

# Regional Impacts of Fiscal Policy: a case study of public capital expenditure in the Czech Republic

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# Outline of the presentation

- fiscal policy & regional development
- why this theme
- aim of the research
- example of empirical evidence
- relation to the „research interest of EPRC“ – linkages to Cohesion policy
- territorial impact assessment (TIA)
- indicative structure of the thesis

# Fiscal policy & Regional Development

- tax system, setting of income flows into public finance system
- setting of expenditure side (mandatory exp., programming system, project system, investments)
- system of redistribution (e.g. among Länder)
- system of financing decentralized bodies of public administration (municipalities and regions)
- non-spending policies (antimonopoly policy, de/regulation policies)

# Implications for RD

- stabilization function of fiscal policy
- public policy - traditionally viewed as a regulatory mechanism, as a tool for influencing divergent tendencies of regional development
  - system of progressive taxation and social benefits distribution
- however, less certainty about the actual regional pattern of capital expenditure
  - empirical evidence of existing studies
  - divergent mechanism?



# Relevancy of the theme

- allocation of a huge amount of money within the territory  
=> fundamental implications for regional development
- intensification of „academic“ and policy debates on importance of the spatial effects of „other“ policies than explicit regional policy and the Cohesion Policy  
=> policy implications - decision making, TIA

# Background

- regional policy in „narrow“ and broad“ sense, i.e. explicit and implicit regional policy
- regional impacts of sectoral policies
- regionalization of sectoral policies



# Aim of the research (1)

- detect the regional pattern of public capital expenditure's allocation - differentiating or levelling effect?
- empirically demonstrate the huge discrepancy between both the volume and the regional pattern of public capital expenditure committed within FP and RP
- provide decision makers with empirical evidence on fundamental importance of regional impacts of sectoral policies

## Aim of the research (2)

- investigate the relationship between the level of socio-economic development of the regions and the amount of invested public money
- typology of the NUTS 4 regions
- typology of public policies/interventions
- contribution to development of TIA methodology
- application of TIA



# Hypothesis

- key hypothesis:

Public capital expenditure committed from the state budget and extra-budgetary funds was allocated into the favour of the most advanced regions of the Czech Republic, hence, the regional pattern of public capital expenditure distributed within the Czech sectoral policies contradicted to the objectives of regional policy.

# Methodology

- literature review from both academic and political sources (role of the public finance for RD, regional impacts of sectoral and EU policies, regionalization of sectoral policies, TIA)
- analysis of budgetary scheme => data sources
  - ISPROFIN (state budget)
  - extra-budgetary funds
  - decentralized budgets (municipalities and regions)
- quantitative and qualitative tools
- TIA – still in progress

# Methodological challenges

- reliability of data
- assignment of capital expenditure to particular region (flow x benefit approach)
- extraordinary expenditure
- role of institutional factors e.g. significant role of subjective and soft factors
- how to overcome a method of description and „go beyond“, towards „explanation“

# Financial volumes

- State budget – approx. CZK 50 bln annually (in 1995-2005)
- State Environmental Fund – approx. CZK 3 bln annually (in 2000-2005)
- State Fund for Transport Infrastructure – approx. CZK 150 bln (2000-2005)
- decentralized budgets – approx. CZK 74 bln per year (in 2000-2005)

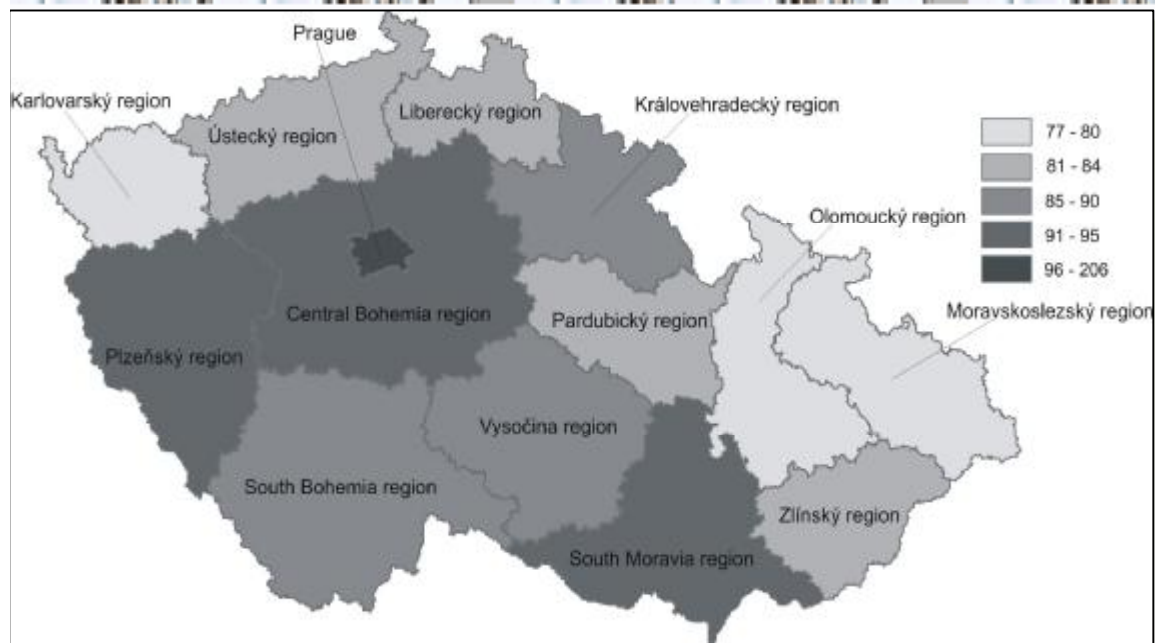


# Data - public central capital expenditure 1995-2005

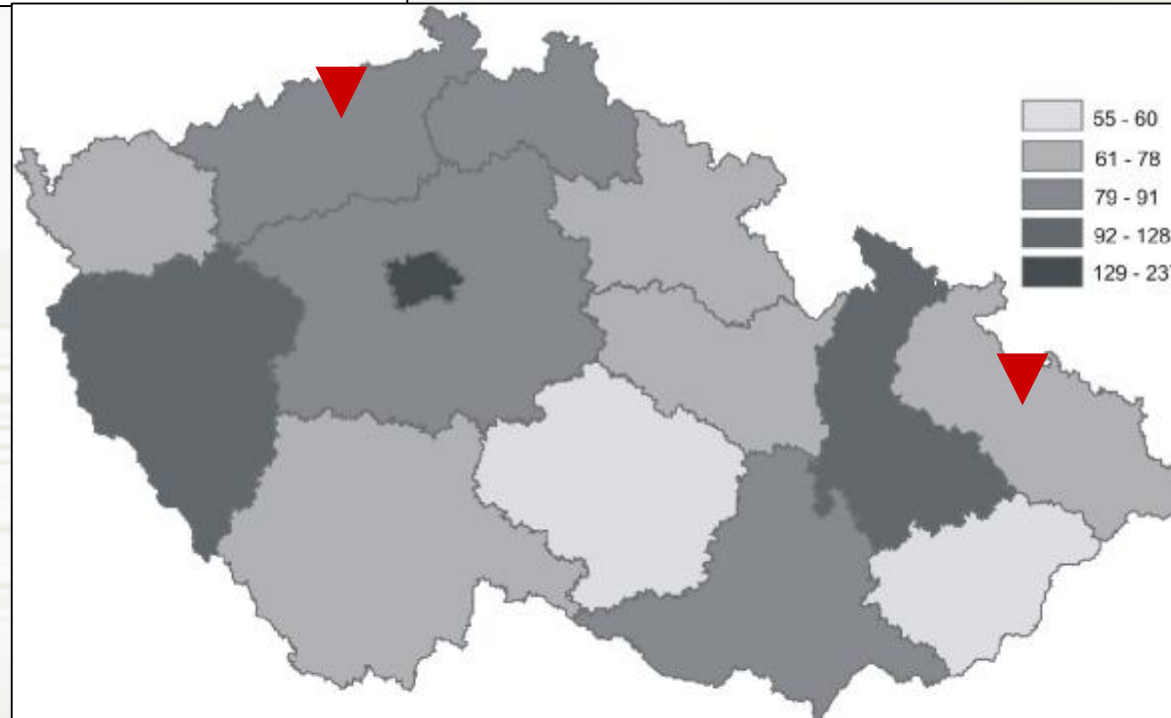
Overview of the analyzed data (in billion CZK)

Thematic sphere of capital expenditure	Financial volume	Source	Level
Total capital expenditure	617.2	State budget (ISPROFIN), SFTI, SEF	NUTS 3
Capital expenditure excluding transport infrastructure investments	394.9	State budget (ISPROFIN), SEF	NUTS 3 NUTS 4
Transport infrastructure investments	222.3	SFTI, State budget (ISPROFIN)	NUTS 3
Explicit regional policy and regional development	7.2	State budget (ISPROFIN)	NUTS 4
Environmental capital expenditure	25.6	SEF, State budget (ISPROFIN)	NUTS 4
Capital expenditure devoted to universities and R&D	25.4	State budget (ISPROFIN)	NUTS 4

Source: ISPROFIN (Internal material of the Ministry of Finance of the Czech Republic), Internal materials of the State Fund for Transport Infrastructure (SFTI) and the State Environmental Fund (SEF), own calculation



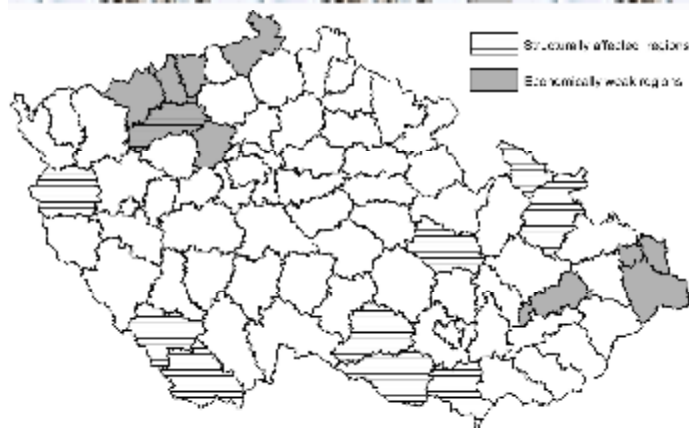
GDP per capita, CZE = 100 %



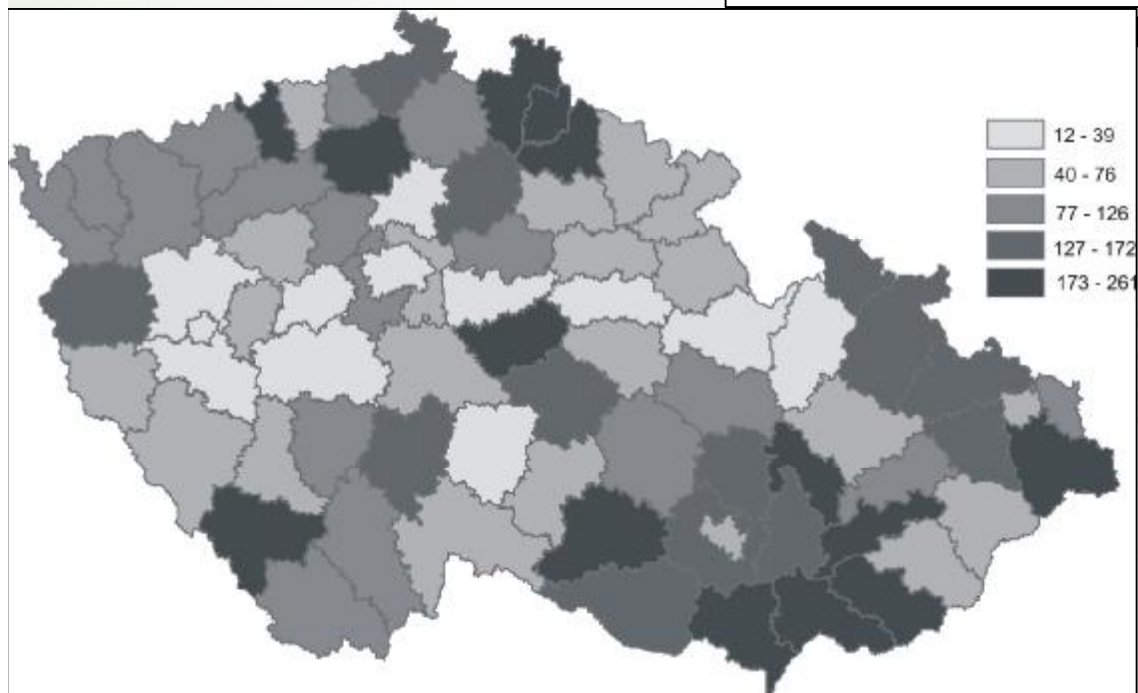
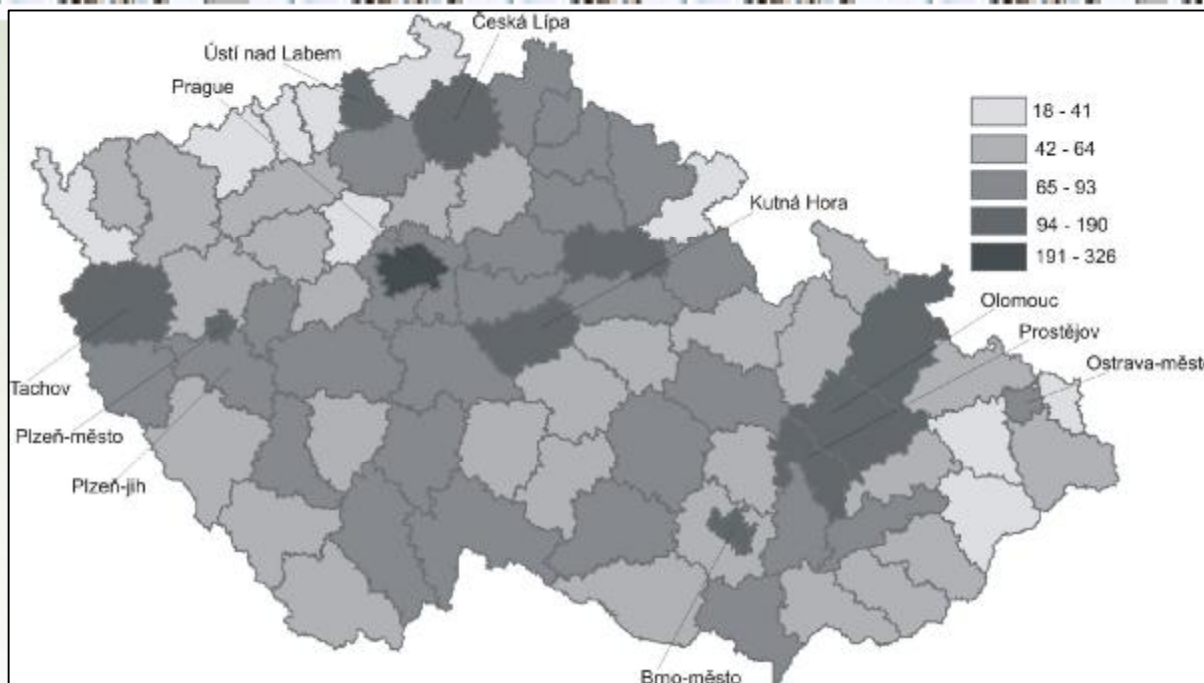
# Capital expenditure related to GDP

Region	Total investments in bln CZK	GDP per capita, Czech Rep. = 100 %	Total investments per GDP, Czech Rep. = 100 %	Total investments excluded of transport infrastructure investments per GDP, Czech Rep. = 100 %	Transport infrastructure investments per GDP, Czech Rep. = 100 %
Prague	168,3	206	116	159	38
Central Bohemia region	55,9	95	86	78	100
South Bohemia region	29,2	89	87	74	109
Plzeňský region	42,3	94	136	95	209
Karlovarský region	13,1	80	89	55	150
Ústecký region	45,3	82	111	64	194
Liberecký region	21,9	83	102	103	102
Královehradecký region	22,6	90	76	86	57
Pardubický region	23,6	84	92	78	116
Vysočina region	18,8	87	69	78	54
South Moravia region	61,6	93	98	101	93
Olomoucký region	40,9	77	137	113	181
Zlínský region	19,9	82	68	71	64
Moravskoslezský region	53,9	80	89	65	131
Czech Republic	617,2	100	100	100	100

Source: ISPROFIN, SFTI, SEF, Czech Statistical Office, Statistical Yearbook of the Czech Republic 2001, own calculations.



Regions eligible for national explicit regional policy



Investments after exclusion of transport infrastructure, per capita, CZ =100 %

**CZK 395 bln**

**versus**

**CZK 7 bln**

Regional policy, per capita, CZ=100 %



## ...and so what?

- evaluation of incentives executed within regional policy a common practice nowadays
- regional impacts of sectoral policies might contradict to objectives of regional policy
- costs of policies' non-coordination
- current SEA, EIA, IA ignore space
- we need to develop and engage an appropriate tool for policy/programmes territorial impact assessment (TIA) otherwise explicit regional policy might be eventually inefficient

# Territorial Cohesion

- the necessity of TIA emerged from the EU
- one of the objectives of the European Union
- demand for coordination of Cohesion Policy with other sectoral EU policies and with national sectoral policies
- region/locality - where incoherencies in policies meet and become visible

# Towards a need of TIA

- European Spatial Development Perspectives (1999)
- White Paper on European Governance (2001)
- Third Report on Economic and Social Cohesion (2004)
- ESPON 2000-2006
- Luxembourg (2005)→ The territorial state and perspectives of the EU (2006)
- Territorial Agenda (2007)
- ESPON 2007-2013 - priority „Territorial impact assessment of policies“

# TIA

- *„a method aimed at identifying the impacts that all types of intended and particularly unintended spatially-relevant public policies, programmes or projects may have on the territory“*
- *„a procedure for assessing the impact of proposed spatial development activities in the light of spatial policy objectives“*
- ESPON projects - TEQUILA model
- Slovenian project - tree-dimensional matrix



# TIA - methodological challenges

- geographical level of observation
- what to be assessed? against which policy objectives?
- how to assess the impacts?
- how to differentiate impacts territorially?
- diverse meanings of spatial impact in different contexts
- distinct nature of individual policies/measures – impossible to have one universal TIA
- ex-ante and ex-post, programme/policy level

# TIA - proposal for the CZE

- elementary and qualitative approach
- 2 steps - „TIA fiche“ for each sectoral policy
  - TIA of selected policy and its interventions
- based on prepared indicative checklists for assessment of regional dimension in sectoral policies in terms of potential contribution or risk for balanced regional development
  - 4 basic spheres of assessment

# Checklist - example

- is regional dimension inbuilt in the policy?
- is the regional dimension in accordance with the delimitation of „problematic“ regions in the SRD/NSRF
- is „targeted group“ of the policy regionally concentrated?
- which „type“ of region will be particularly affected by the implementation of the policy?
- is high regional concentration of funds expected?
- what regional impact can be expected according to individual measures?

Thank you for attention!

Comments will be greatly appreciated!



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