
Dimensions of „smart“ fiscal policies of cities



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AESOP / ACSP Joint Congress 2013
Planning for Resilient Cities and Regions
Session 13-6 Economic Development and Policies 2
Dublin, 17th July 2013

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- 1** General concept of **fiscal sustainability**
Sustainability of public debt
→ case-study of 2,400 Austrian municipalities
- 2** Fiscal policies in terms of the **effectiveness of expenditure**
(past, present, future-oriented expenditure)
- 3** Processes for planning fiscal policies and institutions to account for **citizens' participation** in budgetary policies
- 4** **Smart fiscal federalism** in terms of responsibility of decision makers, financing electorate, and beneficiaries

1 General concepts on fiscal sustainability: Sustainability of public debt

- „Long-term sustainability of fiscal policies in terms of municipal debt“

Municipal debt
Expenditure - revenue
Fiscal decentralization
Fiscal autonomy
Expenditure and revenue sharing system



Fiscal “leeway” of spatial planning
- Municipal policies
- Infrastructure investments



1. Spatial components, settlement structures
2. Ecology, social justice

- **Legal Framework**
 - Municipal budgetary law (Federal/state regulations)
 - Different regulations in federal provinces

- **Local Borrowing**
 - Restricted to financing of extraordinary expenditure
 - Requires approval by supervising authority (federal state gov.)
 - No explicit limitation of debt

Public Debt in Austria



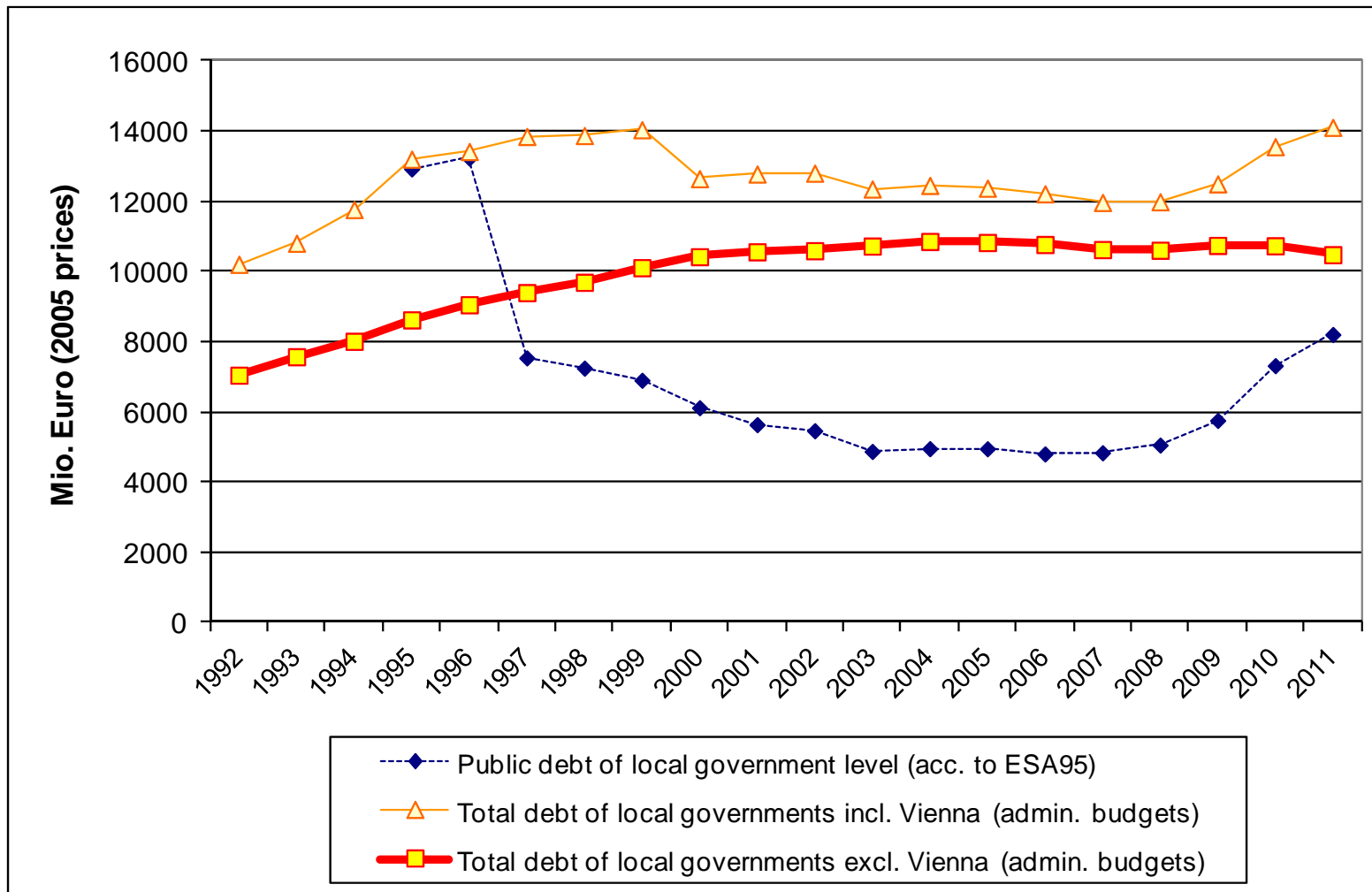
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Public debt in Austria by subsector as a percentage of GDP, 1995–2010

Austria, % of GDP	1995	2000	2005	2010
Central government	58,2	60,8	58,5	62,6
State government	3,1	2,3	3,0	5,7
Local government	6,6	2,7	2,0	2,8
Social security funds	0,3	0,4	0,7	0,7
General government	68,2	66,2	64,2	71,8
Mio. Euro (curr. prices)	119.208	137.995	157.429	205.576

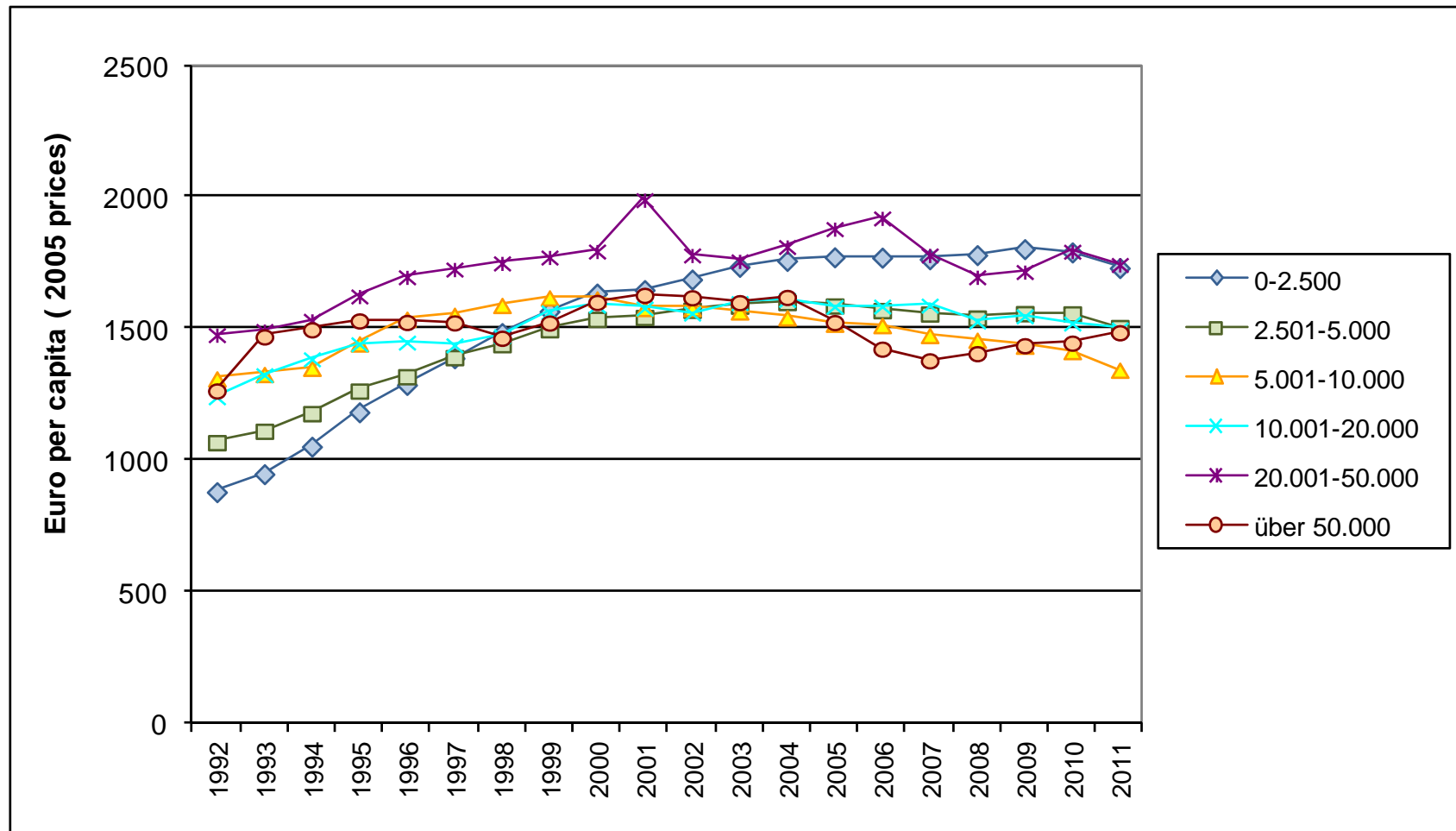
Debt of local governments in Austria

Public debt of local government level (ESA95) and total debt of municipalities in Austria, 1992–2010, Mio. Euro (2005 prices)



Debt of local governments in Austria

Total debt of local governments (excl. Vienna) in Austria by grouped by population size, 1992–2010, Euro per capita (2005 prices)



Debt of local governments: Econometric results

Dependent variable: Primary surplus of municipality i at time t			
Explanatory variables		Coefficient	(t-statistic)
Constant		-46.975	(-6.196***)
D_{it-1}	Debt of municipality i at time t ; 2005 prices (EUR/capita; natural log)	0.028	(9.844***)
Pop_{it}	Number of residents of municipality i at time t (natural log)	1.615	(1.983**)
Pop_{it}^2		-0.090	(-1.703*)
UR_{it}	Unemployment rate of municipality i at time t for the labor market district in which municipality i is located (%)	-2.297	(-5.295***)
GDP_{it}	Regional GDP of municipality i at time t at 2005 prices for the NUTS3-region of municipality (EUR/capita; natural log)	9.649	(6.877***)
GDP_{it}^2		-0.523	(-7.451***)
IR_{it}	Real interest rate level on federal public debt (%)	0.074	(19.141***)
APP_{it}	Share of votes for the Austrian People's Party in the municipal elections of municipality i at time t (%)	0.658	(15.205***)
AR(1)		0.202	(43.48***)
	Adj. R^2	0.421	
	S.E. of regression	2.360	
	F-stat.	13.303***	
	DW stat.	1.929	
	n	40,052	
	Period	1992-2010	
	Cross-sections	2,356	

2 Sustainability of fiscal policy: future-oriented expenditure

- **WNA-concept**
 - Evaluation of aims/functions of expenditure
 - Differentiation between expenditure that is either oriented to growth **or** sustainability („oriented to the future“)
 - in contrast to expenditure financing commitments of the past (e.g. payments for pension funds; interest payments)
 - Classification of expenditure from an economic-functional perspective

- **Expenditure “oriented towards the future”**
 - Share of future-oriented expenditure relative to total municipal expenditure
 - All Austrian municipalities vs. differentiation acc. to the size and location of the municipality

- **Restrictions**
 - Inputs – not outputs/effects; qualitative assessment
 - Efficiency, effectiveness, quality missing

■ Orientation to the future

- Economic sustainability (growth/development)
e.g. Education, R & D, labor-market instruments
- Social sustainability
e.g. Public health, family policies
- Ecological sustainability
e.g. Environmental/nature conservation, renewable energy

■ Infrastructure investments

- Growth orientation (and input/precondition for economic development)
- e.g. Transport, communication, water provision, electricity networks

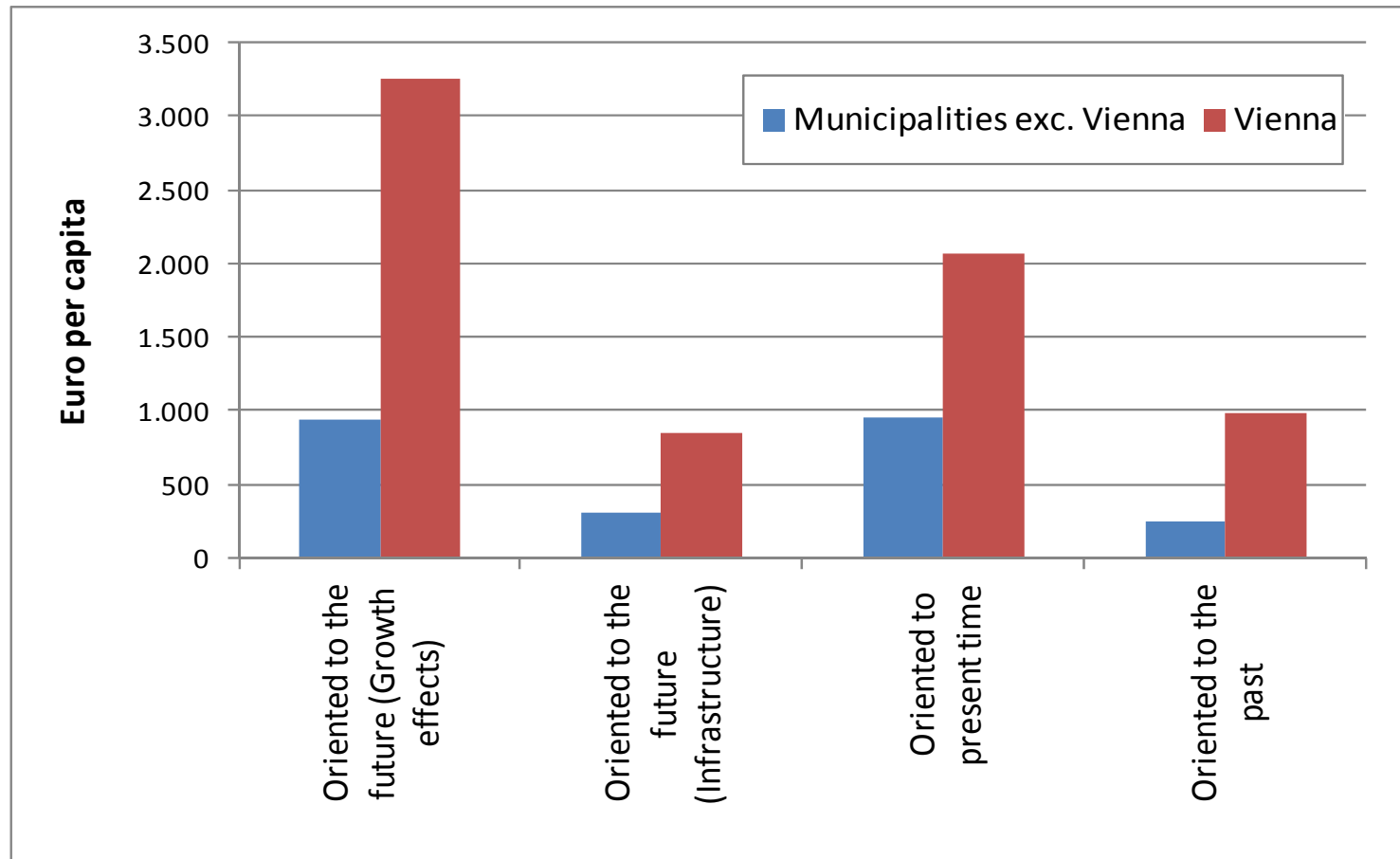
■ Orientation to the present

- Other expenditure (e.g. administration, welfare payments, culture)

■ Orientation to the past

- Pension payments, debt service

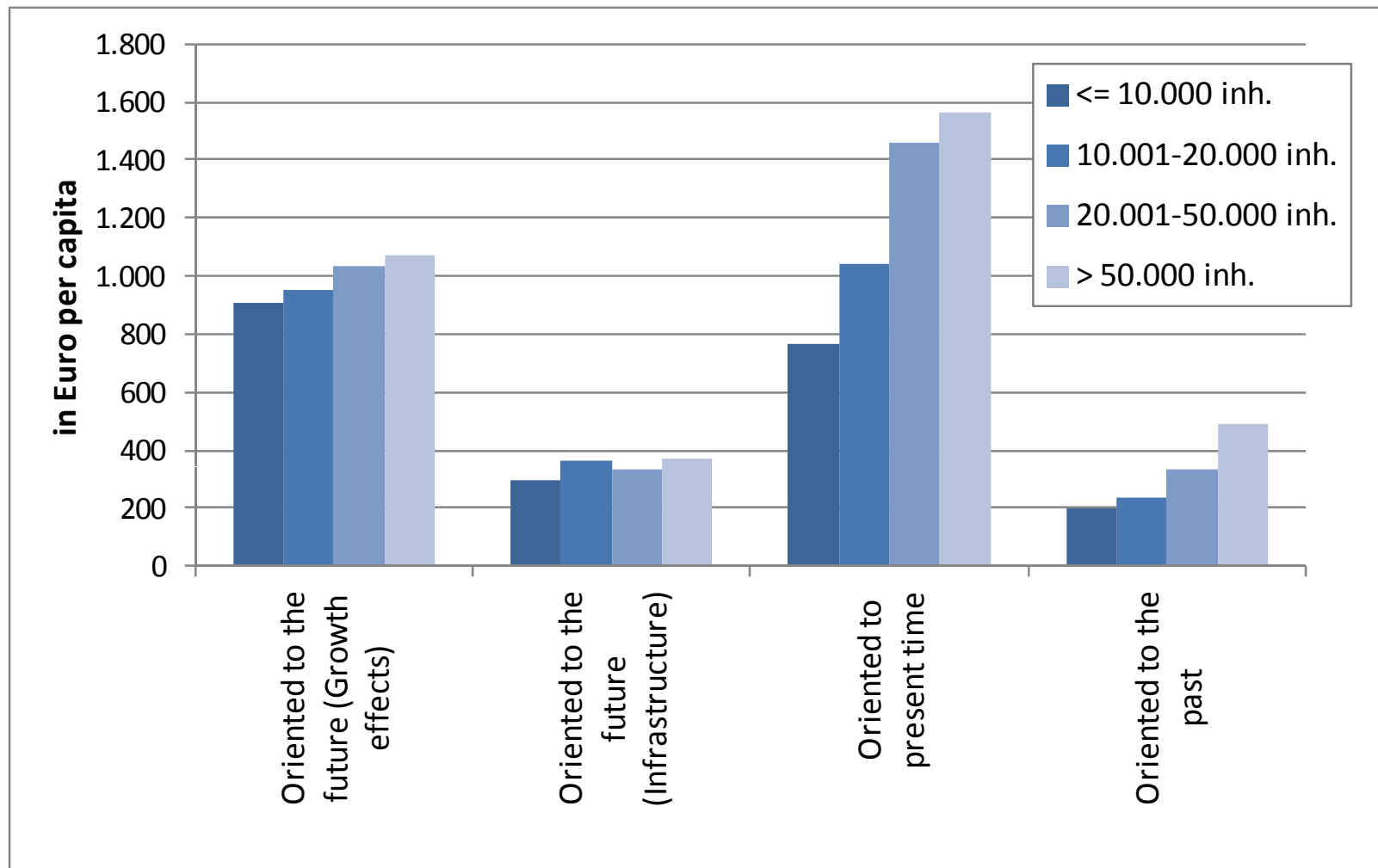
Expenditure of Austrian municipalities / Vienna 2011



% of total expenditure	Future (Growth)	Future (Infrastructure)	Present time	Past	Total
Municipalities exc. Vienna	38	13	39	10	100
Vienna	46	12	29	14	100

WNA – Future-oriented Expenditure

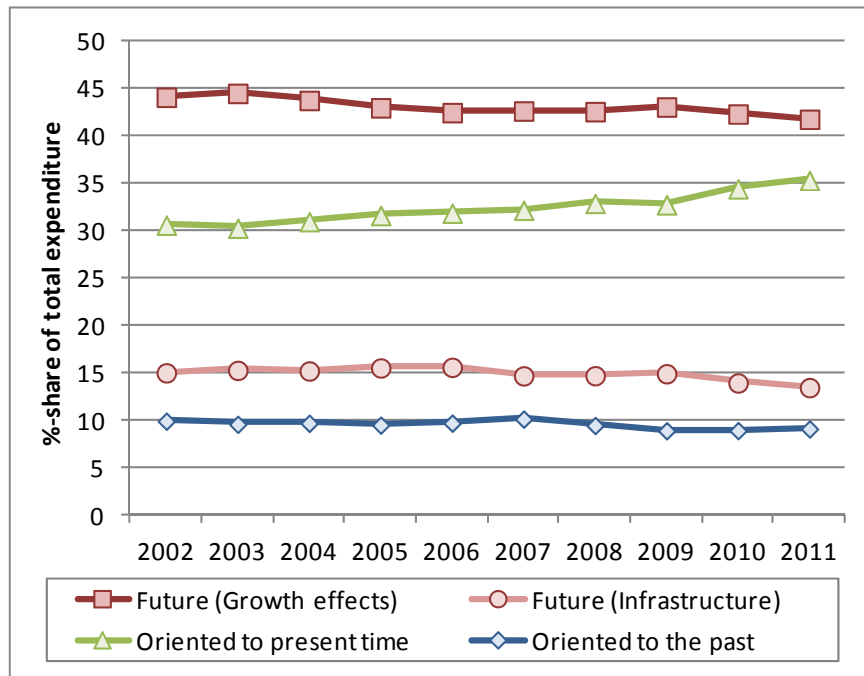
Expenditure by size of municipalities 2011,
in Euro per capita



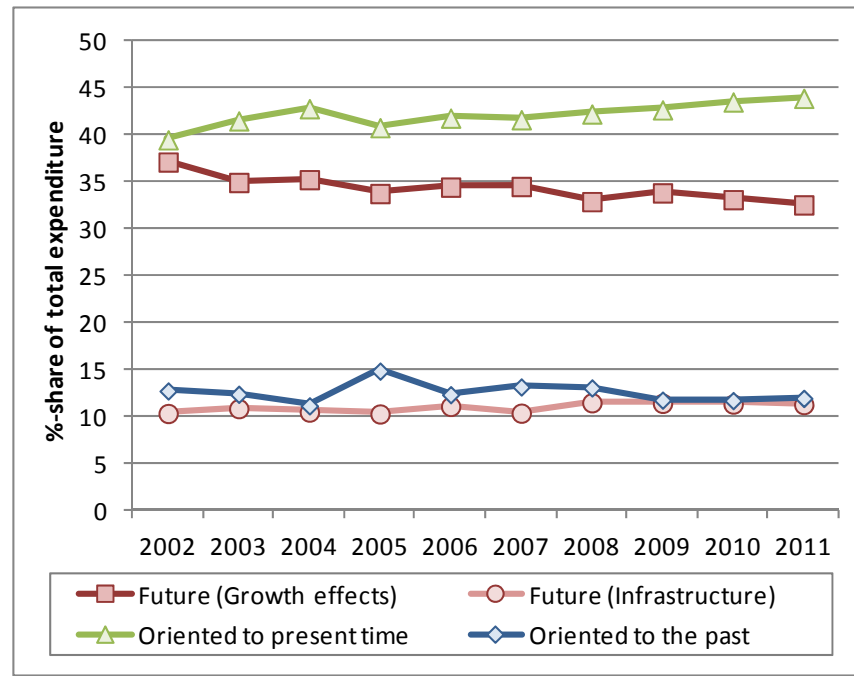
WNA – Future-oriented Expenditure

Expenditure by size of municipalities (excl. Vienna) 2002-2011, share of total expenditure in %

Municipalities < 10,000 inh.

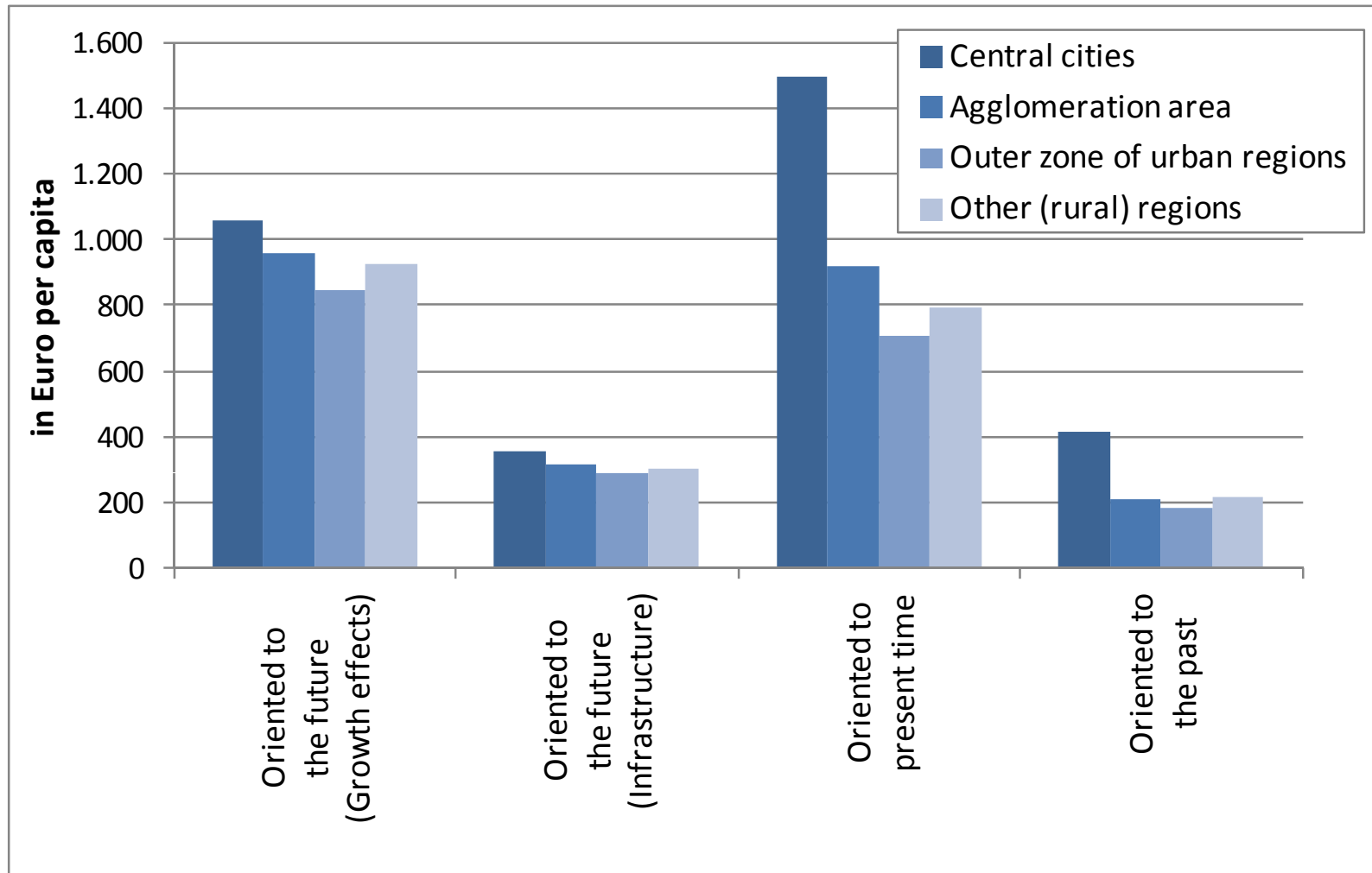


municipalities > 10,000 inh.



WNA – Future-oriented Expenditure

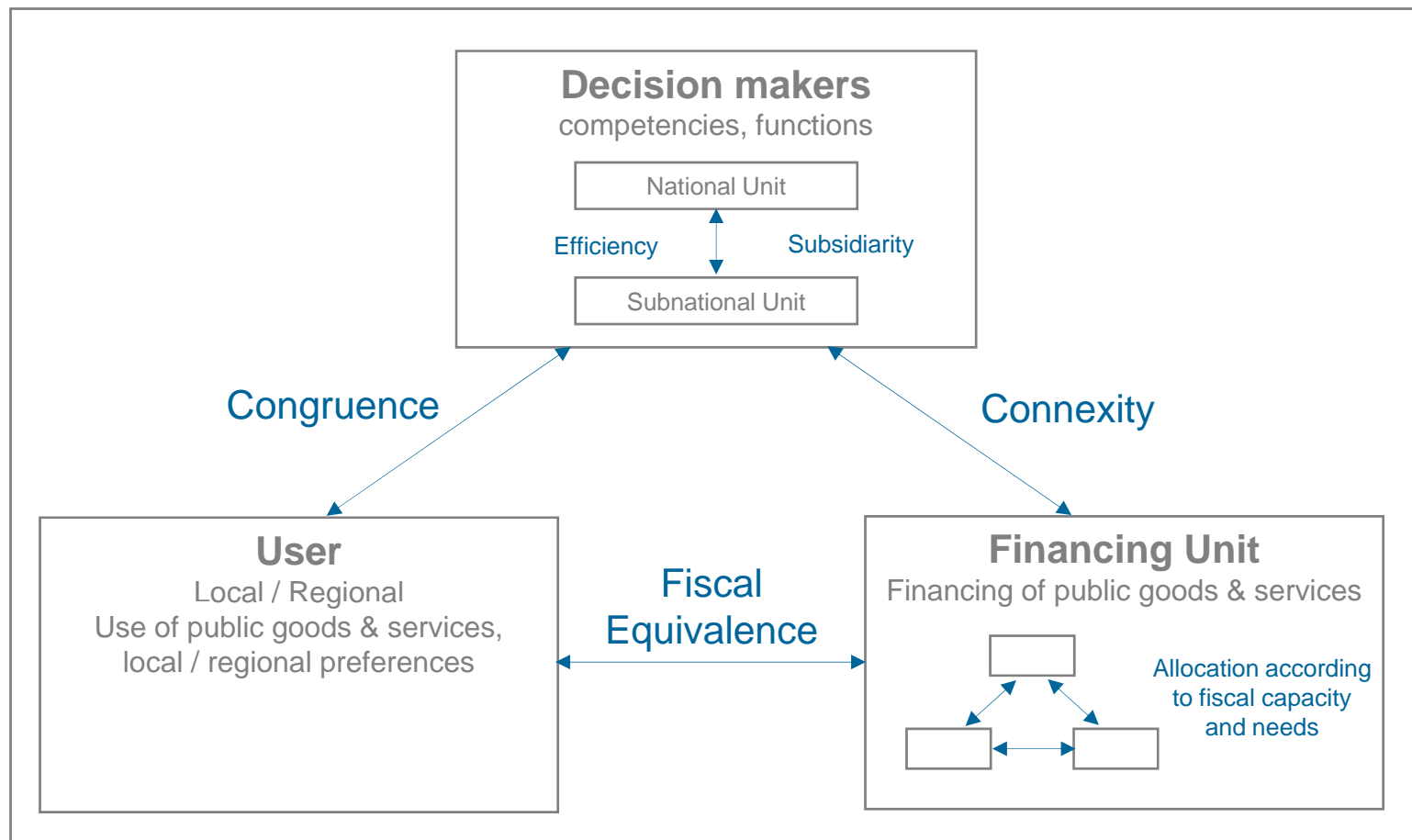
Expenditure by location of municipalities relating to urban regions 2011, in Euro per capita



- Participatory planning
 - International studies (e.g. Switzerland) show that citizens' involvement (such as referendums on municipal fiscal policies) leads to
 - more effective provision of public goods and services,
 - a slightly smaller public sector (eventually mirroring citizens' preferences more closely),
 - a lower level of public debt.
- „Smart“ = new institutions for citizens' involvement and participation
 - Public hearings, information on fiscal policies
 - Referenda with information on costs and benefits

4 Smart fiscal federalism

- „Smart“ fiscal federalism
 - Principles of Fiscal Equivalence, Connexity, Congruence



- **(At least) 4 elements of “smart” fiscal policies for cities:**
 1. Sustainability of municipal debt
 2. Expenditure oriented to the future
Ecology – economy – social policies
 3. Institutional reforms to allow for citizens’ participation in fiscal policies
 4. Efficient and effective revenue/tax sharing system / fiscal federalism
Fiscal equivalence – congruence – connexity
- **Focus on spatial dimension of fiscal policies**
Interdependencies with / responsibility of spatial planning
- **Improvement of budgetary processes**
Build-up and strengthening of the capacity of municipal decision makers, instruments of financial planning and fiscal impact analysis
- **Extension of fiscal autonomy potentially useful**
Increase of own revenues (and self-reliance)
- **Urgent need to evaluate off-budget units**
Total debt level & efficiency of off-budget units

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