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Abstract:

Local Revenues, Autonomy and Development Capacity in a Transition Economy: Evidence from Polish Communes

Local governments play a central role in shaping regional development outcomes by providing infrastructure, public services, and an institutional environment conducive to business activity. In a transition era characterised by economic shocks, demographic change, geopolitical instability, and fiscal stress, the effectiveness of these local development efforts increasingly depends on the structure of local revenues and the degree of financial autonomy enjoyed by local governments.

This article analyses how changes in local governments' fiscal positions affect their capacity to manage local development processes. It focuses on Poland as a case of a post-transition economy in which decentralisation reforms initially strengthened local self-governance. However, more recent fiscal and institutional developments point toward re-centralisation.

The paper speaks directly to the panel "Local revenues and economic development" by examining whether Polish communes retain sufficient control over their revenue structures to benefit fiscally from economic growth and to reinvest in development-enhancing services and infrastructure. It argues that despite a growing role of local governments in public expenditure, declining financial autonomy weakens the link between local economic performance and municipal budgets, thereby undermining incentives for proactive local development policies.

Objective and Research Questions

The main objective is to assess the evolution of local government autonomy and self-governance in Poland from the early 1990s to 2020, with particular emphasis on financial autonomy as a prerequisite for effective local development management.

The study addresses three interrelated research questions:

- Has fiscal decentralisation in Poland increased the role of local governments in public spending?
- Has this decentralisation translated into greater financial autonomy at the local level?
- What are the implications of changing revenue structures for local governments' capacity to stimulate and manage local economic development?

By answering these questions, the authors seek to determine whether Poland is moving along a path of genuine decentralisation or toward a model of de facto re-centralisation and deconcentration, where local governments increasingly function as administrative agents rather than autonomous development actors.

Conceptual Framework: Autonomy, Self-Governance and Development

The authors base the work on the concepts of subsidiarity, decentralisation, and local autonomy as foundations of self-governance. Subsidiarity implies that public tasks should be performed at the lowest effective level of government, enabling local authorities to tailor policies to local conditions. Decentralisation operationalises this principle by transferring tasks, competences, and resources from the central government to sub-national governments.

Local autonomy is understood as a multidimensional concept encompassing political discretion, policy scope, organisational autonomy, and, crucially for regional development, financial autonomy. Financial autonomy, in turn, depends not only on the volume of revenues available to local governments but also on their structure and the degree of decision-making power local authorities have over them.

From the perspective of local and regional development, financial autonomy plays a decisive role by shaping incentives. When local governments benefit fiscally from economic growth through own-source revenues, they have a stronger motivation to invest in infrastructure, spatial planning, education, and administrative capacity. Conversely, when revenue growth is detached from local economic performance and depends on central transfers, development efforts may yield limited fiscal returns.

Data and Methodology

The empirical analysis covers almost the entire population of Polish communes and spans the period from 1991 to 2020, offering a long-term perspective on institutional and fiscal change. Data are drawn from the Local Data Bank of Statistics Poland and from the Polish Ministry of Finance, ensuring comprehensive coverage and consistency over time.

The study employs two main sets of indicators. First, fiscal decentralisation is measured using standard decentralisation indices, defined as the share of sub-national government expenditure in central government expenditure and in GDP. These indicators capture the growing importance of local governments in delivering public services and implementing public policies. Second, financial autonomy is assessed through revenue-based indicators. The primary measure is the share of own revenues in total revenues, calculated for all communes and for five size categories ranging from very small rural communes to large cities. To better reflect effective revenue sovereignty, the authors introduce an adjusted financial autonomy index that excludes revenues from centrally controlled income taxes (shares in PIT and CIT), which are formally classified as own revenues but over which local governments have no tax authority.

This methodological approach allows the study to distinguish between formal decentralisation and effective fiscal autonomy, a distinction that is critical for understanding local governments' development capacity.

Growing Decentralisation of Expenditure

The analysis shows a steady increase in the share of public expenditure carried out by local and regional governments in Poland. Sub-national government expenditure as a share of GDP and central government expenditure have grown substantially since the early 1990s, confirming that local governments have assumed a more prominent role in delivering public services and implementing socio-economic policies.

From a regional development perspective, this indicates that local governments are increasingly responsible for tasks that directly affect local business conditions, labour markets, and quality of life.

Declining Financial Autonomy

In contrast to the growing expenditure role of local governments, financial autonomy has systematically declined. The share of own revenues in total revenues of communes has decreased over time across all size categories. While larger cities retain higher levels of their own revenues, they also experience a downward trend.

When revenues from centrally controlled income taxes are excluded, the picture becomes even more striking. Adjusted financial autonomy levels are substantially lower and converge across commune size categories, indicating that transfer mechanisms increasingly flatten differences in fiscal capacity between large and small communes. This erosion of financial autonomy means local governments are becoming increasingly dependent on central funding, even as their responsibilities expand.

Further insight into the development implications of declining local government autonomy in Poland emerges from a more detailed, municipality-level analysis of financial autonomy dimensions conducted for Polish communes in the comparative framework of local financial autonomy indices (LFAI). This evidence reinforces and deepens the conclusions drawn from the long-term revenue analysis presented in this paper.

First, Polish municipalities exhibit low and declining fiscal autonomy, understood as effective control over tax revenues that respond to local economic activity. While Polish legislation formally recognises a wide range of municipal "own revenues," only a small subset of these revenues is subject to any degree of local tax authority. Taxes over which municipalities can partially influence rates, such as property tax, agricultural tax, forestry tax, and transport tax, constitute a shrinking share of total tax income. At the same time, revenues from shared personal and corporate income taxes, which are economically more significant and closely linked to local business activity and employment, remain entirely centrally regulated. As a result, economic growth occurring within a municipality does not translate proportionally into locally controllable revenues, weakening fiscal incentives for development-oriented local policies.

Second, the structure of intergovernmental transfers in Poland further limits development capacity. A growing reliance on targeted (conditional) grants rather than general (unconditional) grants constrains local discretion over spending priorities. From the perspective of local economic development, this reduces municipalities' ability to reallocate resources toward infrastructure, spatial planning, business support services, or administrative capacity-building to respond to local needs. While targeted grants may increase short-term investment activity, they often impose rigid expenditure frameworks and generate administrative burdens that crowd out strategic, locally designed development initiatives.

Third, Polish municipalities demonstrate low and declining financial self-reliance when revenues over which they have no effective authority, particularly shared income taxes, are excluded from their own revenues. When adjusted for absolute revenue sovereignty, the median share of genuinely own-source revenues in total municipal revenues falls well below thresholds commonly associated with meaningful fiscal autonomy. This erosion of self-reliance is particularly pronounced in smaller municipalities, which are simultaneously more dependent on transfers and less able to leverage alternative financing instruments. Consequently, spatial disparities in development capacity persist, while incentives for endogenous local growth weaken across all size categories.

Finally, borrowing autonomy in Poland is heavily constrained by complex, formula-based debt rules that link borrowing capacity to past operating surpluses. While intended to ensure fiscal discipline, these regulations significantly restrict many municipalities, especially those facing structural economic challenges from financing long-term development investments. Empirical evidence shows substantial variation across municipalities, with some effectively excluded from borrowing altogether due to recurring operating deficits. This uneven borrowing capacity further limits local governments' ability to act counter-cyclically or to invest in infrastructure critical for regional competitiveness.

Taken together, these findings suggest that Polish local governments operate within a fiscal framework that decouples local economic performance from local revenue outcomes. In such a system, local authorities are expected to stimulate economic growth and provide high-quality services, yet lack the financial instruments necessary to internalise the benefits of successful development policies. This weakens municipalities' role as proactive development actors and reinforces a trajectory toward administrative dependency rather than genuine self-governance.

Implications for Local Economic Development

The declining share of genuinely own-source revenues weakens the fiscal feedback loop between local economic development and municipal budgets. When economic growth does not translate into higher discretionary revenues for local governments, incentives to invest in growth-enhancing infrastructure and services are reduced.

The study highlights that equalisation mechanisms, while essential for ensuring territorial cohesion and equal access to public services, may inadvertently dampen development incentives. Revenues generated by successful local economic policies are partially redistributed, while increasing reliance on targeted grants limits local discretion and strategic planning capacity.

Discussion: Local Revenues in a Transition Era

The findings point to a paradox that is highly relevant in a transition era marked by repeated crises. On the one hand, decentralisation has increased the importance of local governments in managing socio-economic challenges. On the other hand, declining financial autonomy constrains their ability to respond flexibly and proactively to local development needs.

The paper argues that this trajectory risks transforming local self-government into a façade of autonomy. Although local governments formally exist as autonomous entities, their fiscal dependence on the centre increasingly resembles a deconcentrated administrative system in which local authorities primarily implement centrally defined policies.

For regional development, this shift is problematic. Effective place-based development strategies require local governments to have both the responsibility and the means to design and finance locally tailored initiatives. The growing reliance on targeted grants and discretionary central funding undermines this capacity and may lead to short-term, project-based interventions rather than coherent long-term development strategies.

Conclusions and Policy Implications

The paper concludes that Poland's experience illustrates a broader challenge faced by many countries in a transition era: decentralisation of responsibilities without corresponding decentralisation of revenue authority weakens local governments' role as development actors.

From a policy perspective, the results suggest that strengthening local financial autonomy, particularly through expanding genuine own-source revenues, could enhance local governments' incentives and capacity to support economic development. At the same time, such reforms need to be accompanied by well-designed equalisation mechanisms to address territorial disparities without eroding development incentives.

For regional scientists and policymakers, the study underscores the importance of looking beyond aggregate decentralisation indicators and examining the structure of local revenues. Understanding how revenue systems shape local governments' behaviour is essential for designing governance frameworks that support resilient and inclusive regional development.

By providing a long-term, data-driven analysis of local revenues and autonomy in Poland, this paper contributes to debates on governance, decentralisation, and regional development in transition economies. It demonstrates that local governments' ability to respond to global and regional challenges depends not only on their formal role in public expenditure but, crucially, on the fiscal incentives embedded in their revenue systems.