

## 2 The Structure of Government in Prague: Building a Strong Local State

### Prague's Contemporary Local Government in Comparative Perspective

In 1990 new national governments across East Central Europe introduced sweeping local government reforms that established a local political autonomy long absent from East Central European politics. Local government soon became a significant focal point of political activity. Nowhere were the new responsibilities of local authorities put to the test more rapidly than in the capital cities, where the impact of national market reforms was immediate and profound. To meet the challenges of urban development in post-communist capitals such as Prague, local political leaders needed to have at their disposal strong and well-organized powers and resources. In many cases East Central European national governments did not follow through on the local government reforms of 1990 in a way that would have provided political leaders in the capital cities a strong local state apparatus.

Working from an institutional design perspective, the literature on local and urban government in post-communist East Central Europe devotes much of its attention to this problem. After all, as Stephen Holmes (1996) observes, democracy cannot succeed if governments lack the resources and scope of authority to produce public goods and services. Two aspects of local institutional design stand out as particularly important for the region's capital cities: the need for strong, autonomous fiscal resources and the need to secure a citywide concentration of authority in policy areas where a citywide coordination of governing tasks is required. Evidence from both Western and East Central European contexts suggests that if either of these institutional

features is absent, local politicians face trade-offs with regard to systematic and open policymaking that worsen the prospects for strong local government performance. Fortunately, in the 1990s local government in Prague was substantially better off on these two fronts than its counterparts elsewhere in East Central Europe.

Local governments the world over often lack fiscal autonomy that is commensurate with their policy responsibilities, and as a result they are dependent to varying degrees on external funding. As many writers on Western local and urban politics point out, a democratic local government without sufficient revenue sources of its own often faces a trade-off. If it chooses to maximize its reliance on its own sources of revenue, it will in the process limit the range of policy initiatives that it can pursue. If it chooses to seek resources from external actors – such as national governments or the business community – to pursue a more fiscally demanding governing agenda, this agenda may become hostage to external interests, thereby limiting openness to the preferences of local citizens (Leo 1996: 91; Stone 1989).

Prior to 1990 the local state structures of East Central Europe depended almost entirely on national sources of revenue. Local finances were components of the national budget, and transfers from national accounts made up the majority of local revenues. Whether as grants for specific purposes or subsidies from the annual national budget, these transfers gave national governments strong control over local policymaking (Baldersheim and Illner 1996: 11). Throughout the region, the 1990 local government reforms were accompanied or followed by financial reforms that decreased transfers from national governments and increased the fiscal autonomy of municipalities.

As Table 2.1 shows, transfers from national governments as a share of local revenues decreased markedly in post-communist East Central Europe in the 1990s,<sup>1</sup> although there were major differences among countries. In Poland fiscal reforms in 1990 immediately made central transfers a minority source of local revenue, but these later grew again as local governments took on greater responsibilities for social services (Levitas 1999). By contrast, in the Czech Republic analogous reforms did not come into effect until 1993, but they had an immediate and lasting impact. By the late 1990s the dependence of Czech municipalities on fiscal transfers was far below the Western average of 35 per cent to 45 per cent (Keating 1991: 63). In Hungary the fiscal reform process and its effects were much more gradual, and at the end of the 1990s local governments remained strongly dependent on such transfers (see also Hegedus 1999).

Table 2.1. Central transfers as a percentage of total local government revenues, 1991–99

	1991	1992	1993	1994	1995	1996	1997	1998	1999
Poland	25.5	30.5	28.1	30.3	29.4	33.0	32.3	34.1	39.7 <sup>a</sup>
Hungary	67.0	61.6	64.1	63.0	59.8	55.1	50.9	50.1	49.3
Czech Rep.	86.0	78.7	30.3	27.6	26.8	37.5	24.7	23.7	22.0
Prague	75.3	63.9	29.8	12.7	12.5	21.3	18.7	16.7	15.8

Sources: Adapted and calculated from International Monetary Fund 2000, Levitas 1999, Bosáková 1999, Czech Statistical Office 1993, 1994, Prague budget documents.

'Central transfers' equal targeted grants plus general subsidies from national government.

<sup>a</sup> Includes the new *voivod* (regional) level of government.

The pattern of Prague's dependence on transfers (also shown in Table 2.1) broadly mirrored the pattern across the Czech Republic. After 1993, however, the city's dependence was well below the national average, as well as below the averages in neighbouring states. Buoyed by its strong economy, Prague reaped the fiscal benefits of guaranteed proportions of national taxes (primarily income tax), stipulated in the 1993 reforms, and these monies rapidly replaced national transfers as the dominant source of municipal revenue. The rates of such taxes – a major source of local government finance across East Central Europe – were subject to national control, limiting the extent to which the city could determine its overall level of revenues. Nonetheless, the rapid decline in transfers meant that from 1993 on Prague's political leaders were freer to choose how the city spent its money than were their counterparts elsewhere in the region.

Fiscal autonomy is of limited benefit to local political leaders if the sum of the fiscal resources they can muster does not match the breadth of their responsibilities. As discussed in Chapter 1, the responsibilities of local governments across East Central Europe vary by country, and they changed significantly in Poland during the 1990s. As a result, we cannot easily compare the fiscal strength of municipalities across the region by comparing total per capita expenditures. We can, however, get an approximate picture of relative fiscal strength by looking at two measures: the proportion of total expenditures spent on capital investments (mainly on physical infrastructure), as opposed to operating expenditures, and annual per capita capital investment figures (see Table 2.2).

Low and/or rapidly decreasing proportions of capital investment

Table 2.2. Capital investments of local government as a percentage of total expenditures

	1991	1992	1993	1994	1995	1996	1997	1998	1999
Hungary	16.4	19.3	19.3	22.7	17.2	15.9	19.4	19.9	17.6
Poland	26.0	23.5	25.4	18.6	19.3	19.0	20.7	19.9	13.2
Czech Rep.	30.8	39.3	35.2	37.1	38.2	30.7	33.8	32.9	31.4
Prague	34.6	49.9	43.9	49.1	45.9	40.4	41.1	42.0	33.0
Budapest	12.8	16.2	19.2	21.0	20.6	16.2	13.5	16.6	15.6

Sources: Adapted and calculated from International Monetary Fund 2000, Bosáková 1999, Levitas 1999, Czech Statistical Office 1993, Ebel and Simon 1995, Prague and Budapest budget documents.

Of the drop in capital investment of Polish municipalities between 1993 and 1994, 3%–4% is due to differing definitions of 'capital investments' used in Levitas 1999 (1991–93 figures for Poland) and International Monetary Fund 2000 (1994–99 figures).

are often a sign of local fiscal weakness and stress. In the immediate aftermath of the 1990 local government reforms, local political leaders in East Central Europe universally complained of insufficient finances (Swianiewicz et al. 1996). Data on capital investments tell a more complicated story. Municipalities in Hungary and in Poland spent similar proportions of their budgets on capital investment in the 1990s: 18.6 and 20.6 per cent, respectively. Despite the complaints of local politicians, this compares favourably with Western figures. In the late 1990s, municipalities in Germany, Britain, France, and the United States spent on average 16.7 per cent of their budgets on capital investments (International Monetary Fund 2000).

The real contrast here, however, is between Hungary and Poland and the Czech Republic. Czech municipalities averaged a much stronger 34.8 per cent of total expenditures as capital investment. This difference is even more pronounced if we look at the capital cities; Table 2.2 presents figures for Prague and Budapest.<sup>2</sup> Capital investment as a proportion of Budapest's expenditures tended to be somewhat below Hungary's averages in the 1990s, but in Prague it was far above Czech national figures.

Compelling as these differences are, the overall higher proportions of capital investment in the Czech Republic might partly be explained by the fact that Czech municipalities do not fund primary education, a major outlay for local governments in Poland and Hungary. Yet municipalities in Poland, Hungary, and the Czech Republic all have similar responsibilities for provision of physical infrastructure, the

Table 2.3. Municipal capital investment per capita (in U.S.\$)

	1991	1992	1993	1994	1995	1996	1997	1998	1999
Hungary	79.76	118.66	122.74	158.49	107.34	93.51	115.16	122.69	109.72
Poland	28.80	29.11	34.90	38.50	49.80	67.77	76.30	81.37	88.95
Czech Rep	n.a.	n.a.	105.30	139.45	184.13	186.15	155.74	156.19	159.95
Prague	n.a.	n.a.	225.34	314.41	374.56	359.55	296.72	301.24	252.08
Budapest	48.82	71.37	81.76	95.23	97.82	71.69	70.72	87.78	84.74

Sources: Adapted and calculated from International Monetary Fund 1999, 2000, Bosáková 1999, Levitas 1999, Czech Statistical Office 1993, 1995, 1997, Ebel and Simon 1995, Prague and Budapest budget documents.

Exchange rates used for calculation are annual averages for each data year.

dominant component of capital investment by local governments. We may therefore approach fiscal strength from another angle, comparing per capita capital spending in absolute terms; these data are shown in Table 2.3.<sup>3</sup>

By this measure, Hungary's municipalities appeared to be substantially wealthier than their counterparts in Poland in the 1990s, although still not as wealthy as Czech ones. In the city comparison Prague once again clearly emerges on top. In per capita investment terms, it was much wealthier than the average municipality in the Czech Republic, Poland, or Hungary, and clearly outpaced Budapest, the region's largest capital city. Indeed, on average it invested almost as much per capita in the 1990s as Western local governments did: U.S.\$302.97, compared with an average of U.S.\$387.13 for local governments in the four largest Western democracies.<sup>4</sup> In terms of fiscal autonomy and health, Prague's local government rapidly emerged as one of East Central Europe's strongest.

Post-communist East Central European urban governments experienced another key institutional design problem: the territorial fragmentation of authority. The reforms of 1990 were followed by widespread municipal territorial fragmentation. In large measure this was a natural reaction by newly elected local politicians to the history of centralized administrative rule during the communist era (Baldersheim et al. 1996: 25–6). Nevertheless, the negative impact of excessive fragmentation on the quality of urban development policy outweighed any anticipated benefits in terms of enhanced local democracy.

Many authors, especially those writing in the American public choice tradition, defend such fragmentation asserting that it enhances open-

ness to public preferences in distinct parts of the city (see Ostrom et al. 1988). While the debate is by no means closed, evidence from a wide variety of cases suggests that with respect to metropolitanwide urban development issues this goal is often undermined by other problems stemming from fragmentation. Small municipalities rarely have sufficient resources for large-scale infrastructure investment. Furthermore, a multiplicity of decisionmaking bodies may lead to deadlock on issues – such as transport – that cross fragmented municipal boundaries (Keating 1991: Chapter 5). If fragmented governments are to overcome this deadlock, they must delegate authority to specialized bodies, compromising their openness to the local citizenry. Like fiscal weakness, metropolitan fragmentation may produce a trade-off between pursuing systematic policies and remaining open to local preferences.

In the 1990 reforms, the capital cities of East Central Europe were treated as unique cases whose structure was designed independently of the structure of other municipalities. All of the region's capital cities came out of the 1990 reforms with multi-tier local structures that included a citywide level of government and at least one subsidiary level of district or borough government. In most cases, the net result was a fragmentation of municipal authority that hampered the emergence of systematic, open government. Let us look at Budapest and Warsaw as examples, and briefly contrast them with the case of Prague.

Budapest was divided into twenty-three boroughs in 1990, and each had the status of an independent municipality. The boroughs were granted the right to issue construction permits and became owners of land and housing units (Enyedi 1999: 6). A directly elected council for the whole city was to coordinate development through land use planning. This division of responsibilities soon led to deadlock on metropolitan issues. Gabor Demszky describes but one of many such instances: 'A famous case was a planned sewage treatment plant for which the municipality assigned an area in the master plan but the district [borough] refused to accept. Under those circumstances, it was a problem without a solution: the municipality did not allow any other use of the assigned area, while the district did not issue a building permit for the plant' (1998: 68).

In an effort to address such difficulties, the governing system in Budapest was significantly centralized in 1994. The city council's powers in urban development were expanded to include planning that was binding on the boroughs; and the city got some control over borough budgets. But another problem of fragmentation remained: Budapest

proper is surrounded by seventy-eight suburban municipalities. Until 1996 there was no coordination of urban development between the city and the suburbs, and conflict over priorities was endemic. In 1996 new national legislation created the Budapest Metropolitan Development Council as a coordinating body. This council was dominated, however by appointed members from national ministries, and thus accountability to the local public was sacrificed in the name of coordinated development (Enyedi 1999: 7–8).

Warsaw also came out of the 1990 reforms without an effective concentration of urban development powers at the citywide level. The City of Warsaw, which – like Budapest – does not cover the entire metropolitan area, was initially divided into seven boroughs that each had independent municipal status. As in Budapest, these boroughs owned property and had responsibility for most urban services and construction approvals. The city council for all of Warsaw, which had responsibility for urban planning, was indirectly elected from the ranks of borough councillors, leading to frequent conflict within the council among divergent borough interests (Suraszka 1996: 375; Judge 2000: 11).

In 1994 the Polish government reorganized Warsaw, increasing the size of the central borough and dividing it into seven districts, each with its own council and power over issuing construction permits (Judge 2000: 37). Metropolitan Warsaw now had another level of local government, which further fragmented authority over urban development. In 1999 regional reforms carried out with a view to Poland's European Union membership introduced yet another new level of elected local government, the *powiat*, or county. The new county covered the same geographical territory as the City of Warsaw, but had its own powers, mostly in the field of social services. Throughout the 1990s the metropolitan area also had a *voivod*, or regional, council with responsibility for regional planning. Warsaw thus had five levels of sub-national government, each with some responsibilities for urban development. The result was extremely slow policymaking and frequent deadlock (Judge 2000).

By contrast, Prague's post-communist local government structure was characterized by a much greater concentration of authority. In the 1990 reforms Prague became a single municipality with a directly elected city council. The municipal boundaries encompassed all of Prague's urbanized and suburban area, as well as a substantial portion of the surrounding countryside. The council elected from its ranks an executive board and the mayor, and these wielded much of the city's

day-to-day decision making power. As Annemarie Hauck Walsh submits, in her classic comparative study of urban government, 'concentrated executive power facilitates progress in coping with urban-development problems,' because large, infrequently meeting city councils tend to get overwhelmed by micromanagement in the absence of strong executives (1969: 105).

The 1990 reforms subdivided Prague into fifty-seven boroughs of widely varying size, and gave each its own elected council but did not make them independent municipalities. The city subsequently delegated administration of a number of services – most notably with regard to public housing – to the boroughs, but it maintained control over urban development. The city alone could own property and approve land use plans, although use of considerable property and the right to approve detailed development plans for specific areas were delegated to the boroughs. Planning permits and construction approvals were officially issued by municipal administrative bodies, but the executive board had the power to organize these bodies and appoint their personnel, which gave it an important indirect level of control.

In sum, post-communist Prague rapidly developed one of the most fiscally powerful local governments in East Central Europe, with a concentration of urban development powers at the citywide level. Why and how did this happen? If we look at the political conditions under which the local government reforms were carried out there is no immediately apparent answer. On the contrary, starting in 1990 the Czech national government espoused an agenda of radical, centrally led market reform that had little place for strong local government, and in the Czech Republic as a whole the local reforms of 1990 resulted in extreme municipal fragmentation.<sup>5</sup> These forces had an impact on the evolution of local government structures in post-communist Prague, but they were counteracted in crucial ways by the city's long history of strong metropolitan governing institutions.

### **Origins and Growth of Prague's Local Government to 1939**

Prague was never a typical East Central European municipality. The capital and largest city in the Czech lands, Prague for centuries had institutions whose scale and scope of operations surpassed those of most other municipalities in the region. By the same token, it was perennially torn both between the quest for local autonomy and the desire of higher levels of government to curtail its autonomy, and



between internal fragmentation and the search for a unified administration that could govern the development of the whole city. The interaction between these two tensions to a large extent shaped the development of the city's local government structures until 1939.

The origins of self-government in Prague date back to the thirteenth and fourteenth centuries, when four autonomous towns emerged – the Old Town, the Lesser Quarter, the Castle District, and the New Town – each governed by its own town council. During the next four hundred years the formal powers of the town councils waxed and waned, depending on the strength of their political influence vis-à-vis higher levels of government. Repeated attempts to unify the towns failed because of either infighting among local elites or intervention from higher levels of government afraid of the political and economic power of a unified city (see Ledvinka 2000: 13–29; Ledvinka and Pešek 1990: 4).

The successful unification of Prague's four medieval towns finally occurred in 1784, when the Habsburg Emperor Ferdinand I decreed their union as part of his empirewide drive to modernize administration. The new city council was placed under imperial supervision; in 1797 it was abolished altogether, ushering in five decades of absolutist administrative rule. During the first half of the nineteenth century Prague developed the foundations of a modern, professionalized civil service which came to be called the Magistrát (Ledvinka 2000: 63–6). This modern administrative apparatus – one that had the capacity to govern an emerging industrial metropolis – was, paradoxically, a consequence of the Habsburg imperial project of curtailing local political autonomy.

The revolutions of 1848 that shook the very foundations of Habsburg authority brought renewed self-government to Prague, within the framework of a new Municipal Code that applied to all of the Czech lands. The city's propertied burghers regained the right to elect a city council (*Zastupitelstvo*) with autonomous powers, which in turn elected from its ranks an executive board (*Rada*)<sup>6</sup> and the mayor (*Primátor*). In addition to basic responsibilities such as the budget and appointments to the Magistrát, Prague's autonomous powers (sometimes called 'own powers') included most areas directly pertaining to urban development – such as property management and the construction and maintenance of roads, lighting, sanitation, and water systems. When the Habsburg administrators introduced a Building Code in 1866, Prague and the suburbs that had started to spring up around it were given autonomous control over construction and urban planning

(Maier, Hexner, and Kibic 1998: 34). In addition to implementing council decisions on all of the above matters, the Magistrát carried out 'transferred powers' on behalf of the imperial administration. It received funding for the latter – which included keeping birth, death, and marriage registers and managing conscription and tax collection – from the imperial government and was subordinate to it in terms of policy in these areas of competence (Ledvinka 2000: 69).

During the next seventy years of rapid urban growth, Prague's civil service apparatus grew quickly to meet the needs of the new industrial metropolis. The city founded a series of municipal enterprises, such as the gasworks, the waterworks, and the tram service (see Horáček 1998: 177–215). The need to fund associated infrastructure investments led the city not only to borrow extensively, but also to get involved in large-scale speculative real estate dealings. By far the largest and most controversial of these was the decision in the 1890s to raze the medieval Jewish ghetto in the centre of the Old Town and redevelop the area as a high-end residential zone (Ledvinka 2000: 90–6).<sup>7</sup>

By the late nineteenth century, booming new suburbs stretched far beyond the medieval boundaries of Prague, and the city frequently ran up against geographical limits to its power to manage development. Both the city and the suburban municipalities increasingly made use of urban planning and design instruments, but there was little coordination among them. In the 1890s the city launched a campaign to annex the suburbs, whose total population was about to surpass that of Prague proper. The suburbs enjoyed the proximity of city services that they did not have to pay for, so they resisted annexation (Ledvinka and Pešek 1990: 4–5). With only a couple of exceptions, Prague's suburbs remained autonomous until after the First World War.

By 1920 Prague's suburbs themselves had begun to feel a need to coordinate planning and services with the city, and local opposition to annexation weakened (Ledvinka and Pešek 1990: 5–6). In this context, the newly independent Czechoslovak national government that emerged after the First World War issued the Law on Greater Prague in 1920. The city's administrative area expanded almost ten-fold to cover the entire metropolitan agglomeration. The new metropolis was governed by a two-level structure, with power centralized at the citywide level. Greater Prague became a single municipality comprised of nineteen boroughs, each with an elected council. But the powers of the boroughs were minimal and their budgets depended on the budget of the city (Ledvinka and Pešek 1990: 6).

The new City of Prague had a city council, now elected through universal suffrage, and from its ranks the city council elected an executive board and the mayor (Ledvinka 2000: 74–5). The distinction between own powers and transferred powers was retained, with both being administered by a Magistrát whose employees and structure were set by the city council. The new system was decidedly council-centred, with all significant ‘own power’ decisions directly in the hands of the council and its standing committees, as opposed to the executive board. The city retained autonomous control over a wide range of functions relating to urban development, including: municipal finances and property management; the provision of transport, sewage, lighting, water and other physical infrastructure; and the granting of building permits (Ledvinka and Pešek 1990: 6).

The national government was anxious to see Prague develop in a way that befitted its new status as a national capital, so the new practice of urban planning was taken out of local hands. In 1920 the national government established the State Commission for Regulation, a body appointed by and responsible to the national Ministry of Public Works. It was this body, rather than Prague’s city council and the Magistrát, that developed the first overall land use plan for Prague (Maier, Hexner, and Kibic 1998: 41). Thus, ‘the most significant legal document for urban development was beyond the control of local authorities ... the city’s construction administrators could not make autonomous decisions regarding any territory in Greater Prague, and had to seek the Commission’s approval for every intervention’ (Ledvinka 2000: 106).

The commission emerged in a context of a local public politicized over preservation issues in the wake of the razing and redevelopment of the Jewish Ghetto at the turn of the century. Not responsible to local politicians or local public opinion, the commission found itself the target of widespread criticism when it unveiled its master plan for Prague in 1929 – complete with ambitious proposals for a new network of high-capacity roads and large modern buildings in the historic core. As a result, Prague’s first master plan was never approved and few of its elements were realized (Maier, Hexner and Kibic 1998: 41). Prague’s urban growth continued to be regulated in piecemeal fashion. In the historic core, new development was almost completely banned in three districts (the Old Town, the Lesser Quarter, and the Castle District) and strictly regulated in the fourth (the New Town). Prague’s rapid growth during this period largely reached outward, and the core retained most of its old building stock.

Despite its lack of planning powers, Prague's city council was heavily involved in managing urban development throughout the interwar years. Under the leadership of Mayor Karel Baxa, who headed a coalition of political parties that governed the city uninterruptedly between the world wars, Prague further developed its municipal enterprises and launched a program to acquire municipal property. By 1936 the city had some 120 municipal enterprises and owned 679 buildings (including theatres, schools, hospitals, libraries, and rental housing units), close to a thousand pieces of urban real estate, and dozens of tracts of field and forest (Ledvinka and Pešek 1990: 8, 98).

This property brought the city some revenue. But Prague's large-scale infrastructure development program – which included the construction of rental housing, schools, and social welfare institutions (Horáček 1998: 300) – required massive investment. Throughout the interwar years, the city got a substantial proportion of its revenues from a wide range of local fees and taxes, most notably the rental tax and the property transfer tax (Ledvinka 2000: 93). These sources did not cover the city's capital investments, however, and municipal officials turned to long-term borrowing to raise funds for their ambitious construction program (Horáček 1998: 300).

### **Prague under Communist Rule**

The Nazi occupation of 1939–45 brought an end to Prague's self-government, and elected politicians were replaced by Nazi appointees. Liberated in 1945 after six years of occupation, Prague failed to fully regain its local autonomy. Anxious to put ideals of popular democracy into practice and to abolish vestiges of Habsburg administrative rule, the first postwar democratically elected Czechoslovak government introduced major local government reforms. Prague lost the dual system of own and transferred powers, while the boroughs were renamed districts and lost their limited autonomy. All local government power was formally vested in the hands of a citywide Central National Committee (Ústřední Národní Výbor, UNV), consisting of an assembly and an executive board. In contrast to the interwar years, most powers of decision were given to the executive board (Ledvinka 2000: 85).

Originally meant to strengthen the role of local elected officials vis-à-vis the state administration by abolishing transferred powers, in practice this unified system of local authority paved the way for a transition to a local state managed by the Communist Party of Czechoslovakia

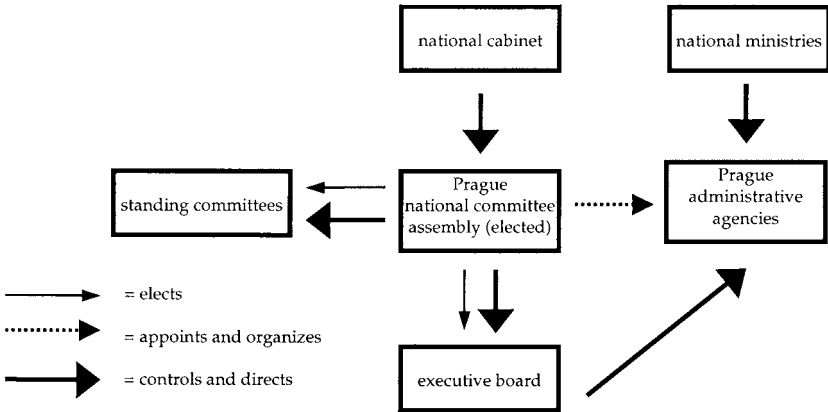
(KSC) and national government ministries. This transition began even before the communist coup in February 1948, since Prague's first post-war UNV assembly had not been elected, but rather appointed as a transitional body by the national government (Ledvinka 2000: 85). After the coup, the country's new communist leaders replaced most non-communist local politicians with communist political appointees chosen by the Ministry of the Interior. Formal elections did take place in 1954 and every three years thereafter, but henceforth all candidates were preselected by the KSC. Nearly four decades of Communist Party domination of the city's representative bodies followed (Horáček 1998: 450–2).

Intent on making Prague's local institutions into efficient instruments for building a new socialist order, the new regime at first retained the highly centralized model of decisionmaking introduced in 1945, with most powers of decision vested in the UNV's executive board. This system was now fully integrated as one of fourteen regional (*kraj*) administrations in a unified national system of administration, and lost all self-government powers. The assembly and executive board were directly subordinated to the national cabinet. Prague's administrative bodies, no longer called the magistrate, were subordinated to national ministries. The city lost its autonomous sources of revenue, and its budget became wholly dependent on national subsidies. Prague was redivided into sixteen districts, each governed by a District National Committee (Obvodní Národní Výbor, ONV) that had very limited powers. Informally, all of these bodies were also controlled by the parallel structures of the KSC, producing the classic communist-era 'dual subordination' of local political bodies to both higher levels of government and parallel party structures (Ledvinka 2000: 86–7).

After five years, the executive-centred character of this system proved to be too cumbersome, producing an overload of responsibilities at the top. Reforms at the end of the Stalinist period in 1954 strengthened the formal powers of the UNV assembly vis-à-vis the executive board. Another reform initiative in 1960 redivided the city into ten districts, renamed the UNV the Prague National Committee (Národní Výbor Prahy, NVP), and further increased the assembly's formal powers by introducing a system of standing committees (*komise*) under assembly control. This system, illustrated in Figure 2.1, remained unchanged until the end of communist rule (Ledvinka 2000: 86–7).

In practice, such structural reforms had little impact on the exercise of power. The NVP assembly and executive board remained dually subor-

Figure 2.1. Formal lines of authority in Prague at citywide level, 1960–89



Source: Adapted in simplified form from Grospič 1983.

minated to higher levels of government and to the parallel structures of the KSC (not shown in Figure 2.1) until 1989. De facto, these bodies were the primary arms of Communist Party authority in the city. The composition of the last NVP assembly before the 1989 revolution underlines the point. The assembly had 207 deputies, of whom 70 per cent were KSC members, 15 per cent were members of smaller parties under KSC control, and the rest were ‘independents’ who had been hand-picked by KSC officials (calculated from Prague National Committee 1989).

Despite the tight control over representative bodies, over the years, higher-level authorities and Communist Party officials slowly stepped back from micromanaging the city’s affairs. As a result, Prague’s administrative bodies gradually developed substantial autonomy in policy development and implementation. The massive nationalization of property that followed the communist coup in 1948 and 1949 had officially eliminated the City of Prague as a corporate property holder. In practice, though, most formerly municipal land and enterprises remained municipally managed, the stock augmented further by confiscated private holdings (Ledvinka 2000: 98). During the late 1950s the management of many other services, such as public housing, was decentralized from national ministries to the citywide national committee (UNV) or the district national committees (ONV) (Ledvinka

2000: 99, 108). By 1960 city administrative bodies and municipally run enterprises managed the majority of social and economic services in Prague, with the exception of industrial enterprises.

Despite this decentralization, until the early 1960s planning was still the responsibility of national ministries, resulting in a cumbersome asymmetry in which city affairs were administered locally but planned nationally (Ledvinka 2000: 87). The national government addressed this issue in 1961 by assigning urban development and planning powers to the City of Prague. This change opened the door to the creation of many new Prague-level planning and development institutions. A new Chief Architect's Office (Útvar Hlavního Architekta, UHA) was given full responsibility for formulating and overseeing the implementation of master plans for Prague's development. The General Investment Office (Útvar Generálního Investora, UGI) was created to manage the many municipal construction companies. A host of specialized planning and development agencies, such as the Transport Engineering Institute and the Prague Centre of State Monument Preservation and Nature Protection, also sprang up (Ledvinka 2000: 108).

During the remainder of the communist era, this conglomeration of planning, investment, and construction institutions continued to expand, through many organizational changes. Along with the expansion of municipally managed services, such as housing, health, education, and retail, this brought the total number of municipal employees in Prague up to a staggering 154,000 by 1975 – or more than 25 per cent of the city's entire workforce (Ledvinka 2000: 100). Political decisions within the Communist Party, channelled through local assemblies and executive boards, continued to provide the initial impetus for major urban development projects, such as Prague's massive housing estates and the subway system. Administrative bodies remained dually subordinate to both national ministries and the Communist Party, which controlled the purse strings for projects through the unified system of national accounts. During the 1970s and 1980s, however, the KSC increasingly took an arm's-length approach to governing urban development, and the city's planning and investment bureaucracy acquired correspondingly increased control over urban development policy.

This relative autonomy is clear from the recollections of long-time bureaucrats interviewed for this project: 'We often had trouble convincing political representatives of the merits of a project,' recalled a transport planner, 'but once we had succeeded in doing that, we pretty much had free rein to develop it ... The only common problem was a lack of funds to finish what we had started' (Interview 29). 'Overall, I'd

say that as professionals we got more respect from politicians during the old regime than now,' observed one former preservation official. 'There was the occasional nonsense that we fought in vain, like the destruction of the Těšnov railway station. In general, though, I'd have to say that our opinions were taken seriously' (Interview 19).<sup>8</sup>

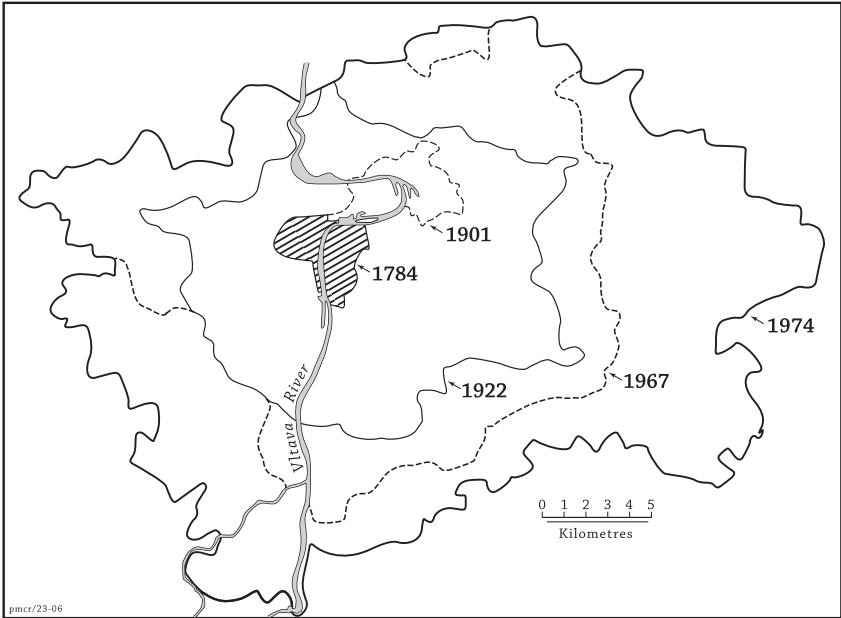
Throughout the communist era, development was guided by a series of detailed land use plans that dictated zoning and infrastructure development for the entire territory of Prague. Again, the broad outlines of these plans were set by national Communist Party priorities, but the details were increasingly left to local planners and administrators. An initial plan from 1953 remained largely unrealized, but the 1964 plan successfully introduced a policy of mass housing development on the city's outskirts that stayed in place through the rest of the communist era. The 1975 master plan furthered this policy of outward growth, coordinating Prague's development with that of the surrounding region. By the time the last communist-era plan was passed in 1985, fiscal constraints had led to a scaling back of development initiatives, and the plan focused mainly on completing the many housing and transport projects already under way (Maier, Hexner, and Kibic 1998: 51, 54–7). The planned outward growth of the city was accompanied by further territorial expansion. A total of fifty-one surrounding municipalities were annexed to Prague in two waves, in 1967 and in 1974. This increased the city's total area about three-fold, to 496 km<sup>2</sup>, and placed sizeable rural areas within its boundaries (Blažek et al. 1994: 76). The historical growth of Prague's municipal boundaries to this point is shown in Figure 2.2.

The geographical expansion of the city produced a complicated three-tier administrative structure. The annexed municipalities, reduced in number from fifty-one to forty-six through some amalgamations, retained their local national committees (Místní Národní Výbory, MNV) with basic control over local affairs. The ten already-existing district national committees (ONVs) were charged with administering additional functions for adjacent MNVs. In the late communist era, there was the Prague National Committee (NVP), which had most citywide planning and development powers; ten ONVs that administered social service functions, such as public housing and schools, for their own territory and that of the MNVs; and forty-six MNVs, which had limited local power over items such as community centres, parks, and shop licences (Blažek et al. 1994: 77–8).

By 1989 the local state in Prague was larger and possessed more resources than ever before. Its central organizing feature was a three-



Figure 2.2. Historical growth of Prague’s municipal boundaries



Source: Adapted and redrawn from Hrůza 1992: 77.

tier system of administrative institutions that planned and delivered urban development and public services in the context of a centrally directed economy. The influence of the Communist Party in Prague was exercised primarily through a system of national committee assemblies (one NVP, ten ONVs, and forty-six MNVs), all subordinate to the national government. Over time, the KSC became less involved in the day-to-day governing of the metropolis, creating significant space for the autonomous activity of urban development administrators working, for the most part, at the citywide level. The existence of this powerful set of institutions would have a strong impact upon the reconstitution of local self-government after 1989.

### **The Rebirth of Local Self-Government: The 1990 Law on Municipalities**

In November 1989 the wave of popular mobilization against East Cen-

tral Europe's communist regimes reached Czechoslovakia. Within a few short weeks the country's political elites, no longer able to rely on all-important Soviet military support, gave in to the demands of hundreds of thousands of protesters who packed the streets of Prague and other major cities. Roundtables between KSC leaders and representatives of the opposition umbrella group, Civic Forum, hammered out power-sharing agreements through which Civic Forum would replace 45 per cent of Communist Party delegates in national and local representative bodies with its own activists, producing interim assemblies that would govern until the first free elections in late 1990.

In Prague the process of replacing communist delegates in the local assemblies took place at all three levels (NVP, ONV, and MNV) in February 1990. Free local elections were scheduled for that November. But the first order of business was a fundamental reform of the basic structures of local government, a task that the still valid Czechoslovak federal constitution of 1969 delegated to the Czech National Council, the representative assembly for the western half of the Czechoslovak federation. As it was across East Central Europe, the re-establishment of autonomous local government in the Czech lands was seen as an integral part of the transition to a democratic political order. For Prague two key laws laid down much of the basic framework for the development of a self-governing city: the Law on Municipalities (no. 367/1990), and the Law on the Capital City of Prague (no. 418/1990).

The Law on Municipalities was passed in September 1990 and came into force on the day of the first free local elections, 24 November 1990. It laid out the broad framework for local government, within which a specific law for Prague was worked out. In designing the law, the Czech National Council worked with the chairs of regional administrative bodies, representatives of the Association of Cities and Towns (Svaz Měst a Obcí), and Prague's first post-communist mayor, Jaroslav Kořán (Lidové Noviny 1990a). Intent on overturning the communist-era model of local administration, the drafters of the law turned to the tradition of pre-Second World War local government.

The Law on Municipalities abolished the communist-era system of national committees dually subordinated to the national government and the Communist Party. It re-established municipalities as legally autonomous entities, entitled to own property and to prepare their own budgets (par. 4),<sup>9</sup> and once again, it granted 'own powers' to them. Own powers included: managing physical services such as water, lighting, roads, and sanitation; managing municipal property;

collecting and setting rates of local fees (laid out in a separate law, discussed below); keeping public order; and managing certain limited aspects of health, social services and education. In addition, for the first time since the downfall of the Habsburg Empire, the power to approve land use plans was vested in elected municipal officials (par. 14.1, par. 36.1).

As it had been before 1939, the primary responsibility for managing the municipality's own powers was given to directly elected municipal councils (*Zastupitelstva*). These councils, which were to hold meetings open to the public, were given power to approve all major own power municipal decisions, including the creation of municipal enterprises and the sale or acquisition of property. They could pass by-laws (*vyhlášky*) in all areas pertaining to the municipality's own powers. In addition, city councils were to approve land use plans, elect from their ranks an executive board (*Rada*) and the mayor (*Starosta* in smaller municipalities and *Primátor* in large cities), and decide which councillors, if any, would be employed on a full-time basis (par. 36.1).

Compared with the governing structure in Prague before the Second World War and the communist-era structure after 1960, the Law on Municipalities increased the powers of the executive board. This concentration of power in the executive reflected the concern of the legislation's drafters with encouraging effective and cohesive local leadership (Lidové Noviny 1990a). Executive boards, which would meet behind closed doors, were given responsibility for the day-to-day management of municipal affairs, including the right to control and direct the activity of administrative bodies in areas of municipal jurisdiction. In addition, they had personnel and organizational control over the municipal civil service as a whole, including the right to create new departments and appoint their heads, and the right to appoint the municipal secretary, that is, the chief administrative officer. Executive boards also were given the right to create and appoint standing committees, which had been creatures of the city council during the pre-communist period (par. 45).

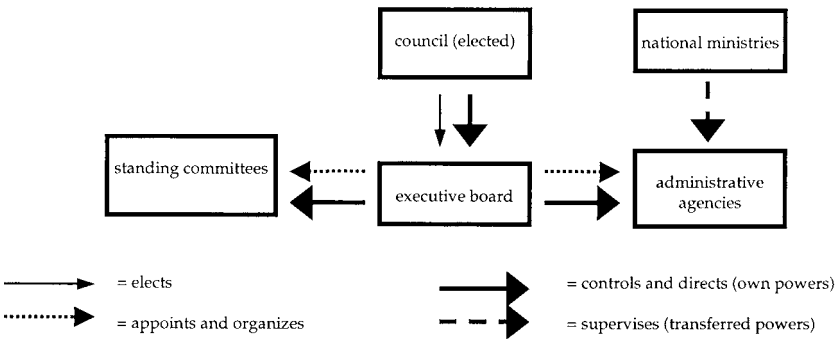
The drafters of the law were concerned as much with promoting the development of political parties at the local level as they were with encouraging effective and cohesive local leadership (Lidové Noviny 1990a). As a result, they shied away from introducing a strong-mayor model of government. Instead, they turned to Czech historical precedent and reintroduced the model of a mayor as 'first among equals.' Like the executive board, the mayor was to be elected from among the

ranks of the city councillors, and had only a few powers separate from those of the board as a whole, involving ceremony, external representation, and emergencies (pars. 52–55). Czech municipalities would thus be run by a strong but collective executive body, which offered relatively little independent power to mayors.

The Law on Municipalities also re-established the responsibility of municipalities to carry out the ‘transferred’ tasks delegated to them by the national government. As had been the case before 1939 these functions were to be paid for by the national government and were subject to regulation and review by national ministries. They were, however, to be administered by the same bureaucracy as areas of municipal jurisdiction (par. 21.2, 21.3). In large cities such as Prague, the municipal bureaucracy regained the traditional designation of ‘Magistrát.’ Local politicians were given no policymaking power in areas of transferred competence. Significantly, however, executive boards would have the potential to influence decisions in areas of transferred power indirectly, through their control of personnel appointments and the organizational structure of municipal administrative bodies. Furthermore, through responsibility for land use planning instruments, councils also gained opportunities to influence the way in which many transferred powers, such as land use permits and historical preservation controls, were exercised.<sup>10</sup> The lines of authority in Czech municipalities according to the Law on Municipalities are shown in Figure 2.3.

In specifying the range of transferred powers to be delegated to the municipal level, legislators ran up against the issue of differentiation between small and large municipalities. During the communist era, small municipalities had been governed by local national committees (MNV), medium-sized ones by district national committees (ONV), and larger cities by city national committees (such as Prague’s NVP). In each case, the administrative bodies of these units had had different sets of powers. Furthermore, the communist state had been divided into administrative regions, which were now abolished, since they were seen as symbols of a bloated bureaucratic machine (Geussová 1990). The Law on Municipalities created out of this complexity two categories of municipalities with different transferred powers. Small municipalities that had had MNVs retained MNV-level powers. Larger municipalities that had had ONVs or city NVs received ONV-level powers and some, although not all, regional-level powers (par. 60). Prague, however, was in a unique position among municipalities; it was the only municipal unit whose

Figure 2.3. Formal lines of authority according to the 1990 Law on Municipalities



boundaries covered all of what had been a region. The precise assignment of powers transferred to Prague was left open, as it would be dealt with in a separate new Law on the Capital City of Prague.

### The Rebirth of Local Autonomy: The Law on the Capital City of Prague

In Prague, the process of preparing the new Law on Municipalities raised little debate or controversy. Instead, during the spring and summer of 1990 the city's interim political representatives focused on the preparation of the Law on the Capital City of Prague. All interested parties agreed that Prague ought to return to the pre-communist tradition of being governed by a separate law that reflected the city's unique status. Opinions differed greatly, however, on the shape that this document should take. The key controversy was over whether Prague should be governed in a centralized or decentralized fashion.

This controversy pitted politicians and bureaucrats from the ONVs and MNVs against representatives of the NVP and the national government. ONV and MNV politicians, assembled in the Prague Council of Cities and Towns (*Pražská Rada Obcí a Měst, PROM*), argued that in the new era of democracy Prague needed to be governed in a decentralized way so that it could be responsive to the wishes of the local citizenry. This position was supported by some citizens' groups that had emerged out of the anti-communist protest of 1989 (Pešek, Pithartová, and Pospíšilová 1990). These 'decentralists' proposed that Prague be a

confederation of independent municipalities, bound together only by voluntary cooperative agreements (Ledvinka and Pešek 1990: 9).

By contrast, representatives of Prague's interim NVP and many national legislators claimed that the decentralists – at least the ONV and MNV politicians among them – were less interested in local democracy than in preserving their newly found positions of power (Interview 33). They argued that the historical record in Prague demonstrated the superiority of a strong centralist model. In the summer of 1990, the Prague council of the Civic Forum movement issued an endorsement of this centralist vision:

While there is certainly no quick recipe for fixing [Prague's] accumulated problems, historical experience does provide us with a relatively optimal model for the organization of Prague and for finding a way out of the crisis of a neglected metropolis: a return to the successful interwar model of Greater Prague as a single municipality ... we dare say that only a strong executive board heading an integrated metropolis will be a sufficiently strong partner for the Czech and Federal governments, and for large international investors in negotiations over the conditions of their functioning on the territory of Prague. Only an internally strong city government can rationally manage city property (assuming the city's property will be returned by law) and thoughtfully link property investment to satisfying the needs of the city and its boroughs. (Ledvinka and Pešek 1990: 9–10)

Accordingly, the interim NVP assembly drafted a law on Prague, which was endorsed by the Czech government in August 1990. It reinstated the interwar model of Prague as a single municipality divided into boroughs, which would have elected councils but would not have municipal status, meaning that they could not own property and would not have a right to autonomous sources of revenue (Czech National Council 1990). Although the draft did propose to grant boroughs a few autonomous powers, it raised a storm of protest from decentralists (Lidové Noviny 1990b; Pospíšilová 1990). They complained that boroughs would be dependent on the city for their property and budgets, and accused the drafters of the law of behaving paternalistically towards citizens who were assumed to 'not [be] ready to manage their own affairs' (Pešek et al. 1990).

As a result of this outcry, PROM was invited to help develop a second draft. Historical arguments regarding the importance of a unified

municipal unit once again won out over decentralist objections. 'We had modern historical experience on our side, and that was an argument that couldn't be ignored,' says one Prague politician who was involved in the drafting process. 'The decentralists only had Prague's distant past, which wasn't exactly very relevant to the needs of a modern metropolis, as well as some fairly obvious self-interest' (Interview 41). In addition, advocates of centralism pointed to the activities of some long-time ONV and MNV bureaucrats after the fall of communism as evidence of their 'real' motives for embracing decentralization. They noted the proliferation in 1990 of cases in which ONV or MNV staff took advantage of the inexperience of new local politicians to profit from managing state property under their control and argued that only a centralized system of local government could introduce clear accountability and put a stop to such practices (Šindelářová 1990, Plechát 1990). In the end, the Law on the Capital City of Prague, passed in October 1990, retained a local government structure strongly centralized at the metropolitan level.

The new law – which, like the Law on Municipalities, came into force on 24 November 1990, the day of the first free local elections – made Prague a single municipal unit with a city council, executive board, mayor, and bureaucracy (Magistrát), set up in accordance with the Law on Municipalities (par. 1).<sup>11</sup> The city was divided into fifty-six boroughs, whose elected and administrative institutions were organized according to the Law on Municipalities, but which lacked municipal status. Borough boundaries corresponded with those of ONV and MNV units during the previous regime (par. 2). This continuity with past boundaries was a concession to ONV and MNV politicians and administrators, who if they could not have powerful boroughs were at least dead set against amalgamations or boundary changes (Interview 11). The net result was that Prague had many more boroughs than it had had during the interwar years. They varied immensely in terms of population, from nearly 144,000 to a mere 218 inhabitants. The former ONVs formed a cluster of large, urban boroughs with over 30,000 people each, while the former MNVs formed a ring of small boroughs around them (Blažek et al. 1994: 81).

As a municipality, Prague got all of the standard own powers of Czech municipalities. The law granted boroughs some of these powers, most notably the power to approve development programs (but *not* land use plans) for their territory,<sup>12</sup> develop their own budgets, establish and manage enterprises, and manage property delegated to

them by the city. Other powers could be delegated to boroughs by the city by way of a city charter (*statut*) to be passed later on by the city council (par. 8, par. 24). Boroughs could not actually own property and had no access to autonomous sources of revenue. The division of property and revenues between the city and the boroughs was also left to codification in the city charter (par. 20).

Prague was the only territorial unit that had also been a region before 1990. The drafters of the Law on the Capital City took advantage of this fact to mandate continuity in the structure of transferred powers in the city. City administrators got the full range of what had been regional powers (par. 14), and Prague thus gained the most powerful local administration in the post-communist Czech Republic. Borough offices formerly at the ONV level got ONV-level powers, while borough offices at the MNV level got MNV-level powers (par. 14). In other words, the Law on the Capital City of Prague retained the three-tier administrative system introduced in 1974, in which administrative bodies in the ten large boroughs carried out functions for their own territory, as well as for the territory of adjacent small boroughs that had more limited administrative powers. As was the case with own powers, the city council had the discretion to decentralize more transferred powers in the future through the mechanism of the city charter (par. 20).

Even though the Law on the Capital city of Prague established a strong metropolitan authority, some analysts argue that the city still experienced the territorial fragmentation that was characteristic of other post-communist East Central European capitals. Wisla Suraszka groups Prague with Budapest, Bratislava, and Warsaw as a typical East Central European capital city in which boroughs got 'vast prerogatives' after the fall of communism, and 'the city government found it increasingly difficult to cope with [their] aspirations' (1996: 375, 379). Since Suraszka bases her interpretation partly on interviews with city-wide political leaders, this conclusion is understandable. Following the municipal elections in November 1990 (see Chapter 3), these politicians faced pressure from the boroughs to further to decentralize powers and resources. But a closer look at the sphere of urban development reveals that most key powers and resources remained citywide.

The Law on the Capital City gave boroughs autonomous powers to manage property delegated to them by the city, but the city remained the sole owner of municipal property. Even before the scope of the city's property became clear (see below) the boroughs demanded the delegation of municipal property on their territory (Lidové Noviny



1991b). Passed by the city council in June 1991, Section II of the city charter did delegate the management of much property to the boroughs. It generally consisted of existing physical amenities and services – such as schools, parks, recreational centres, and most significantly, the city’s massive public housing base. By contrast, despite strong objections from borough politicians the city retained control over most of its valuable open land, and included in the charter provisions for regaining control of property that it might need for urban development (Lidové Noviny 1991a, 1991b).

By retaining control over strategic municipal property, the city council retained the resources necessary to complement its power to approve land use plans for the city. Furthermore, most urban development bodies, including land use planning and historical preservation offices, remained at the citywide level. Although these were formally state administrative bodies operating in areas of ‘transferred power,’ the citywide executive board could strongly influence their functioning by exercising its personnel and organizational powers over them. In the case of planning bodies, in fact, ‘transferred’ status was little more than a formality, because the city council had to approve any planning documents that they produced.

The development permits process, another ‘transferred’ area of competence, also remained largely centralized at the citywide level. In the Czech Republic’s municipalities, development approvals are a two-step process: first, a planning permit that confirms that a project is in accordance with the municipal land use plan must be granted; then, a building permit approving the technical details of the project must be issued. In post-communist Prague, the planning permit office remained at the citywide level, where elected officials could influence its decisions both by approving land use plans and by making decisions about staffing and organizational structure. Building permit offices were partly decentralized, with permits for most structures issued by administrative bodies in the city’s ten large boroughs. The building permit office for all major transport-related construction (freeways, as well as tram and subway lines) remained at the citywide level, however (Interview 15). In all cases, in addition to their personnel and organizational control over the civil service institutions at their level of government, elected officials at both the city and the borough levels had a right to participate in planning and construction permit proceedings, and to appeal decisions made in these proceedings to national ministries (Interview 15).

Throughout the early 1990s, borough politicians continually pressed

the city to delegate more transferred powers (see Votoček 1994). Longer-term stability in the division of transferred powers came in 1994, when the city council passed the relevant section of the city charter (by-law 38/1994). The result of several years of political wrangling between the city and the boroughs, this document further complicated Prague's administrative system. It created *four* tiers of boroughs with differing transferred powers, in contrast to the two recognized in the Law on Municipalities (by-law 38/1994). Some urban development powers were decentralized – for example, the number of building permit offices was expanded to twenty-six (Interview 15). However, despite this lower-tier complexity, most key urban development powers remained at the citywide level.

One way to assess the balance of power between the city and the boroughs in post-communist Prague is to look at their relative shares of total municipal expenditures. Although figures are not available for all of the 1990s, those for the middle of the decade show a clear concentration of resources at the citywide level (Table 2.4).

Furthermore, borough budgets remained heavily dependent on the redistribution of municipal revenues by Prague's city council, considerably weakening the boroughs' fiscal autonomy (Bosáková 1999). If low expenditures by the boroughs and their budgetary dependence indicate a lack of resources at the borough level, however, we need also to examine the fiscal position of post-communist Prague as a whole. If the city as a whole did not develop strong fiscal resources, the formal powers of politicians would have been of limited use in managing the challenges of post-communist urban development.

### **Fiscal Health and Autonomy**

We saw at the outset of this chapter that Prague in the 1990s was one of the most fiscally powerful cities in East Central Europe. However, this was not the case immediately after the fall of communism. The Law on Local Fees (no. 565/1990), passed in December 1990, was a first step towards re-establishing autonomous sources of revenue for municipalities. It entitled them to collect and set rates for a variety of local charges, including fees on alcohol and tobacco sales, hotels, and public parks. The range, however was restricted by a Czech government anxious to limit public spending in the context of the transition to a market economy (Interview 21). As a result, local fees in the 1990s were responsible for a much smaller proportion of total municipal revenues

Table 2.4 Shares of total expenditures by City of Prague and its boroughs (%)

	1993	1994	1995	1996	1997
City of Prague	70.9	74.5	75.6	71.8	79.6
57 boroughs	29.1	25.5	24.4	28.2	20.4

Source: Data taken from Bosáková 1999.

than they had been during the pre-communist era – less than 2 per cent on average (Bosáková 1999; Prague budget documents).

As we saw above, the Law on Municipalities also gave the city the right to manage its own property. In many East Central European municipalities, selling municipal property became a major, although clearly unsustainable, strategy for dealing with fiscal stress in the early 1990s (see, e.g., Devas 1995). Prague, however, chose to sell relatively little of the extensive property that it got in 1991 and 1992, and rental income from municipal holdings did not meet expectations (Hospodářské Noviny 1993). As a result, revenues from municipal property peaked at 7.4 per cent of total revenues in 1993, and generally formed only a minor component of overall budgets in the 1990s (Bosáková 1999; Prague budget documents).

In contrast to the pre-communist era, the majority of Prague's revenues in the 1990s came from sources other than local fees and the management of municipal property. Until 1993 the national treasury remained the dominant source. In 1990 the communist-era practice of financing municipalities through targeted grants was replaced by a system of general-purpose subsidies, with the aim of increasing municipal discretion over spending (Dušková 1997: 30). In 1991 and 1992 the vast majority of Prague's revenues came from such subsidies (see Table 2.1), but these were subject to yearly negotiation, leaving the city vulnerable to changes in national priorities. Preparing the budget involved lengthy haggling with the national government over subsidies, which usually were lower than the city had hoped (Kvačková 1991a).

The scope of Prague's fiscal outlays was changing in 1991 and 1992 with the ongoing privatization of some municipal services. As a result, we cannot usefully compare budget totals for the late 1980s and early 1990s to assess the fiscal health of Prague. Indirect evidence suggests that the city did experience a fiscal crunch in 1991 in particular. In this year, work on many major infrastructure projects in the city slowed

significantly because of the lack of money (Lidové Noviny 1991c; Handl 1992). Overall, the proportion of the city budget spent on capital investments in 1991 was substantially lower than it became in subsequent years (see Table 2.2).

Prague's fiscal autonomy and health both got a strong boost with the introduction of a new local finance system at the beginning of 1993. Shared national taxes, rather than subsidies, became the key source of municipal revenues. Prague was given the right to keep 100 per cent of all personal income taxes and property taxes collected on its territory. Rates of these taxes were set nationally, so the city was not able to influence the volume of these all-important sources of revenue. In comparison with the interwar years, during which Prague had got much of its revenues from local taxes whose rates it could set, the city's power to determine its revenue was thus weaker. Nonetheless, the city's dominant source of revenue was now much more stable than it had been during 1991 and 1992, and the money could be spent as the city wished.

For the remainder of the 1990s, Prague received between 50 per cent and 75 per cent of its total revenues from shared national taxes (Bosáková 1999; Czech Statistical Office 1999; City of Prague budget documents). By far the more significant of the two national taxes that the city received was the personal income tax, because property taxes remained little more than symbolic. As a result of Prague's prosperity in the 1990s, revenues from personal income taxes grew quickly, contributing to a 20 per cent rise in the real revenues of the city between 1994 and 1996 (calculated from Bosáková 1999).

In 1996 the national government once again intervened. It altered the local finance system to decrease regional disparities in revenue resulting from differential income tax bases. Thirty per cent of personal income taxes collected in Prague now went to the national government, and were replaced by 20 per cent of corporate income taxes, distributed by population rather than by place of collection (Blažek 1996). This change, while beneficial to the Czech Republic's poorer municipalities, had a negative impact on Prague, which lost about 10 per cent of its revenue base (Dušková 1997: 30).

By this time, Prague had built up sufficient physical assets and was fiscally sound enough that it could issue long-term bonds on the international market. In the later 1990s local politicians, pointing to the extensive use of bonds in pre-Second World War Prague, increasingly turned to this strategy to raise funds for investment in infrastructure. An initial bond issue in 1994 – the first international bond issue made

by any East Central European city – was gradually used during subsequent years to fund roads and housing projects, and it was followed by a second issue in 1999 (Čápková 1994; Paroubek 1999). In this way, Prague was able to maintain a level of capital investment that was the envy of other cities in the region (Tables 2.2 and 2.3).

### **Rebuilding the Municipal Property Base**

The right to own and manage property was returned to Czech municipalities through the 1990 Law on Municipalities. How much property they would have remained an open question, as the processes of post-communist property transfer had not yet begun. Consequently, securing a strong property base became a priority for the Civic Forum government that came out of Prague's elections of November 1990. Despite the national government's intention to place most property in private hands, Prague managed to take advantage of its historical record of property ownership and property management to secure a strong municipal property base.

During the communist era, the scope of municipally managed property in Prague had grown to encompass the majority of land, buildings, and non-industrial enterprises. In formal terms, however, this property was owned by the state, and the NVP, ONVs, and MNVs had no right to dispose of it freely. In 1990 the reintroduction of municipal autonomy was supposed to be accompanied by a new Law on Municipal Property that would delimit the scope of property to be transferred. As had happened with the Law on the Capital City of Prague, the first draft of the Law on Municipal Property ran into trouble.

Prepared by the Ministry of Finance in consultation with the Association of Cities and Towns, the draft law proposed a *de facto* continuity with the communist era, transferring to municipalities all property and enterprises previously managed by their respective MNV, ONV, or city national committee administrations (Weiss 1991). However, such a massive transfer would have placed most state property aside from industrial enterprises in municipal hands, crippling the national government's planned privatization program. As a result, the draft died before it reached the Czech National Council, and a Law on Municipal Property was not passed before the first municipal elections.

During the following two years, the transfer of property to municipalities was subordinated to the twin national goals of restitution and privatization of property (Weiss 1991). Academic analysts of politics in

post-communist Prague, most notably Luděk Sýkora, have seen the precedence given nationally to restitution and privatization as fundamentally weakening ability of local government to control urban space (1994: 1158). In comparison with the communist era, when municipal administrations had comprehensive control over everything from the location of shops to the allocation of state flats, this claim is certainly true. Restitution – the return of buildings, land, and businesses to their pre-1948 owners or their heirs – started in 1991, and quickly transferred much property, including up to 70 per cent of the housing stock in some inner-city boroughs, to private owners (Sýkora and Šimoničková 1994). In 1991 and 1992 small businesses not subject to restitution were privatized, taking some 2,500 shops out of municipal control (Sýkora 1993: 285). Together with the deregulation of rents and land prices these processes helped produce the transformation to market-led urban development desired by the national government.

For a local government now operating in an emerging market economy, Prague nonetheless secured extensive property holdings in the early 1990s. The city got a first wave of property through the Law on Municipal Property, passed in amended form in April 1991. For land and buildings the new law used 1948 as its reference date and returned to municipalities real estate that they had owned at the time of the communist takeover. For Prague, which had built up a strong property base during the interwar years, this meant the return of hundreds of buildings and large tracts of land. ‘In a very important sense, we were lucky that [interwar] mayor Baxa had acquired a lot of property for the city,’ remarked one planner interviewed for this project. ‘The property we managed during communism was up for grabs, but with the rest of it we could tell [national legislators]: look, if individuals who lost property [during the communist era] should get it back, why shouldn’t the city?’ (Interview 8).

In the Old Town and the Lesser Quarter alone the city regained ownership of about 150 pieces of property, including key public buildings such as concert halls and libraries, as well as the majority of the historic core’s scarce and lucrative vacant building lots (Schreib 1991). Prague also recovered 20 square kilometres of empty development sites on the outskirts of the city’s built-up areas, which amounted to about 10 per cent of all open land within municipal boundaries (Kvačková 1996a). Despite some initial difficulties in documenting the extent of Prague’s historic property (Schreib 1991), within a couple of years the city had recovered the great majority of its prewar buildings and land.

In addition, the Law on Municipal Property gave municipalities ownership of all state housing not subject to restitution. Although much housing in the older parts of Prague was restored to its owners, overall the city ended up with ownership of over 70 per cent of state housing, or about 50 per cent of all housing in the city (calculated from Eskinasi 1995: 535). Much of this was in the communist-era housing estates, which fell almost entirely into municipal hands. Unfortunately for the city, the national government did not relinquish control over rents as part of this transfer of housing. While some deregulation was allowed, rents in most communist-era housing estates remained minimal throughout the early 1990s. In combination with the high upkeep costs of these poorly constructed buildings, rent control made housing a fiscal liability, rather than a useful asset, for the borough officials who controlled the housing stock (Eskinasi 1995; Horak 1998).

In contrast to land and buildings, municipal enterprises were not automatically transferred to the city by the Law on Municipal Property. Rather, they were slated for privatization by the national Ministry of Privatization. The city could compete with private investors for the right to own entire enterprises or to acquire specific assets from enterprises slated for liquidation (Večerní Praha 1991b). This process got off to a rocky start in 1991. City councillors were divided on the issue of how much property the city should keep, with some arguing that acquiring extensive municipal property amounted to 'municipal socialism' and undermined the national goal of building a market-based economy. Bureaucrats, for their part, were often slow to produce the documentation needed for a transfer of title (Večerní Praha 1991c). In the meantime, the national government privatized many formerly municipal enterprises (Kuncová 1994).

After some months of debate city councillors voted in late 1991 to request the transfer of extensive enterprise property, with the aim of privatizing some, while keeping a controlling share of ownership in key municipal enterprises (Večerní Praha 1991c). Subsequently, most physical services were successfully transformed into joint stock companies in which the city owned a controlling share. These included the transit service, road repair, sewage, water, and sanitation companies (Information Centre of the Department of External Affairs 2000; Dušková 1997).<sup>13</sup>

In addition, the city filed several hundred requests for individual buildings or land belonging to municipal enterprises slated for liquidation, such as the old communist-era housing construction firms

(Kvačková 1992). Despite frequent conflict with the Ministry of Finance over what property the city should get, one former executive board member asserted that ‘individual decisions by the ministry ultimately brought us the most valuable property in terms of urban development’ (Interview 9). Indeed, one single transfer in 1992 alone brought the city open land for development worth some Kc 100 billion (U.S. \$3.7 billion). As of 1997, the city estimated its fixed assets at Kc 181 billion (U.S. \$6.7 billion) and had Kc 43 billion (U.S. \$1.6 billion) in shares in thirty-six companies, making it one of the largest property owners in the Czech Republic (City of Prague 1998; Kvačková 1996b; Achremenko 1997; Dušková 1997: 37).<sup>14</sup>

### **Conclusion: History and Contemporary State-Building in Prague**

At the citywide level, the municipal government in post-communist Prague quickly developed the strong base of powers and resources that local politicians needed to systematically govern urban development on the basis of local preferences. Although in some respects the structure of the local state was by no means ideal – for example, some administrative functions were divided in a complex fashion among different categories of boroughs – in general, post-communist Prague avoided the twin problems of fragmentation and fiscal weakness that plagued other post-communist East Central European capitals. The city owed this outcome in large part to historical precedent. Prague’s history of metropolitan government and its ownership of extensive property in the pre-communist era gave power to those who argued for a strong, resource-rich metropolitan authority, blunting the impact of interests that favoured municipal fragmentation and the wholesale privatization of municipal property. An extensive network of administrative bodies inherited from the communist era meant that the city could continue to execute a wide range of transferred powers without having to engage in extensive development and reorganization of the municipal civil service.

The development of local government structures in post-communist Prague provides support for those who claim that early writers on post-communist institutional design tended to ignore important historical variables. As we saw in Chapter 1, institutional design theorists argued that ‘relative power balances and bargains struck between a few elite actors provide a central explanation for the shape of the new institutional framework’ (Crawford and Lijphart 1997: 15). More recent work



suggests that the range of institutional options considered and the choices made among them were strongly influenced by past institutional histories. Some authors point to the shape of communist institutions as a powerful influence on post-communist institutional design (Bunce 1999; Stanger 2003), while others suggest that post-communist decisionmakers drew on 'institutional patterns re-membered and reflexively adopted from the storehouse of their national history' (Elster et al. 1998: 295; see also Petro 2004). Both of these factors are evident in the case of Prague.

Although the interaction of local and national political elites clearly shaped Prague's post-communist government structure, those who argued for a strong metropolitan Prague gained the advantage by being able to point to the city's pre-communist governing traditions. The strong, centralized administrative apparatus inherited from the communist era bolstered the centralists' position by making a transition to their vision of a metropolitan authority more feasible. In short, pre-communist and communist-era history mattered a great deal to the contemporary shape of Prague's local state, both by providing historical templates of successful institutional forms and by leaving behind a legacy of existing institutions that the designers of Prague's post-communist government structures could build on.

Like most analyses of post-communist institutional design, this examination of the origins of contemporary municipal government in Prague focuses on state institutions and on the way in which these structure the powers and resources available to political elites. It thereby isolates the structure of state powers and resources from the broader configuration of political institutions that make up the local political system. A strong state is a necessary condition for the emergence of systematic and open rule, but as we saw in Chapter 1, it is not a sufficient condition. A broad configuration of institutions – including administrative structures, legal frameworks, the political party system, and the civic interest group system – affects the prospects for good government performance. Many of these institutions tend to change at a slower pace than basic state structures. Even after the 1990 local government reforms, Prague's political leaders operated in a broad environment filled with a disparate mix of old and new political institutions. The characteristics of this environment, and their implications for the decisionmaking behaviour of political leaders, are the subject of the next chapter.