

MUNICIPALITIES' FISCAL COMPETITIVENESS AND ITS FACTORS IN THE CONTEXT OF ECONOMIC GROWTH

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Abstract - This article aims to reveal the factors of municipalities' fiscal competitiveness in the economic growth context. In researches that aim at evaluating the links between fiscal competitiveness of the region and economic growth, a lot of attention is paid to the main directions determining economic growth: the impact of human capital, business sector, and institutional environment. In this article for evaluation of the relationship between fiscal competitiveness of municipalities and economic growth the conceptual model was prepared.

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I. INTRODUCTION

Recently, municipal fiscal policy has become increasingly important, as EU countries are increasingly converging on fiscal policy towards more effective public finance management. More and more research related to the management of public financial resources, the interaction between state and municipalities, is found. Some theories are universally accepted and not discussed, but some of them are in constant debate, which requires evidence of empirical research. It is generally agreed that the state delegates its functions to municipalities, but there are many discussions regarding the proportions of funding delegated by the state functions, expediency, assurance, control, selection of forms, etc. Municipal budget expenditures are directly related to the functions performed in economic, social and political terms and are intended to satisfy the most important needs of the society. There is no general agreement on what should be the public sector spending at municipal level in order to create a society with a fair share of common goods and what should be the impact of these costs on economic growth. Scientific problem - how we can evaluate the relations between fiscal competitiveness and economic growth in the context of economic growth and what factors can explain this. The object of the research – determinants of municipal fiscal competitiveness.

The aim of the research – to reveal the factors of fiscal competitiveness of municipalities and prepare a conceptual model for evaluation of the relationship in the context of economic growth.

In order to achieve the formulated aim of the research, the following tasks of the research are being solved in this article:

1. To systematize, empirical researches carried out so far by focusing on fiscal activities of the municipality in the context of economic growth.

2. To prepare a conceptual model for evaluation of the relationship between fiscal competitiveness of municipalities and economic growth.

Methods: analizė, sisteminimas, loginis apibendrinimas.

II. THEORETICAL FRAMEWORK

In the scientific literature there are a lot of discussions about the definition of the concept of competitiveness, because it is interpreted differently and analyzed at various levels (employee, company, branch, city, region or country). Competitiveness can be defined as the ability of a country to achieve high productivity and ensure the overall well-being for the society (Rakauskienė, Tamošiūnienė, 2013) or the competitiveness of the region should rather be considered as its (regional) ability to concentrate available economic resources to gain an edge over its competitors (Žitkus, Mickevičienė, 2013). After defining the concept of competitiveness in the literature, it can be noted that the competitiveness and attractiveness of the regions as territorial units are determined by the economic development and power of the cities located there (as cities can compete with investments, new technologies, financial support from the EU), therefore it is important to evaluate not only competitiveness in the general sense, but also the competitiveness of the cities.

The term fiscal is related to the treasury, so it can be argued that budget revenue in general is driven by an ongoing income policy (through tax, non-tax revenues and grants), and allocations are based on the spending policy formulated by the grant managers (i.e. appropriate redistribution of funds for various functions). The development of the municipal fiscal competitiveness theme can be based on the general economic theory, which states that economic growth is expressed with growing GDP, while expanding the

resources available for new product creation. Economic growth could be regarded as the desired final result of the municipality, generating budget revenues and allocating budget expenditures. The distribution of municipal budget expenditures determines the changes of the added value created in that municipality, as well as economic growth, and economic growth, through the achieved economic indicators, determines changes in the revenue collected in the municipal budget.

Authors of this article defines municipal fiscal competitiveness as an ability of the municipality to reallocate budget revenues in such a way that people, economic entities and all spheres of activities could pay more taxes to the municipal budget.

In the theory of economics and empirical researches there are a lot of statements about budget expenditures, revenues and economic growth; however, there are few researches analysing a complex attitude towards the evaluation of the impact of economic growth on the public resources, when municipal budget expenditures influence economic growth, while economic growth in that municipality determines the collection of municipal budget revenues.

Researches evaluating how fiscal competitiveness affects economic growth of the region are scarce. In research literature it is discussed whether fiscal decentralisation is useful for the region striving for economic growth. There are quite a few research works dealing with evaluation of the impact of fiscal decentralisation on economic growth (Baskaran, Feld, 2013; Kim, 2013; Boskin, 2012; Amagoh, Amin, 2012; Akai, Sakata, 2002). Some authors argue that fiscal decentralisation has a positive impact on economic growth (Kim, 2013; Amagoh, Amin, 2012; Akai, Sakata, 2002), others claim that it is negative (Baskaran, Feld, 2013; Rodriguez-Pose, Kroijs, 2009), there are also some ambiguous results

(Hammond, Tosun, 2009; Xie, Zou, Davoodi, 1999). In research literature, the impact of fiscal competitiveness on the economic growth (see Table 2) is reflected by the indicators of fiscal decentralisation (political and administrative), European regional policy, the size of the public sector, expenditure and revenue or their structure, financing expenditures and efficiency of the use of resources.

In researches that aim at evaluating the links between fiscal competitiveness of the region and economic growth, a lot of attention is paid to the main directions determining economic growth: the impact of human capital, business sector, and institutional environment (see Table1).

Researches evaluate the impact of human capital on the competitiveness of the region and economic growth by using various indicators reflecting human capital. A region with higher indicators of the quality of education, public entrepreneurship and workforce skills has greater opportunities to stimulate economic growth in the region (Dias, Tebaldi (2012); Acemoglu, Gallego, Robinson (2014); Faggian, Partridge, Malecki (2016); O'Connor (2013); Hanushek (2013)). Both labour market situation and the size of wages can have a major impact on the fiscal competitiveness of the region and economic growth of the country (Otil, Miculescu, Cismas (2015); Mwangi, Simiyu, Onderi (2016)). While evaluating the impact of the business sector on the competitiveness of the region, this factor is most often reflected by the economic structure, foreign investments, their transfer, and entrepreneurship indicators (Hale, Long (2011); Antwi ir kt. (2013); Gabroveanu, Stefanescu (2017); Zhang (2014)). There are also researches that employ the aspect of the structure of the size of the company and differences in the number of small, medium and big enterprises (Opafunso, Adepoju (2014); Nwoye, 2010; Pekovic, Rolland (2016)).

Table 1 : Indicators for Evaluation of the Impact of Factors of Human Capital, Business Sector and Institutional Environment on Fiscal Competitiveness and Economic Growth of the Region

Human capital	Business sector	Institutional environment
Education, qualifications The quality of educational system and institutions Entrepreneurship of society Workforce skills Professional knowledge of a concrete branch of industry Managerial and entrepreneurial competences Workforce Unemployment level Employment Minimal or average wages	Foreign investment Local investment Technologies transfer-takeover via investments The number of companies in the region The number of small, medium and big enterprises Small enterprises in the branch of an industry	Political stability The right of vote and accountability Civic and political rights Corruption Bureaucratic efficiency Tax concessions Special economic zones Companies of economic activities in industrial parks Participation of universities in the activities of industrial parks

Source: designed by the authors

In order to create appropriate conditions for economic growth and fiscal competitiveness of the region it is important to have transparent institutional environment conducive to competitiveness (Castro, Ramírez Camarillo (2014); Ashraf, Sarwar (2016)). Regions with special economic zones can have a competitive advantage to attract representatives of business sector by offering them favourable tax conditions, which could determine a more rapid economic growth of the region (Bourne, Meakin, Minford, Minford, Smith (2016); Ezmale, Rimsane (2014); Beliakov, Kapustkina (2016); Sheina, Khamavova, (2016); Kang, Xu, (2012)).

The impact of one of the main means of regulating economy – fiscal policy, which includes the formation of budget expenditures and revenues, is

possible to evaluate only by examining the impact of these measures on the economic growth. In order to reveal the process of formation of fiscal competitiveness, it has to be assessed through economic growth – via budget expenditure distribution among economic sectors of the country (for households, businesses), their further actions in various activities and consuming as well as revenue collection to the budget. The authors of this article state, that the process of municipalities fiscal competitiveness should be evaluated by two steps – how municipal expenditures affect economic growth and examining how economic growth affects municipal revenues. This statement is based on research which can be subdivided into three groups (see Table 3).

Table 2: Researches Validating the Two Steps evaluation of municipalities' fiscal competitiveness

Research fields		Authors
I.	The impact of public sector expenditures on economic growth	Bayraktar, Moreno-Dodson, (2012); Szarowská, (2012); Rodriguez-Pose, Kroijer (2009); Ahmad, Wajid (2013); Beckmann, Endrichs, Schweickert (2016)
II.	The impact of economic growth on public sector revenues	Wawire (2011); Karagöz (2013); Tagkalakis (2014); Castro, Berenice, Camarillo (2014)
III.	The impact of public sector expenditures on its revenues	Rajkumar, Swaroop (2008); Devarajan, Raballand, Le (2012); Ndjokou (2013)

Source: designed by the authors

Literature analysis shows that in their works researchers more often analyse the impact of the public sector expenditures on the economic growth (Beckmann, Endrichs, Schweickert, (2016), Bayraktar, Moreno-Dodson, (2012), Szarowská, (2012), Ahmad, Wajid, (2013)), researches where the impact of both public sector expenditures and revenues on the economic growth (Roşoiu, 2015), or

only the impact of public sector revenues on economic growth (Magu, 2013) are less numerous.

The choice of the mentioned models was based on the following: fiscal competitiveness mechanism wouldn't be fully revealed if any one model was chosen; municipal expenditures do not affect municipal revenues directly but via economic growth.

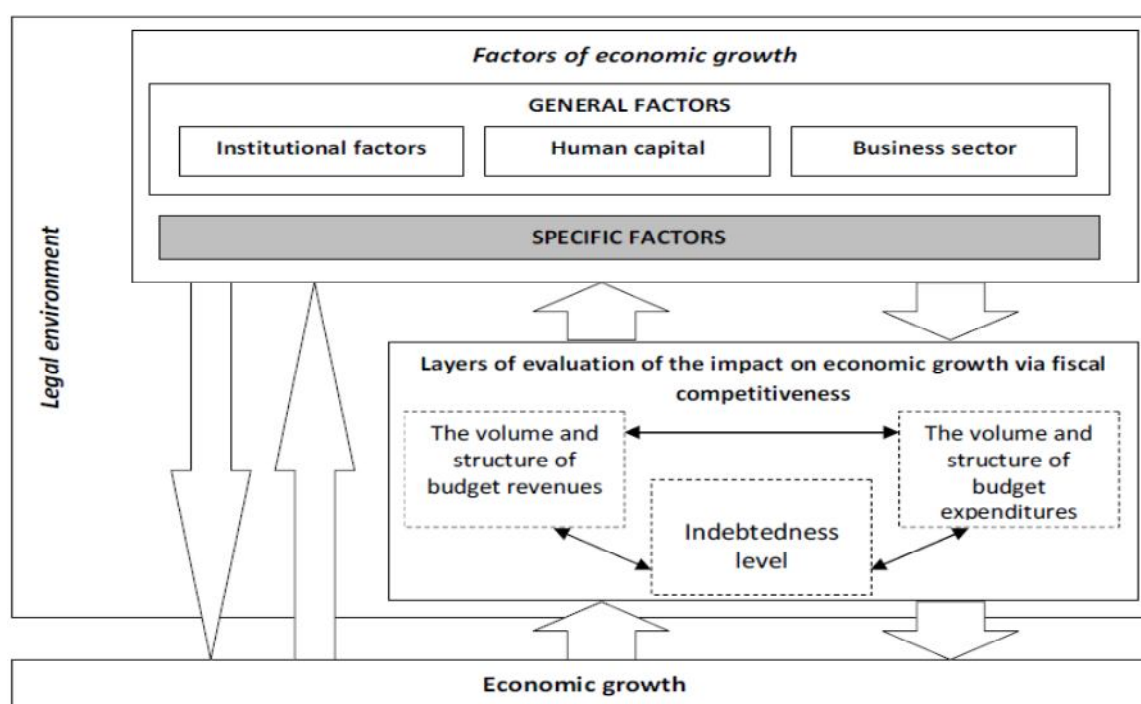


Figure 1. Conceptual model for evaluating municipal fiscal competitiveness in the context of economic growth
Source: designed by the authors

Having assessed the main aspects of fiscal competitiveness stimulating economic growth, the need arises to measure how municipal fiscal competitiveness can be related to economic growth. To carry out measurements, we need an instrument, which would help to perform a comprehensive (complex) evaluation of the impact. To this end, a conceptual model of the impact of municipal fiscal competitiveness on the economic growth of the country was designed (see Fig. 1). It is used to measure the impact of municipal fiscal competitiveness on economic growth. The model evaluates the impact of the factors determining the indicators of municipal budget revenues, expenditures and the level of indebtedness in a complex manner through various layers.

CONCLUSIONS

Municipal fiscal competitiveness can be defined as an ability of the municipality to reallocate budget revenues in such a way that people, economic entities and all spheres of activities could pay more taxes to the municipal budget. Evaluating the links between fiscal competitiveness of the region and economic growth, a lot of attention is paid to the main directions determining economic growth: the impact of human capital, business sector, and institutional environment. In the context of regional fiscal competitiveness, the impact of the human capital factor on economic growth is assessed through the regional education, the quality of the education system, the entrepreneurial and creativity of the society, the importance of workforce skills, the specific field of professional knowledge, managerial and entrepreneurial competencies, as well as unemployment, employment, wage rates. The impact of the business sector is measured by the structure of economics, foreign and local investment, entrepreneurship, the number and the size of enterprises. The impact of the institutional environment is being evaluated in terms of political stability, voice and accountability, and civil and political rights, corruption, bureaucracy, tax concessions, special economic zones. The impact of fiscal competitiveness on economic growth in the scientific literature is reflected through the indicators of fiscal (political and administrative) decentralization, European regional policy, size of the public sector, expenditure and revenue, or their structure, cost of financing, resource efficiency.

A conceptual model for assessing the impact of municipalities' fiscal competitiveness on the country's economic growth has been prepared, aimed at measuring the impact of the fiscal competitiveness of the municipality on economic growth. The model assesses the impact of factors that determine the indicators of municipal budget revenue, expenditure and debt levels through a variety of cross-sections.

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