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Local Government Reform across Developed Countries: A Guideline for Comparison*

Barbara Ermini and Fabio Fiorillo

Università Politecnica delle Marche e OPERA

Abstract: When we look at local government practice across the advanced nations we observe a very heterogeneous picture since countries have arranged their local public sector in different ways. Over the last two decades the majority of such countries have introduced intense structural reform. This is due to the increasing number of functions, responsibilities and objectives assigned to local governments as implication of new and more modern models and principles of local governance (for example, a significant challenge is represented by the fiscal federalism and new public management). To draw out 'stylized facts' to link the diversity and differences which characterizes these local government experiences is not an easy attempt but it deserves attention. Discerning regularities among alternative patterns of local government development can help to improve the understanding of how different dimensions of local government interact with existing institutional setting in order to achieve better performance (i.e., economic efficiency, accountability, democracy, etc) at the lower level of government. Finally, this exercise can be useful to policy makers seeking informed policy options when design optimal intergovernmental relations and structural reforms.

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Centre for Local Government, School of Business, Economics and Public Policy, University of New England, Armidale NSW 2351. Phone: + 61 2 6773 2500, Fax: + 61 2 6773 3596. Email: bdollery@une.edu.au

Introduction

When we look at local government practice across the advanced nations we observe a very heterogeneous picture since countries have arranged their local public sector in different ways. Over the last two decades the majority of such countries have introduced intense structural reform. This is due to the increasing number of functions, responsibilities and objectives assigned to local governments as implication of new and more modern models and principles of local governance (for example, a significant challenge is represented by the fiscal federalism and new public management). To draw out ‘stylized facts’ to link the diversity and differences which characterizes these local government experiences is not an easy attempt but it deserves attention. Discerning regularities among alternative patterns of local government development can help to improve the understanding of how different dimensions of local government interact with existing institutional setting in order to achieve better performance (i.e, economic efficiency, accountability, democracy, etc) at the lower level of government. Finally, this exercise can be useful to policy makers seeking informed policy options when design optimal intergovernmental relations and structural reforms.

To this aim, we focus on seven developed countries, that is Australia, Canada, France, Germany, Italy, New Zealand and Spain¹. These countries present heterogeneous historical background that could have engendered the observed differences with regard to their governmental structures, the relative importance of local government expenditure in national income and the functional responsibilities of local government. In addition to this cross-countries differences, even within a single country each local government often pursues objectives and implements reform that vary among individual

¹ The case studies about local government experiences in these countries have been collected in the book ‘The theory and practise of local government reform’, Dollery and Robotti (eds) (2008). The authors are Dollery and Byrnes (Australia), Sancton (Canada), Rocaboy and Guengant (France), Lenk and Falken (Germany), Ermini and Salvucci (Italy), Reid (New Zealand) and Bosch and Suarez (Spain).

local government authorities. Therefore, it is compelling to try to discern commonalities among their own local governance systems.

The public sector of these advanced democracies is divided into many different tiers of government. Over the last two decades we observed that these countries have undertaken structural reforms concerning the local level of government. Generally, the strengthen of decentralization or devolution has been accompanied by a focus on the efficiency of municipalities, especially those of small size. These are characterized by scarce possibilities to exploit economies of scale or scope, they cannot booster territorial synergies neither impose the necessary fiscal pressure to fund minimum standard of public services (Weingast 1995). The need to adhere to local government optimal size, in order to improve efficiency at the lower level of government, has inspired some attempts to reshape local public sector by means of amalgamation of local councils or the recourse to weaker forms of integration, such as partnerships among different local governments.

To outline conceptual frameworks to identify common patterns into municipal government arrangements, we first present a review of the main justifications for the existence of multiple levels of government and the associated question of the optimum size of local government. The traditional economic theory of fiscal federalism offers some interpretations. It is argued that when there are public goods and services which are beneficial only for residents in a particular locality, the institutional arrangement of multi-level government brings efficiency from the point of view of allocative efficiency since local governments are 'closer to people'. Indeed, as stated by the so called preference-matching argument (Lockwood 2006), local governments are assumed to have better quality knowledge about both the needs of their citizens and the economic and social characteristics of their jurisdictions. Therefore, they are able to provide a variety and quantity of services and public goods which better match the preferences of the residents in their own area and thereby enhance the total social welfare (Olson 1969; Oates 1972). Such a result is not achievable by central state which can only ensure a

uniform offer throughout the national territory. By a normative perspective, this theory prescribes the allocation of administrative responsibilities and fiscal instruments in order to obtain the optimal size of jurisdictions that minimises the costs of service provision and maximises the benefits of differentiated services that accrue to the population (Buchanan 1965). Refinements of this theory permits to define the optimum size of the local authority also when dealing with externalities, transaction costs and potential congestion².

It has been widely observed that traditional economic theory of fiscal federalism cannot completely explain the observed pattern of local government system. It should be noted that this theory is not the solely explanation of the nature and functions of regional and local authorities. The new economic geography approach (Fujita *et al.* 1999) as well as the literature of urban economy (Capello 2000; Capello and Rietveld 1998) offer further insight into the understanding of the determinants of the decentralization of public functions. Nevertheless, it emerges that in practice the attribution of functions and powers to lower levels of government goes beyond purely economic considerations. Political considerations, as well as historical events and cultural processes, have played major roles in shaping the inter-governmental fiscal relations since they have influenced the location, structure and dynamics of the local community itself. This is especially true in continental Europe where states present municipalities with a long tradition and thereby citizens have a strong local identity which is even stronger than the national one.

Since ‘path dependency’, rather than merely economic factors, is significant for explaining the actual local government system, it is not surprisingly that very often the political scope of a jurisdiction does not match with its economic

² Following this approach, Shah (1994) proposes practical guidelines in order to attribute powers and functions among different tiers of government according to the degree of internalization of costs and benefits, the presence of economies of scale and variety, the degree of heterogeneity of residents’ preferences, proximity to users, proximity of provider of public service to users and constraints on the composition of the public budget.

scope. It is the reason why we observe productive inefficiency and spillovers in real-world local public sector arrangements. Shortly, jurisdictions are not optimal given that they are not organized along the prescriptions embodied in the principle of correspondence (Olson 1969) and the principle of fiscal equivalence (Oates 1972). It claims for structural reforms to recreate a correspondence between the geographic area where costs and benefits of a service occur and its administrative boundary.

The possibility to adhere to an optimal local jurisdiction size is quite problematic when small councils are concerned. From a theoretical point of view, the optimal solution would be the merging of local governments into one only local jurisdiction (Fraschini and Osculati 2006). It allows small councils to accrue economies of scale and variety, to preserve accountability and to internalize spill-overs. However this solution, especially when it is compulsory, often encounters the opposition both of local administrators, which face the risk of losing their political power, and of citizens, especially in countries where local identities are very strong (France, Italy and Spain).

In the light of these constraints, ‘second-best’ policies become important. If the principle of correspondence is not realized, the search for efficiency in the provision of goods and services can be pursued through several ways. The first is to draw Pigouvian subsidies to correct externalities. However, Wildasin (2004) stresses that such transfers may not encourage responsible behavior so that we could observe perverse effects when budget constraints are not severe. The outsourcing, that is contracting out the provision of public goods and services, is the second way to enhance efficiency. In this case, the classic problems of procurement are faced (Laffont and Tirole 1993).

A different solution is represented by the introduction of various forms of cooperation among municipalities, such as partnerships, which require weaker local governments integration with respect to the merger option. This resolution deserves a further insight since it is quite a novelty in the practice of structural reform at lower level of government. The possibility to form local

government partnerships is recognized by various countries. The different form of inter-communalities can be voluntary or imposed by central government. Mandatory solutions seem to not deviate from the normative indications of the traditional theory of fiscal federalism³. Instead, the practice of voluntary solutions can be analyzed along the conceptual framework of functional federalism proposed by Frey and Eichenberger (1996; 1999).

Starting from the idea of competition between jurisdictions, these authors have tackled one of the more problematic aspect of the traditional theory of fiscal federalism theory, namely the difficulty to match administrative to economic boundaries of fiscal policies. These authors suggest that to comply with the principle of fiscal correspondence is not necessary to reshape the administrative size of existing local governments. The solution is to allow the emergence of functional jurisdictions that are organized along functions instead of territories; they are assigned with the responsibility to manage various public services and they will take the optimal dimension defined by the tasks to be fulfilled. This new body will be added to present political jurisdictions, overlapping with them: we assist to the coexistence of traditional political jurisdictions with a number of functional jurisdictions created in situation when it very difficult to match public goods provision and citizens' preferences or when the efficient provision is constrained by low economies of scale or variety or externalities (Rebba 1998). The promotion of these functional jurisdictions emerges from the lowest political units such as territorial authorities (which may decide, for example, to associate into voluntary partnerships of the appropriate dimension to provide any specific services), but also citizens (if they see an opportunity to build a new body for the satisfaction of particular needs). Very briefly, these entities, which are most known as FOCJ (Functional Overlapping Competing Jurisdiction), are not-hierarchic self-organized jurisdictions promoted by local instances.

³ But we have already seen that they are more likely to face the resistance of citizens and bureaucrats.

Given these theoretical proceedings, it is interesting to evaluate if intercommunalities cooperation works properly to enhance local government performance. We first observe a large variety of local government agreements; it is not surprising that several scholars (Dollery and Johnson 2005; Zuffada 2002) have devoted efforts to disentangle the relative desiderability and efficacy of the different form of local councils partnerships that we may encounter across any country. This topic has been theoretically addressed by Bartolini and Fiorillo (2006; 2008). These authors examined the conditions under which a multipurpose and flexible form of cooperation, that they call ‘councils union’, is preferable to a single purpose form of cooperation, which is named ‘consortium’⁴. Bartolini and Fiorillo assume that the two institutional form of intercommunalities cooperation differ according to: a) the degree of decision-making autonomy and b) the degree of integration between municipalities. The consortium is a partnership characterized by an ad hoc resource sharing rule with the objective of producing specific services. The union is more flexible since the whole administration for the given range of services is delegated. Therefore, union can organize the synergy among councils, by deciding the number and quantity of services supplied, and therefore both economies of scale and complementarities effects can be exploited. Conversely, the consortium can only run the services explicitly allocated, therefore only economies of scale matter. Moreover, union and consortium have specific transaction costs stemming from the different difficulties of reaching an agreement and the loss of political power. Assuming that citizens care not only for the quantity of service, but also for the variety, this model shows that none of the two forms of local councils cooperation can be assumed as the ‘best one’ in absolute terms since their relative efficiency depends on the degree of substitutability among services, the level of transaction costs and the number of councils. Union appears as the superior form of cooperation when the number of municipalities associated is neither too high nor too low and when the elasticity of substitution between local public services is high. When the elasticity of substitution decreases, the

⁴ These names come from the Italian institutional system, other countries have similar institutional bodies with different names.

benefits to establish a Union decrease in comparison to those achievable by a consortium. This result reflects the relative advantage of union over the consortium with respect to the provision of a greater variety of services; in other words a union displays an advantage over an ad hoc body when the variety and the complexity of public services is an important element of citizens' preferences.

The analysis of Bartolini and Fiorillo, while indicating the cases in which a multi-task local council partnership is preferable to other forms of ad-hoc cooperation, does not explain why voluntary partnerships are actually set up or dissolved. These issues are tackled by Palestini and Polidori (2006; 2008). The decision to join or not into a partnership is analyzed as a non-cooperative game with incomplete information. Forming a partnership implies the reduction on the control over financial resources and over the service supplied but it could, if the partnership works successfully, improve the quantity and quality of service supplied; moreover, according to the existing legislation, it could increase financial resources available if there are specific contributions assigned from central government to new partnerships. The benefits are subjects to uncertainty which is function of the ability (and possibilities) of the partnership to provide better services. Any local jurisdiction has an expected utility of joining a partnership which, of course, depends on the decision made by the other municipalities. That is, benefits of joining a partnership occur only if it is reached a minimum participation threshold. It is therefore possible that a municipality attaches great importance to cooperation between local jurisdictions, but that no partnership emerges since lack of membership by other municipalities. Building on the approach of growth accounting, Palestini and Polidori obtain prescriptions for the stability over time of partnership. It is necessary that the expected benefits would manifest over a reasonable time horizon. Indeed, even if partnership would be able to trigger a virtuous circle 'growth-more resources-growth' as the one described by Weingast (1995) producing beneficial to all municipalities, it is possible that partnership dissolves if these benefits do not occur within the time horizon of policy-makers. The authors add that an effective way to promote the stability of a

partnership could be the definition of a proper policy of matching-grants or the assignment of central government incentives. In effect, a voluntary partnership is characterized by transaction costs and it needs central government transfers to be implemented. As Fiorillo and Pola (2006; 2008) have shown, the crucial problem in a voluntary partnership is how best to design a correct incentive scheme, for this reasons the incentives schemes should consist in a mix between own local taxes assigned to councils partnerships and central government grants assigned proportionally to the local fiscal effort⁵.

With these theoretical frameworks in mind, we will try to interpret the structural reforms that have taken place among some developed countries. To this aim, section 2 examines differences and commonalities emerging from our case studies structural reform. Section 3 evaluates the extent to which the various theoretical models can help explain actual structural reform that has occurred in the target nations. The paper ends with some concluding remarks to sum up main features about structural reform across countries.

Differences and Commonalities into Local Government Systems

Table 1 attempts to distill the essential features of the different local government systems under review in a common context in order to highlight the degree of diversity in our sample countries.

Despite the substantial differences between the countries depicted in Table 1, it is nonetheless still possible to discern some general trends and some common policy approaches to the dynamics of structural reform processes in these nations.

⁵ These authors show that other form of financial incentives (*una tantum* transfer for the constitution of partnership, national tax revenue sharing, etc) are less efficient.

Table 1: Local Sector Characteristics in Sample Countries

State and author of case study	Federal Structure; Tiers of Government (from higher to lower)	Local Government as Percentage of National Income and Number of Councils	Main Local Government Functions	Reasons for Structural Reform
Australia; Dollery and Byrnes	Federal state; State and local governments	2.3% (2004); 703 municipalities (2005)	Services to property (prevalently infrastructure)	Assignment to LG of more legislative freedom to manage to facilitate market mechanism in service provision (New Public Management); cost-shifting; scope and size economies ('bigger is better' policy) for improving operational efficiency of LG.
Canada; Sancton	Federal state; Provinces and municipalities	4.12% (2005); 3638 local governments	Services to property (including police and fire protection)	Fiscal distress and cost-shifting, internalization of spillover among city and periphery
France; Rocaboy and Guengant	Unitary state; Regions, departments and communes	6.4% (2004); 36565 communes	Services to property and person-oriented services	Economies of scale and internalization of spillover effects to provide citizens with better access to public services; more efficiency to institution and tax instruments; decentralization; reducing the fiscal burden of central government.
Germany; Lenk	Federal state; Lander, regional councils, districts and municipalities	7,17% (2006); 12,302 municipalities	Services to property and person-oriented services	Aggregation of districts and municipalities into larger administrative units, cutting expenses reducing administrative size; gains through economies of scale
Italy; Ermini and Salvucci	Unitary state; Regioni, province and comuni	5.7% (2005); 8108 comuni	Services to property and person-oriented services	Devolution, fiscal crisis and cost-shifting,
New Zealand; Reid	Unitary state; Regional councils and territorial authority	3.5 % (2006); 75 territorial authority and 12 regional councils	Services to property (infrastructure and environment planning)	Fiscal crisis and cost-shifting, New Public Management; devolution; accountability; excessive high administrative costs and lack of capacity on the behalf of small councils
Spain; Bosch and Suarez	Unitary state; Autonomous communities (regions), provinces and municipalities	3.3% (2005); 8110 municipalities	Service to property and person-oriented services	Devolution and restructuring of provinces; reducing the overlapping of functions among different authorities

In the first place, it seems that most of our sample countries are engaged in a process of decentralization. However different motives underpin structural reform in different countries. From the perspective of the citizen, as community expectations increase, people demand new and more services of a higher quality, almost all of which involve an expanding number of ‘services to people’. This demand comes along with ‘raising the bar’ of the standard of a number of services that can be best achieved when governments are closer to local user preferences. It is important to stress that both the ‘increased community expectation’ and the ‘raising the bar’ arguments induce an increase in the cost of services (Dollery and Byrnes 2008). From a national government point of view, decentralization permits cost-shifting to local governments. Therefore, they are often forced to provide essential services no longer either financed or provided by higher level of governments. On the one hand, cost shifting represents a rational attempt to assign services to the most efficient institution that can manage them, following the suggestion of New Public Management (NPM) theory (Gruening 2001) and the theory of fiscal federalism (Olson 1969; Oates 1972). On the other hand, cost-shifting responds to the attempt conducted by the central state to reduce its funding of new services by assigning responsibility to local governments. It should be added that sometimes the assignment of new functions is coupled with the granting of additional taxation powers to local governments. This helps to make local councils more responsible since citizens are more than ever involved in funding the new services they receive by taxes and fees. In this context, local governments are required to be more accountable (Seabright 1996; Fiorillo 2007). With regard to decentralization, in some cases, the devolution of responsibilities has almost transformed unitary countries into quasi-federal nations (such as in France, Italy and Spain) since sub-national governments are assigned with a much large number of responsibilities, improved decision-making power and stronger local autonomy. In other cases, devolution corresponds more closely to cost-shifting goals (such as in Australia and New Zealand).

Secondly, the attribution of functions to local authorities pertains not only to compulsory or regulatory activities in order to ensure basic local public goods and services. It also seeks to fulfil the broader aim of focusing on the local well-being that drives local governments to enlarge the mix of services provided and to expand the available range of ‘services to people’. In line with the New Public Management doctrine, this forces local authorities to adopt a strategic community leadership role. This focus on ‘services to people’ can be considered the second common feature of local government reform undertaken by the seven analyzed countries. In effect, this shift in service provision has determined that local councils have assumed responsibility for many more human services, including health, social assistance, community safety, improved planning and accessible transport, as well as for a more active role in regulation, especially in welfare, education, community amenities, safety and public health.

Table 2: Determinants of Structural Reform

	Australia	Canada	France	Italy	Germany	New Zealand	Spain
Local council fragmentation: too many small rural councils	x	x	x	x		x	x
Local council fragmentation: too many single-purpose authorities						x	x
Cost-shifting	x		x	x			
Internalizing externalities	x	x	x			x	
More efficient service delivery (i.e. scale and scope economies)	x		x	x			x
Control over public service production	x						x
Structural reform main policy instrument: Amalgamation (A) versus Voluntary Partnerships (VP)	A	A	VP	VP	A	A	VP
Single (SP) versus Multi- Purpose (MP) entity structural reform policy instruments	MP	MP	MP	MP	MP	MP	MP

Finally, all of the countries considered devoted particular attention to structural reform through the boundary changes of local bodies. In this regard, several

features deserve attention. Firstly, countries often share similar problems and hold similar expectations of structural reform, as can be observed in Table 2, but it is interesting to note that the seven countries differ considerably in the actual implementation of reform. In fact, the timing of structural reform varied between countries; in most cases boundary changes occurred simultaneously with other structural reform measures, specifically devolution, but in other cases it occurred as a preliminary step in a broader pattern of devolution (as in New Zealand) or other reform measures (as in Germany). The majority of the sample countries promoted territorial reform at the lowest tier of government; especially in Germany and partly in Spain, there is also evidence of concern about regional and provincial reform. In addition, the policy instruments employed in structural reform differed considerably. All the sample countries contemplated different modalities of local government voluntary associations to overcome the perceived problem of too many small local councils (in the form of consortia, joint council arrangements, alliances, etc.). As a rough rule of thumb, we can broadly distinguish between local council voluntary partnerships and compulsory amalgamations. It is interesting to note that compulsory amalgamation seems to have been preferred by federal states (as in Australia, Canada, Germany) while in unitary states⁶ (like France, Italy and Spain) voluntary inter-jurisdiction associations tended to emerge. A second possible classification of policy instruments of structural reform is to determine if they focus on single or multi-purpose authorities. In general, the sample countries preferred multi-purpose authorities. However, the number of local jurisdictions and functions managed by the new bodies seemed to depend on the institutional setting of each country; that is, on the number and functions assigned to and delivered by local governments. For example, we observe that voluntary partnerships in Italy, Spain and France tackle a wider range of services compared with those nations relying on amalgamations (as in New Zealand, Australia and Canada).

⁶ The only exception seems to be New Zealand.

The difference in the voluntary and compulsory nature of the reform is of primary importance when we come to consider the design of incentives to accomplish structural reform. Of course, the greater the aggregation of individual councils is compulsory, the lesser is the relevance of incentives⁷. In fact, we observe that in those countries where territorial reform is pursued via amalgamation, incentives are almost totally absent or they take the form of a transfer to compensate for the forced amalgamation, assuming that local communities are usually reluctant to join together. Instead, both the extent of incentives and the mechanism employed play a fundamental role in ensuring success of voluntary inter-jurisdiction association since they determine the commitment of affected local governments to the new body. In fact, councils can interrupt at any time the memberships into the partnership. On the contrary, this possibility is neglected with forced amalgamation given that the new administrative boundaries cannot be freely modified by constituent councils.

Evaluation of Structural Reform

The multi-faceted approach to the structural reform observed in our sample countries makes it difficult to isolate the effect of structural reform and to evaluate its effectiveness as a way of improving local governance. In general, it appears that countries that rely on amalgamation as the major instrument of structural reform have either reduced the pace of reform (as in Australia and New Zealand) or they have even de-amalgamated (as in Canada). In these nations there seems to be a broad consensus that their experience has been unsatisfactory and not completely successful⁸. Germany appears to be an

⁷ In New Zealand and Canada the thread of amalgamation regardless any local consensus pushes local councils to ‘voluntary’ search for partners to submit proposal of amalgamations.

⁸ In Spain, structural reform was achieved through ‘comunitades autónoma’ which sought to compulsorily define some districts called ‘comarcas’, but the survival of central government-constituted provinces slowed and then stopped the reform process. By contrast, voluntary partnerships, such as ‘mancomunidades’ and ‘consorcios’, have achieved better outcomes.

exception. Actually, German compulsory amalgamation involved mainly districts rather than councils, and it thus encountered less opposition.

Table 3 evaluates the achievement of the goals of structural reform within each country with regard to those aims pursued, as already indicated in Table 2. Amalgamation permits a forced reduction in the number of local governments while voluntary partnerships not only do not achieve this purpose, but may even produce new local governments, potentially increasing administrative costs. It would appear that voluntary partnerships generate outcomes superior to compulsory amalgamation. In particular the advantages, stemming from voluntary associations, in the internalization of externalities seem much better and have been strongly acknowledged in the case of France. By contrast, amalgamation in Canada and New Zealand has been pursued partly to internalize externalities from urban areas toward the periphery councils. It has faced strong opposition since typically only the central area has received benefits while the fiscal burden has grown for people in peripheral amalgamated towns. In other word, gains accruing from internalization of externalities have been not equally distributed among the citizenry of the new amalgamated council. Moreover, since the amalgamated member councils almost always have different sizes, it is more likely that the bigger consolidated council emerges as the leader able to capture most of the gains that may accrue. By contrast, in France, the internalization of externalities is the result of voluntary political and fiscal coordination between participating councils; a more equitable distribution of gains from internalization is thus more likely.

Table 3: Outcomes of Structural Reform

	Australia	Canada	France	Italy	Germany	New Zealand	Spain
Local council fragmentation: too many small rural councils	yes	Not clear	no	no	yes	yes	no
Local council fragmentation: too many single-purpose authorities						yes	yes
Cost-shifting	yes	yes	yes	yes			
Internalizing externalities	yes	Not clear	yes			no	
More efficient service delivery (i.e. scale and scope economies)	no		No clear savings; No reduction in total spending but increase in public good supply	No reduction in total spending but increase in public good supply			Scale economies and savings in small councils in waste and in water
Control over public services production	Not clear						yes

A much debated issue is the ability of structural reform in capturing economies of scale. Both multi-purpose voluntary partnerships and amalgamation seem to generate cost savings due to scale economies⁹. Voluntary single-purpose local council cooperative entities (i.e. consortia in Spain and Italy) seem to be more effective. However, this form of inter-community cooperation is not widespread in structural reform. Moreover, the exploitation of scale economies crucially depends on the type of functions and services assigned to councils and territorial bodies. For example, water and waste services display gains from scale economies in several countries (as in Australia, Spain, New Zealand and Italy). In other services, only small councils secure scale enlargement; for medium and large council services, production already has the optimal size and capacity.

⁹ The only exception appears to be Spain.

Other positive outcomes are achieved both by multi-purpose voluntary partnerships (as in France and Italy) and by amalgamation (as in Australia and New Zealand) when focusing on the range and quality of services and on labour specialization. However, the results seem to depend on the type of functions and services. Superior performance is achieved by voluntary partnerships (as in France and Italy). This probably derives from the fact that councils can choose the most suitable partner municipalities (i.e. councils sharing similar size, service preferences, etc.) to cooperate with and thus economies of scope may emerge more readily. Under amalgamation, this option is not possible and nothing will ensure that the merging councils can maximize gains from cooperation. It must also be stressed that both voluntary partnerships and amalgamation help to maintain stronger control over service production since local governments do not have to contract out with private firms or voluntary organizations (as in Australia and Spain). Larger municipalities can more easily afford to employ a wider range of professionals and the internal re-organization of employees permits a better exploitation of human resources that can improve their ability and experience in public administrative management and planning activity.

The worst result of compulsory amalgamation relative to voluntary council partnerships emerges on the longevity of the new entity. On the one hand, compulsory amalgamation induces a loss of local identity, and when heterogeneous councils are merged, welfare falls due to the difficulties involved in meeting diverse service preferences. But in general amalgamation structures survive through time. On the other hand, voluntary council partnerships often have stimulated through appropriate incentive schemes (as in Italy, France and Spain). When the incentive scheme expires, voluntary council partnerships often find difficult to survive keep working and may dissolve (as in mancomunidades in Spain and Unioni di Comuni in Italy).

This view seems to confirm some theoretical results we reviewed in the introduction. All theoretical models necessarily abstract from actual

institutional arrangement. They do not depict exactly the choices actually adopted in the sample countries, but these models propose a guideline for interpreting the different outcomes of structural reforms. In particular, when the structural reform is voluntary these models offer a useful instrument to analyze positively the reform. On the contrary, considering compulsory amalgamation, these models suggest a normative solution for structural reform. Actually, what we observe is that actual reform outcomes seem to be more efficient when political decisions on structural reform are not far removed from the predictions advanced in the theoretical models.

For example, Bartolini and Fiorillo (2006; 2008) positively demonstrate that scale economies could be exploited by a single-purpose local body, while a multi-purpose local body can be important for an increase in the range and quality of services. From the normative point of view, their model suggests which type of local body should be pursued in order to efficiently deliver services of different kind. Palestini and Polidori (2006; 2008) and Fiorillo and Pola (2006; 2008) also stress the importance of incentives. In all countries, structural reform implies that costs are not evenly distributed. When reform is compulsory, some compensatory transfers are provided but, since the political consensus is usually far from unanimous, we can argue that these transfers do not compensate adequately the agents which are disadvantaged by the amalgamation. On the contrary, the higher political consensus in countries where partnerships are voluntary depends on the existence of transfers which explicitly incentivize them, posing the problem of which one is the more efficient form of intergovernmental transfer.

Another important issue derived from theoretical models is that some functions could be assigned to a multi-purpose partnership, while others could not. This is an explicitly normative prediction. In particular, the normative prediction derived in the Bartolini and Fiorillo model holds that when the share

of services to people relative to services on properties increases¹⁰, the possibility of implementing a multi-purpose voluntary partnership in an efficient way increases. From this point of view, the success of multi-purpose partnerships seems to be greater in countries where services to people are a traditional task of the local governments.

Concluding Remarks: A Guideline for Structural Reform Comparison

The structural reform practice of local government is typically the result of several competing aims and methods. Moreover, the internal coherence between these mixed influences often determines the outcomes of the structural reform process.

In some countries, structural reforms are initiated by different actors with different political agendas. For example, in Spain the central government and comunidades autónomas conflict with the role of provinces and comarca. By contrast, in New Zealand, involved interest groups have different political approaches to councils fragmentation and amalgamation. Much the same is true for Canada, where there are competing objectives among small country councils and large central cities.

The structural reforms put into practice by the sample countries stress the importance of devolution. Local governments are assigned with greater functional power and autonomy. The decentralization process has been promoted both from higher and lower levels of government. On the one hand, higher levels of government promote it as a way to relieve state budget pressures and to force local governments to be more efficient. On the other hand, local governments sometimes welcome this decentralization since they expect to enjoy a greater degree of freedom in deciding on the composition of

¹⁰ Roughly speaking, the services to people are characterized by higher substitution elasticity than the services to property.

public goods provision. Assuming decentralization can better meet local preferences, local citizens will benefit from decentralization since they expect to gain improved access to public services.

However, structural reform typically does not exhibit consensus at all levels of government. Structural reform usually reflects the ‘top-down’ pressure of rationalization more than a demand for cooperation coming from local governments below. In the case of compulsory amalgamation, consensus is often very low and the costs are unevenly distributed among citizens and local council areas. By contrast, when territorial reform is based on voluntary partnerships, councils would join only if an appropriate incentive scheme is designed. Thus structural reform may contrast with a genuine devolution process, the former forcing councils to accept merger, and thus reducing their autonomy, and the latter assigning greater local autonomy to lower levels of government.

This contrast may not be so stark when local councils have to provide largely services to property. In this case, services can be provided in a standard way; the informative set on citizens preferences are weak and differences in citizens’ preferences between areas can be regarded as differences in the quantity of services required. In this case, a top-down design of the optimal area for producing a given mix of services would represent an improvement in citizens’ welfare. The contrast between compulsory structural reform and devolution is not sharp. The need to design a small number of multi-purpose local councils does not induce large efficiency losses since the imperfect design of the new territorial area can be solved with financial transfers. In this case, the promotion of voluntary partnerships may be unnecessary.

However, the contrast becomes more pronounced when local councils move towards the provision of services to people. In this case, citizens require not only a different quantity of services, but also differentiated qualities, hence the informative set necessary to meet citizens preferences increases and local governments are asked to provide a wider range of services. To meet the

local citizens' preferences with a very personalized range of services, local councils have to enjoy local autonomy in decision making and they have to be able to freely define the new efficient institutional structure, along the lines of Frey and Eichenberg's (1996; 1999) model of federalism based on 'Functional, Overlapping and Competing Jurisdictions' (FOCJ). Compulsory amalgamation, by reducing these possibilities, also reduces the ability of councils to provide the right range of services to people. By contrast, when structural reform is based on voluntary partnerships, better results can be achieved. However, even when policy makers allow voluntary partnerships, the actual constitution of a partnership can be the result of a very costly process. A voluntary partnership is characterized by transaction costs and it needs central government transfers to be implemented. The crucial problem in a voluntary partnership is how best to design a correct incentive scheme (Fiorillo and Pola 2008).

In order to distil these ideas into a readily digestible form, we now provide a graphical illustration of the structural reform that has taken place in our sample countries. In so doing, we try to evaluate to what extent (low, medium and high) the three trends of the structural reform (as depicted in section 2: devolution or decentralization; a wider variety of services to people; territorial reform.) have been pervasive within each of our sample countries. Each trend is compared with a brief synopsis of the main structural reform approaches (voluntary solutions, multi-purpose and incentives) as these can best be identified within a given country, and their importance and relevance is evaluated with a qualitative scale (low, medium and high). The devolution process is compared with voluntary structural reform; the reason of this comparison is based on the FOCJ idea through which councils can associate freely. Thus, when they are given a new function from central or regional government, councils have to be free to choose the best way to deliver it. The diffusion of services to people is coupled with the presence of a multi-purpose body since this authority seems to better fit the provision of services to people (Bartolini and Fiorillo 2008). Finally, the extent of territorial reform is coupled with the presence of explicit incentives for amalgamation or for partnership. If

we compare the triangle on the trends of structural reform with the one developed on the structural reform approaches, then we can evaluate in an impressionistic way the likely success of structural reform. If the two triangles coincide, then reform process promises to be successful; if they do not coincide, then the reform is unlikely to succeed. Our graphical scheme also indicates where problems may emerge.

According to this graphical system, the Australian local government reform (Dollery and Byrnes 2008) is described in Figure 1. Australia has promoted a structural reform aimed at reinforcing local government autonomy to a significant degree, so that we assess it as a high intensity devolution process. Similarly, territorial reform has been a primary goal in the public political agenda, given that small rural councils have been considered as the main constraints on the efficient provision of public goods and services. Australian concern about the enlargement of the range of services to people delivered is adjudged medium. At present, this trend is a novelty in Australian local governance given that traditionally councils devoted more efforts to provide services to property; larger improvements can thus be expected in the future. The triangle we obtain, connecting the respective intensity of devolution, services to people and territorial reform, is denoted by the dotted line. Turning to the extent of voluntary action, multi-purpose authorities and incentives within the structural reform project, we obtain the dashed line triangle. Compulsory amalgamation (i.e. the chosen instrument for structural reform) has required no incentives and no voluntary arrangements of councils. In addition, the merger of several councils into one large entity serves to prefigure a new multi-purpose authority. There is thus strong mismatch between the dashed triangle and the dotted triangle reflecting a low coordination between the objectives of structural reform and policy decisions with respect to optimal outcomes.

Figure 2 summarizes the Canadian situation (Sancton 2008). Canada can be characterized by the ‘soft’ devolution of functions and services¹¹ and a medium focus on services to people. By contrast, the impetus for territorial reform is high and has been implemented using compulsion. However, voluntary proposals have been usually accepted, so we measure on the voluntary axis a medium degree of intensity. Moreover, local identity has been protected by the promulgation of different boroughs. De-merger has also taken place. In this process, incentives have a lesser weight. With reference to the functions usually managed by Canadian municipalities, amalgamated councils perform as a multi-purpose body. The resulting triangle shows that the lack of coordination among structural and boundary reform is strong, mainly when we compare structural reform with the role played by incentives.

¹¹ In fact, in his chapter, Sancton reports that municipalities are expected ‘to do more with less’, but he also underlines that actually they have experienced a moderate take-over of higher government services and functions. He adds that ‘from a longer historical perspective, municipalities have been continually losing functional responsibilities’.

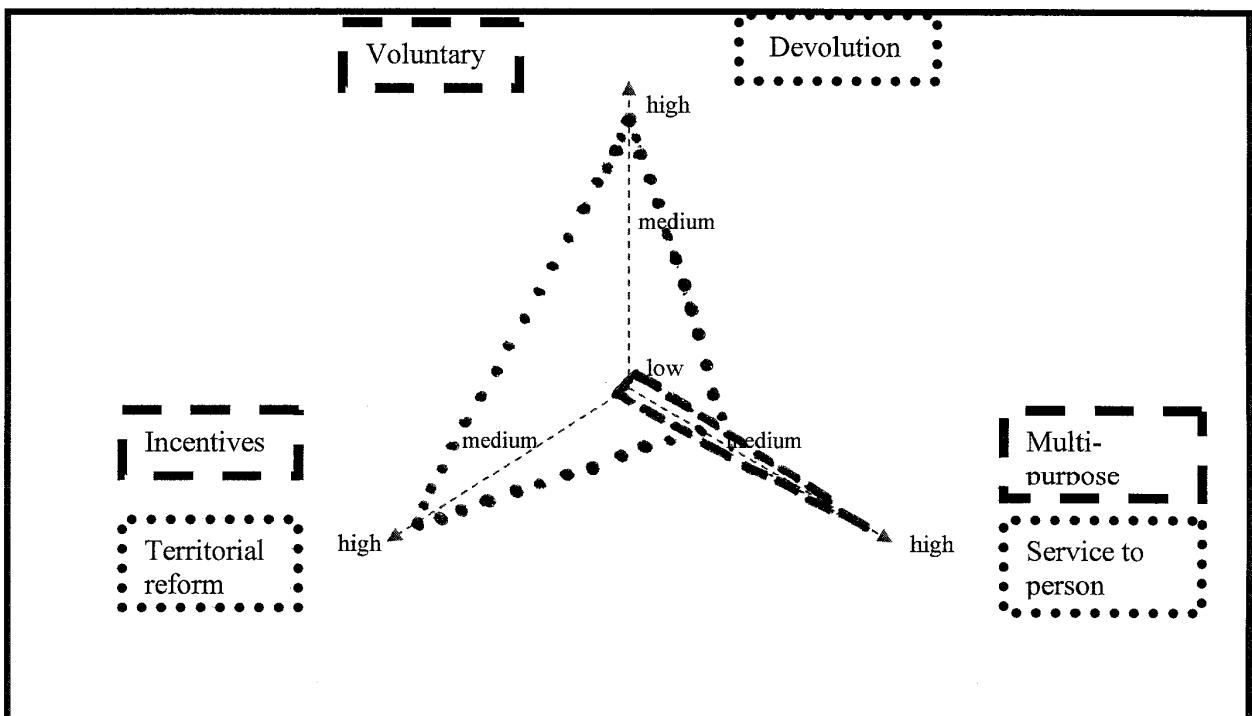


Figure 1: Characteristics of Reform in Australia

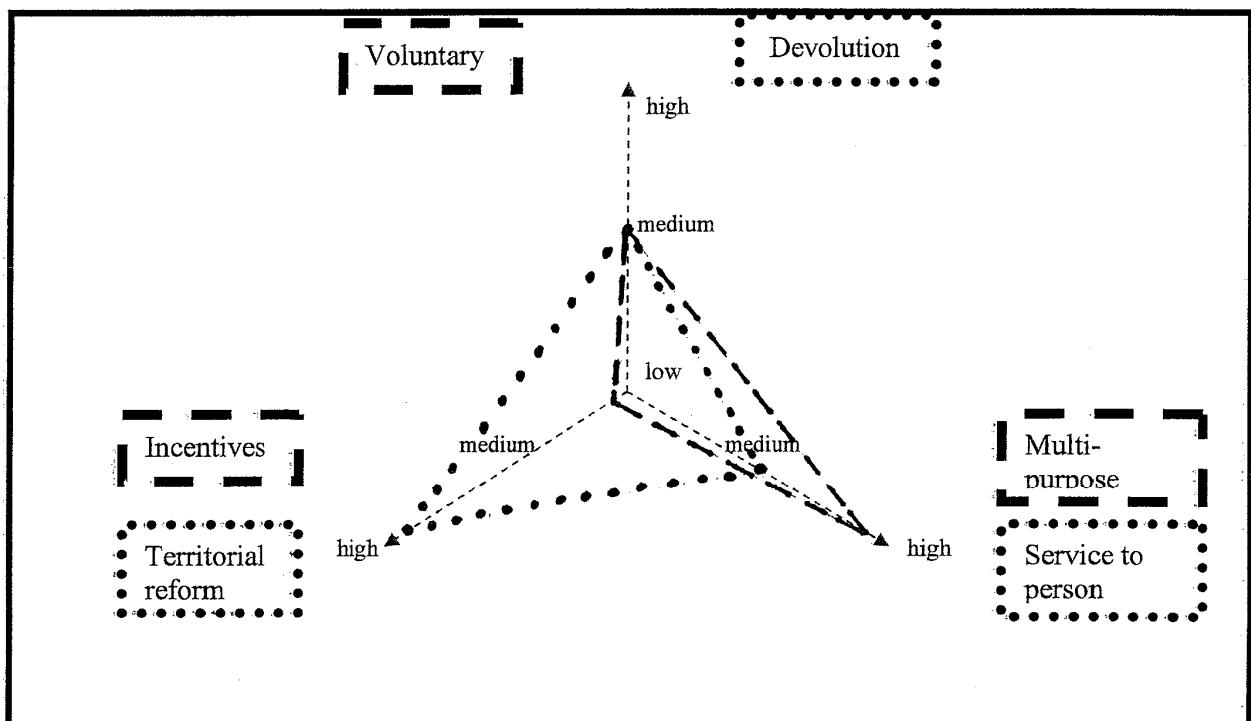


Figure 2: Characteristics of Reform in Canada

France (Rocaboy and Guengant 2008) is illustrated in Figure 3 where the two triangles coincide. The territorial reform, which is high in the local government reform agenda, has been carried out with the optimal incentive scheme. The devolution process is coupled with a proper assignment of freedom to local councils that can choose relevant partners to pursue the goals of structural reform. At the same time, voluntary partnerships can manage any functions that council's desire thereby exploiting the flexibility that such authorities enjoy to deliver services to people which are relevant within French local jurisdiction competence.

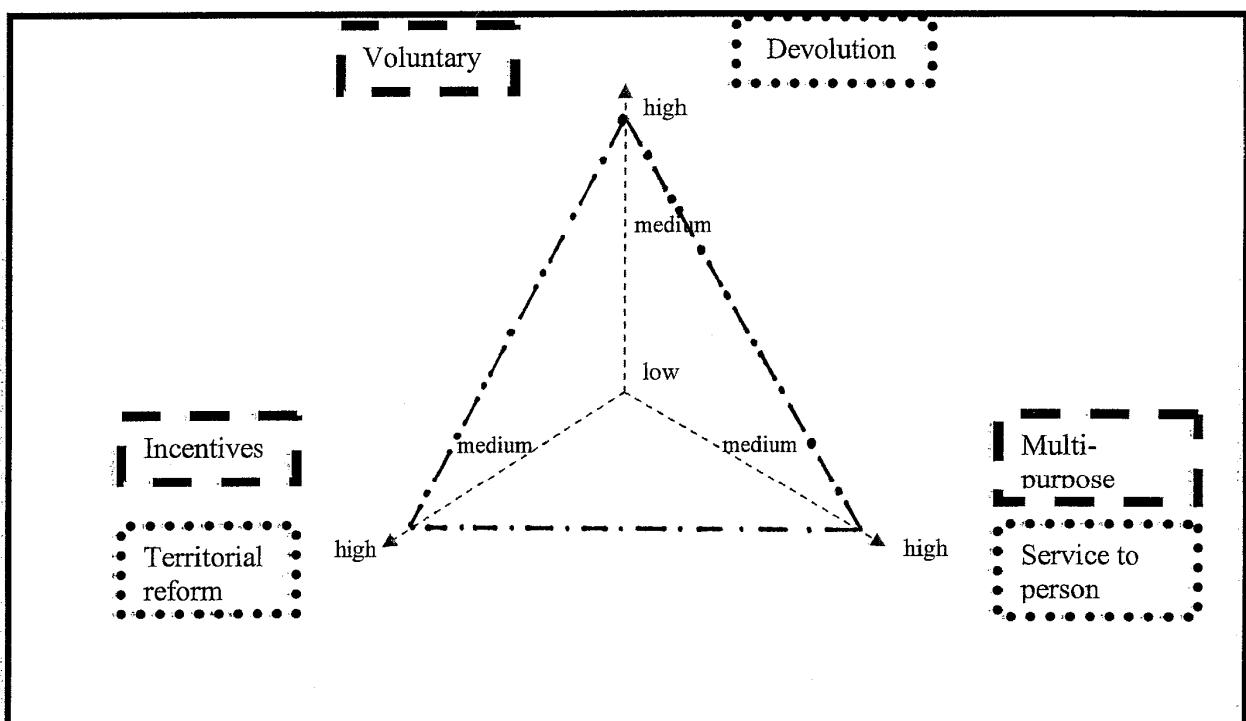


Figure 3: Characteristics of Reform in France

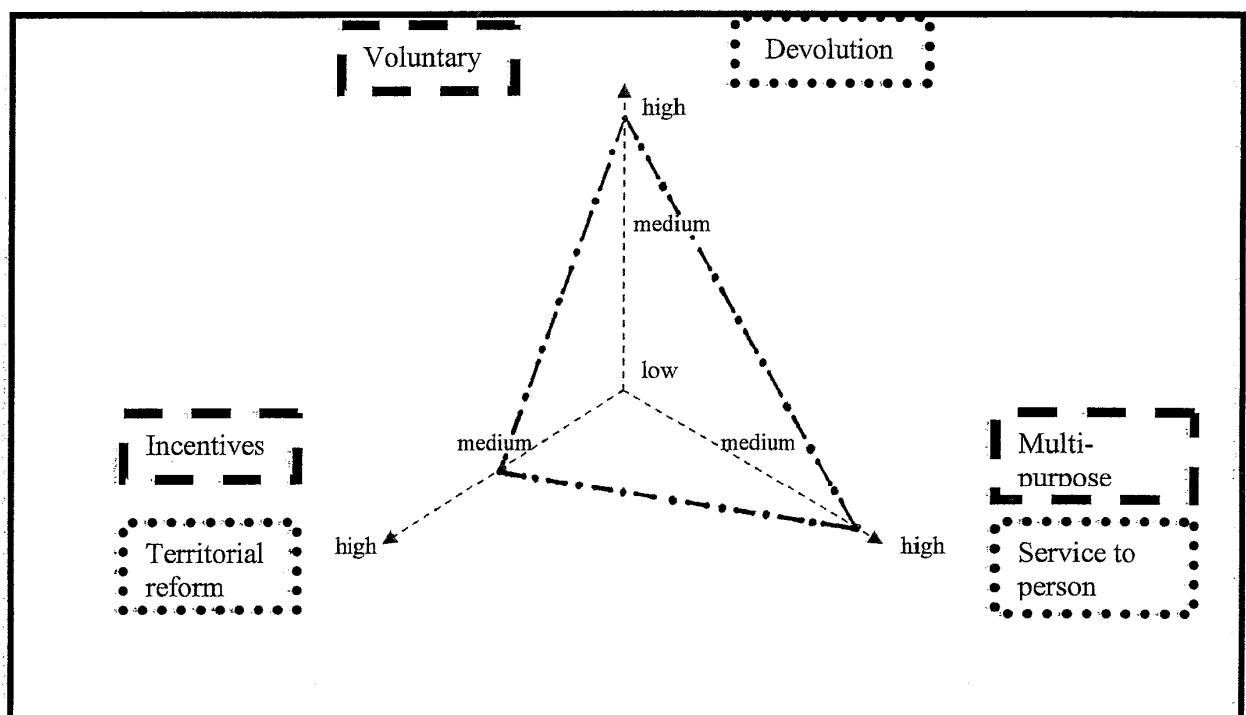


Figure 4: Characteristics of Reform in Italy

Figure 4 shows that Italy's triangles overlap perfectly (Ermini and Salvucci 2008). But Italy's experience is different compared with France in that efforts to promote territorial reform are denoted by medium intensity¹² and the role played by incentives to adhere to boundary reform are not satisfactory from the point of view of the optimal incentive scheme elaborated by Fiorillo and Pola in case of voluntary partnerships.

The German experience (Lenk and Falken 2008) is illustrated in Figure 5, where we draw a structural reform trends triangle with vertex corresponding to high degree of both devolution of functions to local government and services to people concerns and a medium level of importance attributed to territorial reform. This last feature can be understood considering that at present territorial restructuring is going on only in eastern Germany, while in the 'old' German Republic it was conducted more in the past. In evaluating the reform, it emerges that federal states do not follow a unique approach: some of them, pursue compulsory mergers while others favor voluntary solutions. Incentives are assigned according to the degree of voluntariness of the chosen instrument. Given this situation, to build up our synthetic scheme of interpretation¹³, we attribute a medium value both on the voluntary and on the incentive axis. Considering that ongoing restructuring is aimed at shifting various tasks of the federal state to local government, we assess that the consolidated districts operate as multi-purpose authorities at a high level. The overlap between the triangle of structural reform trends and the one of adopted policy approaches is not complete, but we should note that structural reform has somehow adhered to its desired goals. Indeed, in Germany the current emphasis on local government restructuring has moved from territorial to functional reform.

¹² In Italy other tasks (primarily the accomplishment of devolution) are higher in the political agenda. Moreover, in recent years, territorial restructuring is still a new issue.

¹³ The German case is the most difficult case to fit into our classification, with the result that it is somewhat 'forced'.

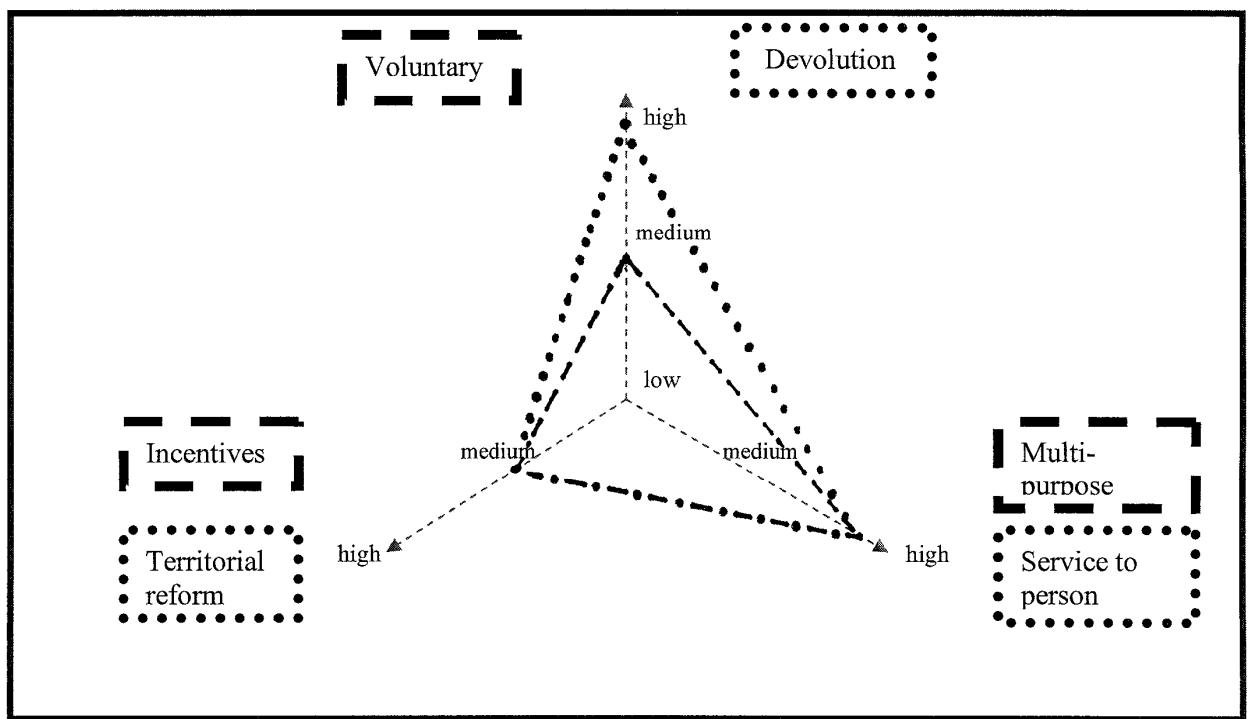


Figure 5: Characteristics of Reform in Germany

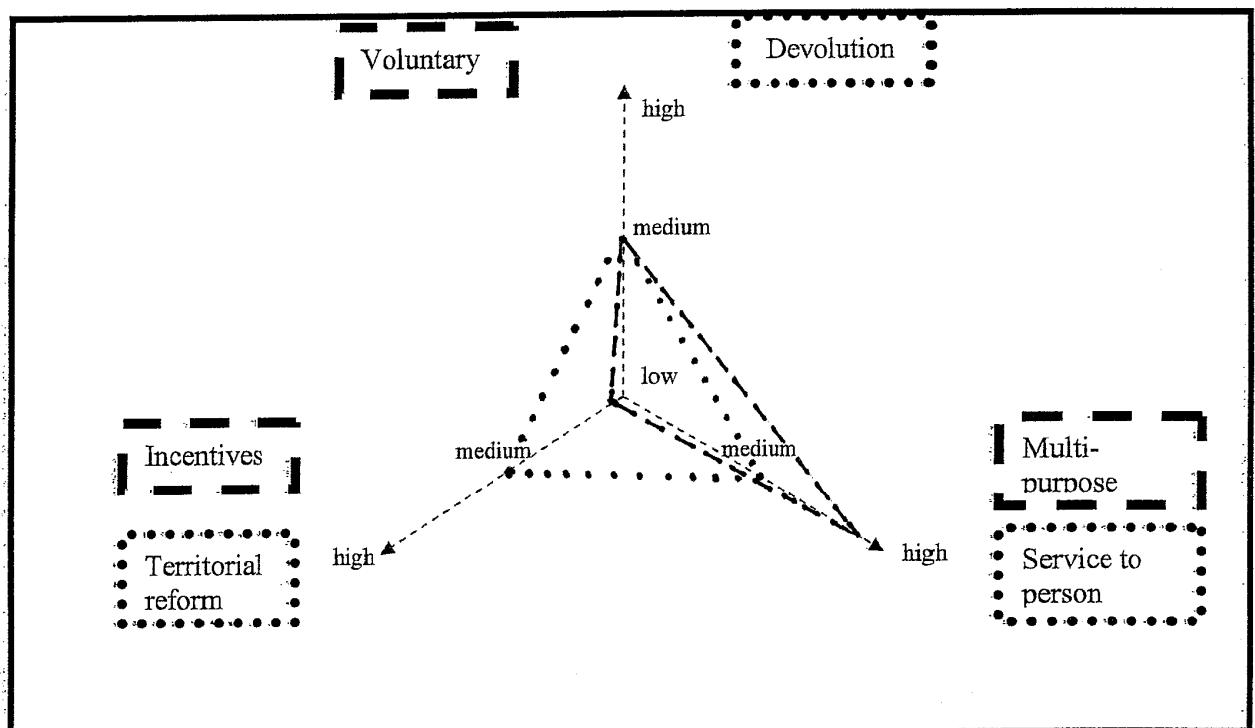


Figure 6: Characteristics of Reform in New Zealand

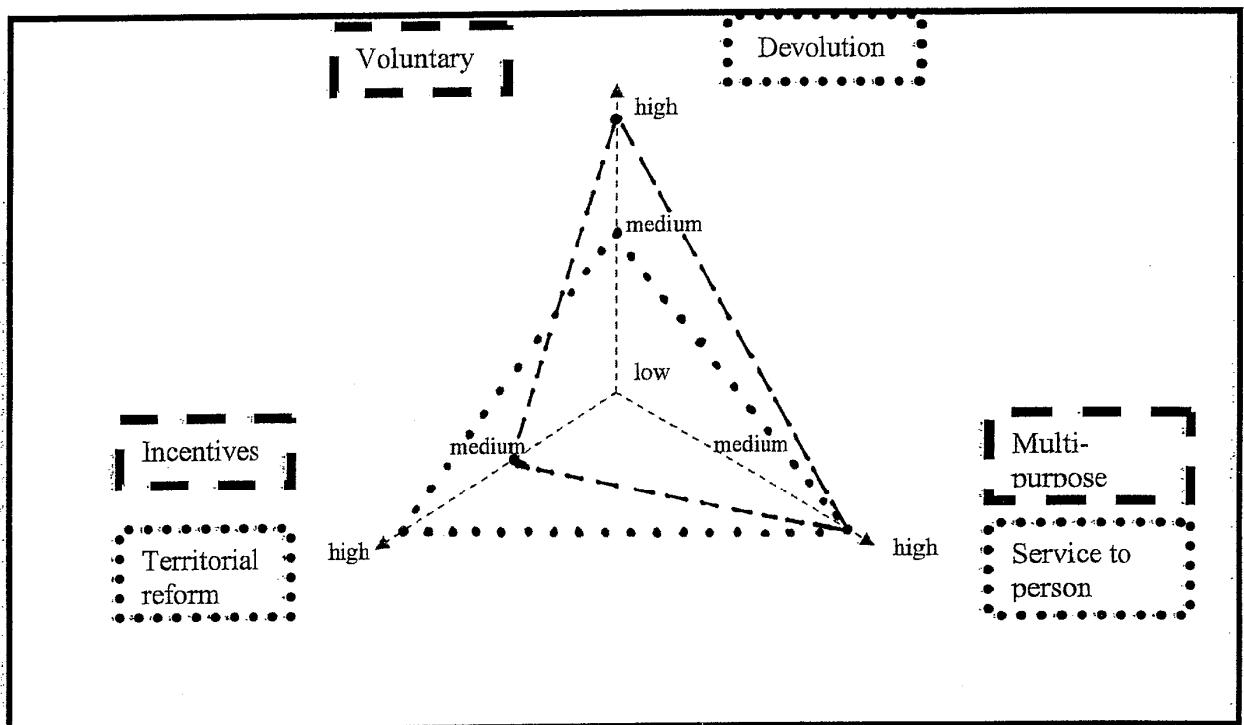


Figure 7: Characteristics of Reform in Spain

Figure 6 illustrates the New Zealand (Reid 2008) case using the structural reform trends and policy approaches criterions we previously developed. In New Zealand it is acknowledged that the devolution process has not gone far enough. New Zealand local councils deliver a moderate range of people-oriented services. Moreover, New Zealand earlier attached great importance to territorial reform, but nowadays this concern has decreased; we thus place a medium value on the territorial reform axis. The other triangle is designed as having medium, high and low values for voluntariness, multi-purpose entities and incentives respectively. The coherence between structural reform trends and the policy approaches is hard to demonstrate. Notwithstanding the policy preference for compulsory consolidation, looking at the match between devolution-voluntariness we can appreciate, as observed by Mike Reid, that New Zealand has designed its reform process by assigning primary importance to democracy since it sought to define the new structures in a manner that allowed local communities considerable choice according to local circumstances and preferences.

In assessing Spanish structural reform (Bosch and Suarez) in Figure 7, we focus on the experience of mancomunidades since administrative re-design by comarcas took place in only two regions. Spain proceed to a medium level of devolution, constrained both by the friction between central government and regions and by the excessive ‘atomization’ of local government that lacked administrative capacity. These same reasons explain why territorial reform is urgent in Spain; local governments contribute greatly to the delivery of services to people. The impossibility of compulsorily redefining local government boundaries in Spain determined the relevant characteristics of territorial reform: a strong focus on voluntary multi-purpose bodies. However, this program has not been supported by adequate incentives. The resulting triangles in Figure 7 do not coincide: devolution shows some prospect for further development and incentives could to be re-designed.

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