim to support the Leviathan hypothesis introduced by Brennan and Buchanan [3]. Their results mainly support the Leviathan hypothesis in favour of revenue decentralization, however, [8] found the support only for total and federal government, not on sub-national level. Contrary, large literature body is concerned on searching for Leviathan on national (or state) level as [17] or [19], later [1], [5] or [25], without finding a clear conclusive result. An analysis of local expenditure of OECD countries according to COFOG classification, which here serves as basis for the expenditure decentralization measurement, was provided by [24].

Moreover, a huge fiscal decentralization research body is on disposal for an academic area. The beginning of investigation around fiscal federalism and fiscal decentralization in the second half of 20th century is beside the work of [26], assigned to [18]. Currently, the problem of fiscal decentralization is often linked to other economic problems, as it was mentioned above. In the Central and Eastern Europe the wave of interest in fiscal decentralization was propagated in two last decades of 20th century and in early 2000s and the effort became a concrete form as a public finance reform as is mentioned thereinafter.

1.1 Fiscal decentralization in V4

In Slovakia, regional level of government was created by act in 2000 and after it, fiscal decentralization was realized. Transferring responsibilities on local - municipal and regional government started in 2001 that represented the decentralization of the expenditure. After it, in 2005, by series of acts, revenues were shifted on local governments. Wider legislative framework defined tax assignment and tax base of local taxes and fees and objective criteria for dividing the shared tax. Creation of revenues became more transparent and local specifics were respected even though that in 2009 the financial crisis bestirred the financial autonomy of Slovak localities. [10]

In the Czech Republic, regional level of government exists besides municipal level of government since 2001 (see [20]). The combined model of fiscal federalism was introduced (as well as in Slovakia and Hungary) combining delegated and own responsibilities, which basically differ in source of financing. [12] Problems in achieving the main goal of fiscal decentralization – fiscal autonomy of local governments refer to fragmented residential structure (high number of municipalities – more than 6000, when there exists fully independent villages with less than 50 inhabitants) what reflects on feeble tax base of such localities and high dependency of regional government on central budget.

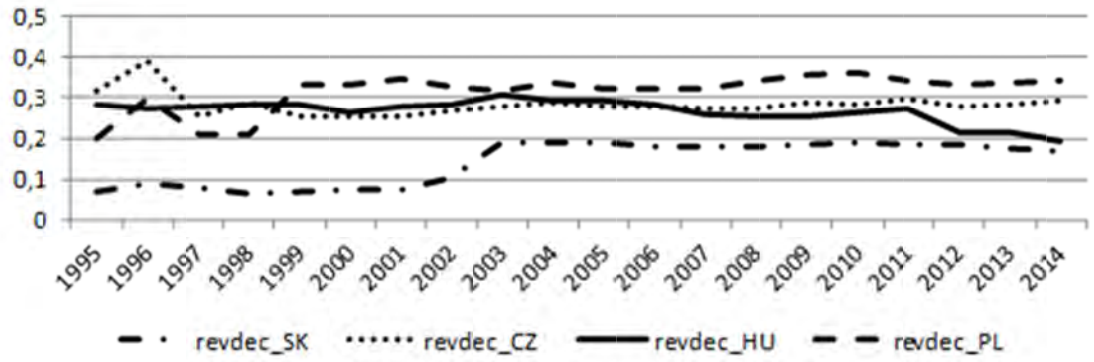
In Hungary, the grant system of financing local governments was substituted by so called revenue orientated system in 1990s. Excessive decentralization of responsibilities and fragmented residential structure (50% of local jurisdictions had less than 1000 inhabitants, 300 jurisdictions had less than 200 inhabitants (see [21]) contributed to the failure of local government, that was inert to deal with unbearable shift of responsibilities from the central

level of government. In 2000 the idea of regional level of government was implemented to the public administration reform and municipal governments were relieved against the regional governments. Finally the financial autonomy of Hungarian localities increased only formally, because local governments remained dependent on central level. 60 – 70 % of their revenues depend on annual decision of central budget. [27]

In Poland, important reforms were realized in 1999. New administrative division of the country (regions, districts and municipalities) followed the implementation of regional policy. Fiscal decentralization was beside it limited by fort dependence of lower levels of government on central budget. Transfer of responsibilities was here not accompanied by transfer of resources, self- government functions were financed by grants, what caused low interest of sub-national governments to gain own financial resources and on the other hand to use them efficiently. [22]

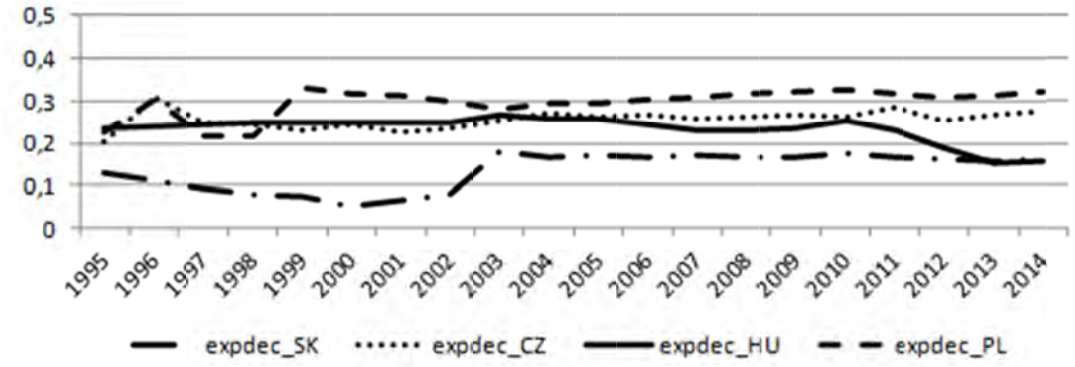
The development of fiscal decentralization according to revenue decentralization and expenditure decentralization indicator is shown in Figure 1 and Figure 2.

Fig. 1: Revenue decentralization indicators of V4 countries



Source: *author´s calculation according to Eurostat*

Fig. 2: Expenditure decentralization indicators of V4 countries



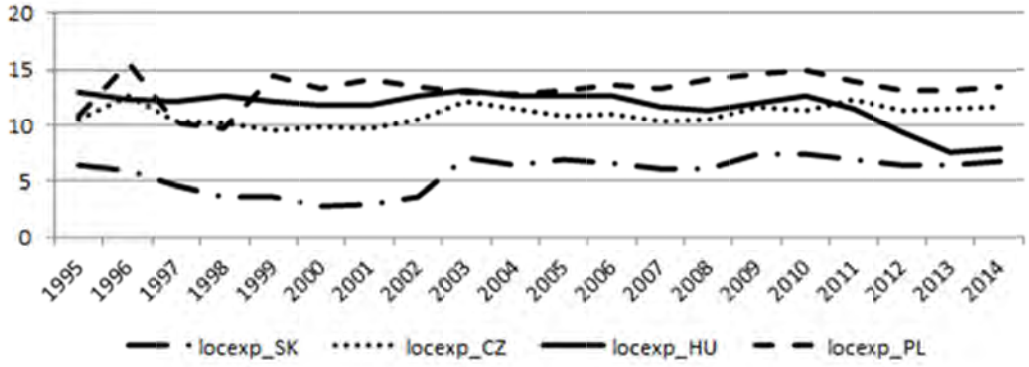
Source: *author´s calculation according to Eurostat*

1.2 Local government expenditure in V4

Local government expenditure expressed as % of GDP develops in Slovakia with some outstanding variations. Its important increase is observable in the 2001 – 2003, in the phase of the decentralization of the expenditure side of local budget with increasing volume of responsibilities to finance. Local expenditure (as % of GDP) of the Czech Republic develops in the period from 1995 to 2014 quite stably with feeble decrease from 1996 to 2001. After, an increase of local expenditures accompanies changes in public sector structure. In Hungary a dramatic decrease of local expenditures expressed as % of GDP is

observable and apparently is caused by financial crisis. Poland goes through massive local expenditure fluctuation in the 1990s till the realization of reform focusing on administration division. The development of local government expenditure is shown in Figure 3.

Fig. 3: Local government expenditure of V4 countries as% of GDP



Source: *Eurostat*

The main research question of this paper focuses on searching the constraining effect of fiscal decentralization on local government size expressed by its expenditure in Visegrad countries. The effect of expenditure and revenue decentralization on local expenditure is here investigated to find the desired negative relationship between them.

2 Methods and data, basic assumptions

2.1 Methods

Searching for the local government expenditure determinants is here realized using the OLS estimations for each of V4 country separately followed by panel model for all V4countries together. Models are estimated and tested by econometric program Gretl.

Basic formula for the OLS regression is following

$$y_i = \alpha + \beta * x_i + \varepsilon_i \tag{1}$$

where y_i is a dependent variable for country i, α is an intercept, β is a regression coefficient, x_i is explanatory variable and ε_i is an error term [9].

Panel data approach uses three types of model – pooled OLS model, fixed effects model (FEM) and random effects model (REM). Panel diagnostics admits to test the pooled OLS model adequacy against the FEM (pooling test, a low p-value counts against the null hypothesis that the pooled OLS model is adequate, in favour of the fixed effects alternative) and against the REM (a low p-value counts against the null hypothesis that the pooled OLS model is adequate, in favour of the random effects alternative).Then the adequacy of FEM against REM is tested (Hausman test, null hypothesis: GLS estimates are consistent (REM is appropriate)).

Pooling panel model (pooled OLS) is the most restrictive panel model that specifies the constant coefficients and the regressors are uncorrelated with the error term. It´s formula is:

$$y_{it} = \alpha + \beta * x_{it} + u_{it} \tag{2}$$

where α an intercept, y_{it} is dependent variable (where i=country, i=1,…,n; t=time, t=1,…,T), x_{it} are independent (explanatory and control) variables, β are the coefficients and u_{it} is the error term [4].

FEM and REM reveal the impact of variables that vary over time. In FEM individual effects are unobserved and correlated with explanatory variables. The intercept may vary across countries, countries have their own intercept, but the intercept is time invariant [7]. In REM individual effects are unobserved and uncorrelated with all independent variables and countries have common intercept [7].

The FEM formula is:

$$y_{it} = \alpha_i + \beta_1 x_{it1} + \beta_2 x_{it2} + ... + \beta_k x_{itk} + u_{it} \tag{3}$$

where α_i *(i=1, ...,n)* is a fixed effect and represents an unknown intercept for each coutry, y_{it} is dependent variable (where i=country, i=1,…,n; t=time, t=1,…,T), x_{it} are explanatory and control variables, β are the coefficients and u_{it} is the error term [16].

The REM formula is:

$$y_{it} = \beta_1 x_{it1} + \beta_2 x_{it2} + ... + \beta_k x_{itk} + (\alpha + \varepsilon_i) + u_{it} \tag{4}$$

where $\varepsilon_i + u_{it}$ is composed error term, which assumes also specific error term for each country, α is an individual (random) effect, y_{it} is dependent variable (where i=country, i=1,…,n; t=time, t=1,…,T), x_{it} are explanatory and control variables, β are the coefficients [16].

2.2 Data source

Data are annual based, covering the period from 1995 to 2014. Source of data for V4 countries is Eurostat database, the Government Finance Statistics.

Dependent variable is local expenditure as % of GDP – expenditures of local level of government for each of V4 countries.

Explanatory variable involved in the research is fiscal decentralization variable. Fiscal decentralization level is here expressed in two ways. First, as revenue decentralization (*revdec*), this is calculated as share of local government revenue on total government revenue. Second, as expenditure decentralization (*expdec*), this is calculated as share of local government expenditure on total government expenditure. Additionally, this research will give similar significant results for these two indicators. There exist also other ways of measuring the fiscal decentralization (see [6] or [15]) but the standard approach (see [11]) is followed in this article according to missing values in the Eurostat database.

Control variables are GDP per capita (*GDPpc*), Misery index (*MI*), public deficit (*pubdef*), population growth (*pop*) and the sum of population less than 15 and over 65 growth (*unp*). Additional variables with alternative occurrence in the model are public revenue (*pubrev*) and public expenditure (*pubexp*) – revenue or expenditure of total general government.

2.3 Assumptions

Expected impact of explanatory variable is negative. According to the Leviathan hypothesis [3], the effect of fiscal decentralization on government size is inverse, because fiscal decentralization is the constraint for government expenditure.

The expected impact of GDP per capita on local government will be the same as in the case of total government expenditure, when in developed countries the increase in GDP will cause an increase in government expenditure [14]. Expectations about the influence of Misery index as sum of unemployment rate and inflation rate [28] on local expenditure are positive and negative. The increase of the Misery index value can excite higher pressure on public expenditure to resolve the macroeconomic instability. On the other hand, the loss in the revenue (tax revenue) in all levels of government could be balanced by economization of public expenditures. Same is the impact of public deficit. [11] The expected impact of the size of country measured by its population is positive, because, more citizens demand more public goods. The influence of unproductive population (age less than 15 and 65 over) is expected as positive with increasing requirements on public goods provision on local level. [11] The impact of public revenues and public expenditure on local government expenditure mirrors the intergovernmental transfer scheme. The raise in government revenues can activate the increase of local expenditure through the increase in local revenues due to shared tax or increasing grants. The raise in government expenditures can concern increased sum of transfers to local level.

3 Results

Estimated models include either revenue decentralization indicator (models 1 – 3) or expenditure decentralization indicator (model 4 – 6), with public revenue (models 2 and 5) or public expenditure (models 3 and 6) included (or not included) to the model. Models rest overparametrized to make the results more comparable. They are tested for heteroskedasticity (Breusch-Pagan test, null hypothesis: heteroskedasticity not present), autocorrelation (Durbin Watson test with null hypothesis: no autocorrelation), model adequacy (Ramsey Reset specification test, squares only, null hypothesis: specification is adequate) and collinearity (Variance Inflation Factors (VIF test), values > 10.0 may indicate a collinearity problem). Heteroskedasticity-robust standard errors method, variant HC1 is used in all OLS models. Models do not suffer from collinearity, heteroskedasticity or autocorrelation and are specified adequate.

The OLS estimation of Slovakia reveals cardinal phenomenon occurring from model to model as is shown thereinafter. The impact of fiscal decentralization (both revenue and expenditure decentralization) is significant and positive. The positivity of the explanatory variable is in collision with the fundamental assumption of the restrictive effect of fiscal decentralization on local expenditure.

Significance of control variables differs from model to model, but given assumptions about their impact are in prevalent part not supported by the obtained results. The influence of GDPpc on local expenditure is negative but rarely significant. Misery Index is significant and its impact is negative. Public deficit is insignificant. Population growth and unproductive population growth is mostly significant with mostly positive impact on local expenditure.

Public revenue and expenditure seems to be insignificant with exception of model 6. Final results are shown in Table 1.

Tab. 1: Slovakia, OLS models, dependent variable local expenditure

	1 revdec	2 revdec with pubrev	3 revdec with pubexp	4 expdec	5 expdec with pubrev	6 expdec with pubexp
	Coefficient, significance	Coefficient, significance	Coefficient, significance	Coefficient, significance	Coefficient, significance	Coefficient, significance
const	3,81 ***	-2,43	0,88 ***	0,72	-1,24	-5,08 ***
GDPpc	−203,9 ***	-108,4	-219,5	-23,50	-11,77	-55,12 *
MI	−0,06 ***	-0,06 ***	-0,08 ***	-0,00	-0,00	-0,27 **
pubdef	−0,03	-0,01	-0,01	-0,5	-0,03	-0,14
pop	4e-06	4e-06	-8e-06	1e-05 *	1e-05 *	-1e-05 **
unp	2e-05 **	9e-06	3e-05 ***	[a]	[a]	8e-06 *
revdec	33,55 ***	35,86 ***	37,85 ***			
expdec				35,47 ***	36,46 ***	44,73 ***
pubrev		0,13			0,05	
pubexp			0,07			0,13 ***
R2adj	0,93	0,93	0,94	0,96	0,97	0,99
DW	2,21	1,91	2,36	1,92	1,67	1,91
BP	0,78	0,85	0,65	0,18	0,09	0,46
VIF	<10	<10	<10	<10	<10	<10
Reset test	0,17	0,24	0,09	0,18	0,11	0,78

[a] variable unp is omitted due to heteroskedasticity

*** denotes significance at 1% level, ** at 5% level and * at 10% level.

Source: author´s calculation

Results of the Czech Republic OLS estimation are comparable with those of Slovakia, because the positive relationship of revenue or expenditure fiscal decentralization on local expenditure is present and in conflict with expectations. Here the significance of public deficit is important (in comparison with Slovakia).

The impact of GDPpc is negative but mainly insignificant, the impact of Misery Index is almost in all case negative but significant in only in model 1 and 2, variable of country size and unproductive population seems to be insignificant with some exceptions.

Variables public revenues and public expenditures are significant and their influence on local expenditure is positive. Final results are shown in Table 2.

Tab. 2: Czech Republic, OLS models, dependent variable local expenditure

	1 revdec	2 revdec with pubrev	3 revdec with pubexp	4 expdec	5 expdec with pubrev	6 expdec with pubexp
	Coefficient, significance	Coefficient, significance	Coefficient, significance	Coefficient, significance	Coefficient, significance	Coefficient, significance
const	0,92	-7,83 ***	-7,87 ***	3,14	-10,50 ***	-10,55 ***
GDPpc	-15,72	-8,35	-7,39	-59,65	-9,11 ***	-8,34 ***
MI	-0,12 **	-0,45 *	-0,04	-0,12	-0,00	-0,00
pubdef	-0,09 *	-0,11 ***	0,16 **	[b]	-0,25 ***	-0,00
pop	-1e-06	2e-06	2e-06	-3e-06 *	3e-08	1e-07
unp	2e-06	-4e-07	-5e-06	4e-06	6e-07 ***	5e-07 ***
revdec	40,17 ***	30,573 ***	30,43 ***			
expdec				37,46 ***	42,66 ***	42,57 ***
pubrev		0,27 ***			0,25 ***	
pubexp			0,27 ***			0,25 ***
R2adj	0,74	0,87	0,87	0,62	0,99	0,99
DW	2,03	2,07	2,05	1,54	2,15	1,96
BP	0,37	0,57	0,57	0,17	0,71	0,76
VIF	<10	<10	<10	<10	<10	<10
Reset test	0,48	0,17	0,18	0,53	0,01	0,00

[b] variable pubdef is omitted due to heteroskedasticity

*** denotes significance at 1% level, ** at 5% level and * at 10% level.

Source: *author´s calculation*

Although OLS models estimated for Hungary confirm the phenomenon of the fiscal decentralization positive influence on local expenditure, the result visually differ from other countries (see Table 3, compare with Table 1, 2 or 4).

Tab. 3: Hungary, OLS models, dependent variable local expenditure

SK locexp	1 revdec	2 revdec with pubrev	3 revdec with pubexp	4 expdec	5 expdec with pubrev	6 expdec with pubexp
	Coefficient, significance	Coefficient, significance	Coefficient, significance	Coefficient, significance	Coefficient, significance	Coefficient, significance
const	-1,12	-21,55	-26,75	-0,65 *	-11,99 ***	-12,28 ***
GDPpc	92,53	64,63	54,01	35,68 ***	7,39 **	5,26 ***
MI	0,04	0,01	-0,00	0,03 ***	0,00 ***	0,00 ***
pubdef	-0,04	-0,12	0,34	-0,16 ***	-0,25 ***	-0,00
pop	1e-05	1e-05	1e-05	-2e-07	-1e-06 ***	-9e-07 ***
unp	-1e-05	-2e-05	-3e-05	1e-05 ***	8e-07 *	-4e-07
revdec	43,19 *** *	53,38 ***	57,39 ***			
expdec				46,05 ***	49,68 ***	49,47 ***
pubrev		0,39			0,24 ***	
pubexp			0,49			0,25 ***
R2adj	0,81	0,80	0,81	0,99	0,99	0,99
DW	2,23	2,54	2,58	2,35	2,57	2,47
BP	0,11	0,10	0,07	0,65	0,36	0,66
VIF	<10	<10	<10	<10	<10	<10
Reset test	0,16	0,21	0,22	0,02	0,13	0,60

*** denotes significance at 1% level, ** at 5% level and * at 10% level.

Source: *author´s calculation*

Hungary´s models 1, 2 and 3 exclude significance of all control variables. Only fiscal decentralization variable is significant, but the adjusted R^2 is appropriate. Oppositely behaves the second half of models. It blooms with significance of variables and the results support the Wagner´s Law (positive sign of GDPpc), the expectation about the increase

of local expenditures in period of high unemployment and inflation (positive sign of MI). The assumption about the raising demand for public goods is supported by significance and sign of unproductive population growth variable, but not by the population growth variable. Increase in public expenditure causes an increase in local expenditures.

In case of Poland, the relationship between the fiscal decentralization and local expenditure shadows the situation in previous estimations. Different situation is observable in case of control variables which mostly suffer from insignificance or different results. Variables GDPpc and public deficit are not significant. MI is significant with negative sign in model 2 and 3. The impact of population growth is positive and significant inly in models 4 and 5. Unproductive population growth variable is mostly significant and has mostly negative impact on local expenditure in Poland. Influence of public revenue and public expenditure on local expenditure is significant and positive. Final results are shown in Table 4.

Tab. 4: Poland, OLS model, dependent variable local expenditure

	1 revdec	2[c] revdec with pubrev	3[c] revdec with pubexp	4 expdec	5 expdec with pubrev	6 expdec with pubexp
	Coefficient, significance	Coefficient, significance	Coefficient, significance	Coefficient, significance	Coefficient, significance	Coefficient, significance
const	5,19 **	-0,20 **	-0,26 *	0,04	2,33	-13,72 ***
GDPpc	-45,25	-26,02	80,44	95,65	85,56	18,81
MI	-0,06	-0,08 ***	-0,09 **	0,01	0,01	0,00
pubdef	-0,01	-0,07	0,02	-0,09	-0,07	-0,01
pop	3e-07	-3e-07	-8e-08	1e-06 *	1e-06 *	-3e-07
unp	-2e-06 *	3e-07	2e-06	-2e-06 **	-2e-06 **	6e-08 *
revdec	28,76 ***	39,08 ***	39,67 ***			
expdec				39,63 ***	38,96 ***	45,12 ***
pubrev		0,27 **			-0,05	
pubexp			0,14 *			0,30 ***
R2adj	0,89	0,93	0,92	0,93	0,92	0,99
DW	1,71	1,77	2,11	1,82	1,91	2,01
BP	0,17	0,76	0,58	0,82	0,84	0,02
VIF	<10	<10	<10	<10	<10	<10
Reset test	0,05	0,83	0,04	0,99	0,87	0,73

[c] differences were introduced to models to resolve problems with autocorrelation (DW test)

*** denotes significance at 1% level, ** at 5% level and * at 10% level.

Source: *author´s calculation*

Finally, pooled OLS models for all V4 countries were estimated and their adequacy was tested against the FEM and REM (see Table 5) in favour of pooling model. Panel models are for stacked time series, using robust HAC standard errors of Arrelano type.

Achieved results pertaining to the influence of fiscal decentralization on local expenditure are keeping the before observed phenomenon alive. Table 5 gives the proof; the increase of fiscal decentralization causes an increase of local expenditure and it claims against the fiscal decentralization successful implementation.

The significance of control variables takes some certain similarities. GDPpc is not significant in all types of pooling models, oppositely the MI variable is always significant and its impact is negative, public deficit is mostly significant with negative effect on local expenditure, influence of variables consisting on population characteristics are significant and their impact on local expenditure is positive in accord with given assumptions. The impact of public revenue and public expenditure is not uniform.

Tab. 5: Panel V4, Pooled OLS models, dependent variable local expenditure

	1 revdec	2 revdec with pubrev	3 revdec with pubexp	4 expdec	5 expdec with pubrev	6 expdec with pubexp
	Coefficient, significance	Coefficient, significance	Coefficient, significance	Coefficient, significance	Coefficient, significance	Coefficient, significance
const	-0.06	-0.08 ***	-0.06	-0.01	-0,01	-0.03
GDPpc	-75.73	-40.21	-39.55	-97.62	-132,8	-10.94
MI	-0.05 *	-0.04 ***	-0.05 *	-0.03 ***	-0,03 ***	-0.02 **
pubdef	-0.02 **	-0.02	-0.00	-0.07 *	[d]	-0.02 ***
pop	7e-7 ***	7e-08	4e-07 ***	1e-06 ***	7e-07 ***	2e-07 ***
unp	1e-6	1e-06	-3e-08	3e-06 ***	3e-06 ***	1e-06 ***
revdec	34.95 ***	37.04 ***	35.68 ***			
expdec				40.38 ***	40,42 ***	44.99 ***
pubrev		0.20 ***			0,10	
pubexp			0.07			0.16 ***
R2adj	0.66	0.72	0.68	0.85	0,83	0.96
DW	2.55	2.47	2.69	2.21	1,88	2.52
White test	0.24	0.50	0.45	0.15	0,32	0.00[e]
VIF	<10	<10	<10	<10	<10	<10
Reset test	0.09	0.29	0.07	0.78	0,70	0.03
Pooled vs FEM	0.35	0.20	0.33	0.15	0,75	0.64
Pooled vs REM	0.24	0.29	0.21	0.34	0,32	0.41

[d] variable pubdef omitted due to heteroskedasticity
[e] heteroskedasticity could be resolved in expense of totexp variable and the results become the form of model 4.

*** denotes significance at 1% level, ** at 5% level and * at 10% level.

Source: *author´s calculation*

4 Discussion

Obtained results do not confirm the expectation about the constraining effect of the expenditure or revenue decentralization on the local government expenditure in the V4 countries. All models reveal the positive effect of fiscal decentralization on local expenditure. Fiscal decentralization thus brought the increasing demand for local sources. Reasons could be various. Extended area of responsibilities that localities have to finance could be one of them. If localities do not wrestle with excessive shift of responsibilities from central to local level, it inhibits the successful arrive of increasing efficiency effects. The other reason why the efficiency brought by the fiscal decentralisation implementation is not achieved is the insufficient tax base (own source) of localities. It reflects on the fragmented residential structure (too much small sized localities). Finally, intensive grant flows from central level to local level (soft budget constraint) decrease the motivation of local authorities to spend their money more efficiently.

The real reason of the positive impact of fiscal decentralization on local expenditure in V4 countries rests an open field of research. The problem could be clarified by the extension of the investigated period including years before the V4 countries´ transition beginnings (Velvet revolution). Unfortunately, there is a lack of data collected on local level, which can be aggregated or disaggregated for inter - country comparison.

Conclusion

Expectations about the fiscal decentralization positive effects on public finance influenced reforming processes realized in post-communistic countries as were also the Visegrad countries. But verifying the goal achievement, the increase of local financial autonomy and more efficient provisioning of local public goods, seems to be difficult. In this paper the effect of fiscal decentralization on the expenditure side of local budgets in V4 countries is investigated. OLS models estimated for each V4 country reveal the positive impact of fiscal decentralization on local expenditure in all V4 countries and the type of fiscal decentralization measurement does not matter. The pooled OLS model for all V4 countries follows previous findings and confirms the positive influence of fiscal decentralization on local expenditure. Higher level of fiscal decentralization here leads to larger local expenditure, what does not correspond with hypothesis concerning on constraining effect of fiscal decentralization on government size. So the question about the fiscal decentralization implementation success in V4 countries rests unanswered and open.

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