

## Residents' Incomes in Local Government Unit as the Major Determinant of Local Budget Transparency in Croatia: Panel Data Analysis

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**Abstract :** The determinants of national budget transparency have been widely discussed in the literature, while research on determinants of local budget transparency are scarce and empirically inconclusive, particularly in the new, fiscally centralised, EU member states. To fill the gap, we combine two strands of the literature: that concerned with public administration and public finance, shedding light on the economic and financial determinants of local budget transparency, and that on the political economy of transparency (principal agent theory), covering the relationships among politicians and between politicians and voters. Our main hypothesis states that variables describing residents' capacity have a greater impact on local budget transparency than variables indicating the institutional capacity of local government units (LGUs). Additional subhypotheses test the impact of each variable analysed on local budget transparency. We address the determinants of local budget transparency in Croatia, measured by the number of key local budget documents published on the LGUs' websites. By using a data set of 128 cities and 428 municipalities over the 2015-2017 period and by applying panel data analysis based on Poisson and negative binomial distribution, we test our main hypothesis and sub-hypotheses empirically. We measure different characteristics of institutional and residents' capacity for each LGU. Age, education and ideology of the mayor/municipality head, political competition indicators, number of employees, current budget revenues and direct debt per capita have been used as a measure of the institutional capacity of LGU. Residents' capacity in each LGU has been measured through the numbers of citizens and their average age as well as by average income per capita. The most important determinant of local budget transparency is average residents' income per capita at both city and municipality level. The results are in line with most previous research results in fiscally decentralised countries. In the context of a fiscally centralised country with numerous small LGUs, most of whom have low administrative and fiscal capacity, this has a theoretical rationale in the legitimacy and principal-agent theory (opportunistic motives of the incumbent). The result is robust and significant, but because of the various other results that change between city and municipality levels (e.g. ideology and political competition), there is a need for further research (both on identifying other determinates and/or methods of analysis). Since in Croatia the fiscal capacity of a LGU depends heavily on the income of its residents, units with higher per capita incomes in many cases have also higher budget revenues allowing them to engage more employees and resources. In addition, residents' incomes might be also positively associated with local budget transparency because of higher citizen demand for such transparency. Residents with higher incomes expect more public services and have more access to and experience in using the Internet, and will thus typically demand more budget information on the LGUs' websites.

**Keywords :** budget transparency, count data, Croatia, local government, political economy

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