

Chapter 1: Autonomy and Austerity: Re-Investing in Local Government

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1.1 Introduction

There is wide agreement that in an increasingly complex and globalized world problems can only be solved by the joint endeavours of actors on different state levels and across borders. The concept of multilevel governance captures this new set of circumstances quite well: networks of actors with blurring borders and no clear-cut distinction between the public and the private sector have replaced traditional territorial structures and hierarchies. Seeking a consensus and compliance have become more important than predefined chains of command. People no longer live where they were born, they no longer work where they live, and they are confronted with changing environments which reflect their different activities. How can a single municipality maintain its dominant role as a point of reference for identity building and democratic decision-making in the light of this growing complexity?

At the same time, there will always be some services and facilities which remain predominantly local. Schools and childcare on a face to face basis as well as care for elderly people will most probably also be offered close to the place where people live in the future. Water, energy, and waste removal will have to be provided according to the demands of the citizens, and neighbourhoods will always matter, be it for social contacts and activities, or be it as distinct surroundings offering specific characteristics for different tastes. Accordingly, there will always be decisions to be taken which will have a very direct impact on the living conditions within a specific territory. If they can be taken by the citizens directly affected by these decisions, they will also be more likely to meet their preferences.

The first and most fundamental questions we need to address will upend the importance of local government and its role within the state in

the years to come. Will municipalities lose their importance in the decades ahead of us or will they manage to maintain or even reinforce their importance both for their inhabitants and citizens as well as in relation to other providers of services and facilities or regulatory actors? De- or re-municipalization - that is the issue at stake.

In addition to simply analysing local government in relation to other layers of the state and depicting the changes over time, we should also have a closer look at reform activities which municipalities chose in order to adapt to the changing environment and to improve their performance. Reform activities – compared to incremental changes – have the advantage that they address existing problems more explicitly and that they suggest changes and improvements in a decipherable direction. They tell us which role local government is supposed to play in the future, how municipalities are likely to be organized, what services they will offer and, of course, what the ideal size of a local government is meant to be.

Not all moments in time are equally suitable to analyse changes in a long-term perspective. Particularly in times of crisis the developments depicted are likely to be an immediate reaction to a sudden lack of resources and might diverge from the developments in the long run. It might, however, also be the case that moments of increased pressure and stress bring forward hidden problems of existing organisational settings. The influence of the recent financial crisis has to be particularly taken into account while examining the future of local government.

This chapter deals with austerity and local autonomy from the perspective of de- or reinvesting in local government. How and to what extent do countries strengthen or weaken the structures of local government and give municipalities more or less autonomy in times when financial resources are scarce? Are autonomous municipalities still considered to be a solid ground for sustainable economic growth and a stronghold for democratic decision-making, or do national governments aspire to a more coordinated and comprehensive way of solving the most urgent problems? Or, taking the perspective of municipalities, do they suffer from being disengaged from the higher levels which are no longer able to provide them with the necessary resources, or can they use their autonomy to react to the challenges in a more appropriate manner. Crises, from a reform perspective, should not only be seen as an existential threat to existing solutions, but also as windows of opportunity to bring changes and new ideas to the fore. Can decreasing support for local-level governments by central government serve as an opportunity to increase local autonomy in exchange, is a pending question to add. And finally and most difficult to answer is the question of whether countries with more

autonomous municipalities are less vulnerable to economic and financial crises.

In order to come at least a little bit closer to answering the questions above, we have to clarify in a first step the strength and autonomy of the municipalities in the different countries under scrutiny. In a second step, we also need to have a more precise understanding of to what extent the different countries and their municipalities were affected by the crisis.

Size of local government

A frequently used starting point for comparative research within LocRef is the size of municipalities. Despite the ongoing debate on how to measure the size of municipalities most appropriately, i.e. whether we should take population density or the number of inhabitants as a basis, we believe that the average size of municipalities provides at least a first idea about the strength of municipalities within a country:

- Countries covered in LocRef with very large municipalities (minimum average size over 20,000 inhabitants in 2014) are the United Kingdom, Albania, Ireland, Denmark, Turkey, Lithuania, the Netherlands, Portugal, Greece and Sweden.
- In countries like Belgium, Finland, Latvia, Poland and Norway, municipalities have on average between 10,000 and 20,000 inhabitants.
- Somewhat smaller (between 5000 and 10,000 inhabitants) are the average municipalities in countries like Slovenia, Croatia, Italy, Germany, Romania, Estonia and Spain.
- And countries with very small municipalities (fewer than 5000 inhabitants) are Iceland, Austria, Switzerland, Hungary, Cyprus, Slovakia, France and the Czech Republic.

At this stage, it is interesting to note the lack of a clear regional pattern. The Nordic countries – apart from sparsely populated Iceland – tend to have larger municipalities, but this is also the case for some Mediterranean and Eastern European countries. The Federalist countries – Switzerland, Austria and Germany – tend to have smaller municipalities, but this is not the case for Belgium. And unitary countries such as France can also have very small or, like the United Kingdom, very large municipalities.

As far as the development over time is concerned, there have been no fundamental changes in most of the countries and they belong to the same group as 25 years ago. In the group with the largest municipalities (more

than 20,000 inhabitants on average in 2014), it is in the UK, Albania, Ireland, Turkey, Denmark and the Netherlands where the municipalities have become larger over time. In Sweden and Portugal they did not change much, and in Lithuania they became a little smaller. In all these countries, the municipalities – on average – were the largest in Europe during the last quarter of a century. Albania and Greece, however, joined this group only recently. Before, they belonged to the groups with smaller and the smallest municipalities.

In the group of countries with the second largest municipalities (10,000 to 20,000 inhabitants), Belgium and Finland considerably increased the size of their municipalities, and in Poland they remained about the same. Latvia joined this group, leaving the group of countries with the smallest municipalities, and Norway also belonged to a group with smaller municipalities although the difference here was rather small.

The group of countries with the second smallest municipalities (between 5,000 and 10,000 inhabitants) were joined by Slovenia and Croatia, which before belonged to the group of countries with the largest municipalities. Italy, Romania and Estonia have been part of this group throughout the last quarter of a century, and Germany and Spain had joined the countries belonging to the group with the smallest municipalities previously. Germany is an exception in so far as its municipalities were on average much larger prior to the unification in 1990.

Iceland, Austria, Switzerland, Hungary, Cyprus, Slovakia, France and the Czech Republic have always been the countries with the smallest municipalities (fewer than 5000 inhabitants). In Iceland and Switzerland, nevertheless, there was a quite significant increase in size, whereas in Hungary and in the Czech Republic the average size even decreased.

All in all, there is no general trend towards countries having larger municipalities. There are countries with large municipalities on the one hand and countries with small municipalities on the other. In Northern Europe municipalities are large, and they are small or large in Middle, Southern and Eastern Europe.

Local autonomy

The idea of local autonomy highlights municipalities' possibilities in deciding on the provision of local public services according to their own preferences. In order to do so, they need a certain degree of protection from interference from higher political levels, sufficient resources to fulfil their tasks and the means to decide on the things that have to be done (self-government). As an overarching concept, local autonomy consists of

different dimensions such as their legal position, the tasks municipalities are responsible for, their effective political discretion while fulfilling these tasks, their financial and fiscal autonomy, their autonomy with respect to the organisation of their administration and their political system as well as their immunity against and their influence on decisions on higher political levels. Each of these dimensions is of interest in its own right.

Local autonomy, or real decentralization as it is sometimes called, is generally seen as a positive asset of local government. Decisions are taken at a level closer to the needs of the citizens and are therefore better or more appropriate the smaller the distance that separates citizens and the less local authorities facilitate oversight. This increases accountability, provides local governments with effective ways to participate politically or to decide democratically - being aware of the impact and the consequences of the decisions taken. There are, of course, also more controversial aspects related to local autonomy. Too much local autonomy, especially when it goes hand in hand with extensive decentralization and very small municipalities, might harm the effective and professional provision of local tasks and services, and autonomy also opens the doors for uncontrollable diversity and inequalities. An increase in local autonomy can be both an explicit aim of local government reforms and a more indirect consequence of reform activities. Reforms touching upon the allocation of resources and skills to different layers of government, directly increase or lower the degree of local autonomy. Amalgamations can but do not necessarily have a direct impact on local autonomy.

The question of whether municipalities become more autonomous is of interest in its own right, especially when considering the aforementioned growing interdependencies and the calls for global approaches to face the challenges of society. But the question becomes particularly interesting in times of crisis. What is the impact of the financial crisis on local autonomy? Do decreasing financial resources and the call for more efficiency lead to a decrease in local autonomy, or is this an opportunity for local government to take over responsibilities from central government?

Research within LocRef demonstrates quite important differences between countries when it comes to the autonomy of their municipalities:

- The four Nordic countries, Sweden, Denmark, Finland and Iceland, together with Switzerland and Germany consistently show the highest level of autonomy (values over 25, see also Ladner et al. 2015). Nor-

way, Poland, France, Italy and Austria have subsequently joined this group.

- Portugal and Spain are regularly in the second highest group (values between 20 and 25). Belgium and the Netherlands also fit into this group, at least since the year 2000, as is the case for Lithuania. All other countries are relatively new in this group, coming either from the group with more autonomy (Estonia, the Czech Republic) or from groups with less autonomy (Slovak Republic, Croatia, Latvia and Romania).
- The second lowest group (values between 15 and 20) includes countries like Greece, the United Kingdom and Turkey. Slovenia has belonged to this group since the year 2000, and Albania moved to this group in 2010, increasing the autonomy of its municipalities. Hungary had joined the group by 2014, coming down from the next highest group of countries.
- Countries in the group with the lowest level of local autonomy (values lower than 15) are Ireland and Cyprus. Cyprus has also belonged to this group since 2014, while it was in the next higher group in previous periods.

Over the last 25 years, we have seen an increase in local autonomy, mostly in the newer democracies. Countries with the most conspicuous changes upwards are Slovenia, Albania, Italy and to a lesser extent Serbia, Lithuania and the Czech Republic. The most pronounced downward development can be found in Hungary. Another country where the autonomy decreased remarkably is Spain.

Financial pressure and financial crisis

When it comes to financial pressure and austerity measures due to the financial and economic crisis, there are at least two important observations. First of all, *scarce financial resources* have been behind most reform activities in past decades and they are therefore not an entirely new phenomenon. The amalgamation movement, which has attracted an important number of countries especially in the northern part of Europe since the 1970s, promised not only services of better quality, but also at a lower cost. The New Public Management (NPM) movement starting in the 1980s did not only promote new forms of political steering, but also relied on performance management and market-like environments for the public sector in order to achieve more with less money. And in a similar vein, all the attempts to outsource activities or to buy services from pri-

vate providers can be seen as means to lower costs. Perhaps the only groups of reforms where financial considerations were not at the forefront were attempts to increase local democracy. Here, promoting citizens' participation was considered opposed to efficiency and effectiveness, as is well described by Dahl's democratic dilemma (Dahl 1994).

And secondly, the *financial crisis* of 2007 did not hit all countries to the same extent. If financial liquidity is endangered and public debt out-reaches national productivity, it becomes very difficult to keep a country running, especially if it is too expensive or impossible to take out new loans. Increasing unemployment and stalling consumption lower public revenues and increase social security and welfare spending. The resilience of public finances and municipalities' budgets particularly play a more vital role. If public debts are too high and municipalities strongly depend on transfers from higher state levels, there is only very limited room to react and to invest in infrastructure, to create new jobs, or to hamper the negative effects of the crisis on citizens.

While looking at local public sector reforms in times of crisis, we must take into account that not all countries started them at the same point in time and not all countries were exposed to the negative effects of the crisis to the same extent. Cyprus, Greece, Ireland, Italy, Portugal and Spain were definitely much more strongly affected than the Nordic countries or Switzerland. Other countries like Hungary, Latvia or Romania also needed financial assistance, whereas in France, Belgium, the United Kingdom and Slovenia the financial crisis was a highly visible threat which influenced political decisions. In some countries, like Germany, the crisis affected only parts of the country.

Local autonomy, a stronghold against crises and austerity measures?

A crucial question to answer is whether some local government systems are less vulnerable and more resilient to financial backdrops. The first observation is commonplace. A country with a prosperous economy and sound public finances with limited public debt is less likely to suffer in times of crisis. In such countries, it is also less likely that the lower levels will have to combat the negative effects of the crisis disproportionately.

The size of a country's municipalities does not seem to be related to its capacity to resist the crisis. Portugal, Ireland and the United Kingdom have very large municipalities, while Italy, France and Spain have rather small municipalities and all of these countries felt the crisis considerably. Among the countries with fewer difficulties, we find Switzerland with

very small municipalities and Sweden or Denmark with large municipalities. As for local autonomy, the effects seem to be clearer. Countries with more autonomous municipalities (Switzerland, Sweden and Denmark) were less affected than countries where municipalities have less autonomy (Greece, Cyprus, Ireland). In Italy and Spain, however, municipalities are not without some autonomy, but they still suffered.

The idea that local autonomy guarantees economic growth and serves as a shelter against financial crisis is too simplistic, anyway. Although economically strong countries tend to have more autonomous municipalities, a simple causal relation, meaning that by increasing autonomy one can foster economic growth, does not correspond to reality. In countries with more autonomous municipalities, however, it is not the national government who takes all the blame, and the citizens might be more inclined to accept austerity measures on which they decide themselves.

This part of the book is structured as follows: the first subchapter looks at the municipalities' position within the countries and whether the financial crisis had a negative impact on their autonomy. We will also ask whether in some countries the crisis led to amalgamations in order to strengthen municipalities and to make service delivery less expensive. In a second subchapter, we look at reforms of local administration (internal NPM reforms) and specific methods to make municipalities more efficient and effective. The questions here are whether financial pressure and local autonomy foster such reforms. The third subchapter treats different forms of cooperation, i.e. with the private sector, with other municipalities and with higher levels of government, as a means to cope with increasingly scarce resources. Here again, we would like to know whether cooperation has an impact on the autonomy of local government. The last subsection finally looks at local democracy with respect to austerity measures and local autonomy. We will, for each section, introduce the research topic in more detail, present scientific results and the lessons to be drawn and conclude with some policy advice.

Evidence-base for the lessons and advice

Table 2 depicts an overview of the empirical basis for the lessons and recommendations formulated in the various sections of this chapter.

Table 2: Overview of the evidence-base for lessons and advice formulated in chapter 1

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Section	Countries (additional references)
1.2	Albania, Finland, Germany, Greece, Hungary, Iceland, Ireland, Italy, Latvia, Lithuania (Steiner et al. 2016)
1.3	France, Greece, Ireland, Italy, Portugal (Pollitt/Bouckaert 2011)
1.4	Estonia, France, Greece, Ireland, the Netherlands, Norway, Portugal, Spain, Switzerland (Wollmann 2016; Hlepas 2016)
1.5	Albania, Austria, Belgium, Cyprus, Czech Republic, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Lithuania, Poland, Portugal, Serbia, Spain, Sweden, Switzerland (Vetter et al. 2016)

1.2 Stronger local government or is the economic crisis killing municipalities and their autonomy? ■

What is the link between increased financial and economic pressure and the municipalities' existence, strength and autonomy? Did the crisis weaken municipalities and did they find it difficult to maintain their service level due to the lack of resources? Were new tasks entrusted to municipalities without providing them with the necessary financial support? And finally, was the financial crisis used to increase supervision and control of the municipalities or to promote reforms like amalgamations?

For several years, prevailing decentralization trends went along with economic growth, democratization claims and pluralist dynamics both in politics and policies. Municipalities were more or less eager to adapt reforms to improve their performance both in terms of system capacity and in terms of citizens' effectiveness (Dahl and Tufte 1973), but there was hardly a universal reform pattern that could be recognized. Remarkable differences in terms of size and autonomy remained between the different countries and sometimes even within them, and these differences did not seem to disappear. The outbreak of the financial crisis affected, to different extents, quite a few European countries and their systems of local government. The resources and the support municipalities received from higher state levels, the way they organized themselves and provided their services, and occasionally even their very existence came under pressure.

A crucial question while analysing the relationship between municipalities and higher state levels is the flow of financial resources and the principle of fiscal equivalence (Olson 1969). If municipalities depend to a

large extent on transfers from a higher state level, increased pressure on national governments' finances almost inevitably leads to a decrease in transfers to the lower level. Municipalities have to provide the same services with fewer resources or they even have to provide additional services, for example due to increased unemployment, without receiving the necessary resources. If municipalities depend to a very large extent on their own resources, have considerable tax raising power and enjoy more policy autonomy as is stipulated by the principle of fiscal equivalence, they will still suffer from the negative effects – a decrease in tax income, more expenses for social welfare – but it is no longer the national government which is responsible for everything. Local autonomy puts more pressure on municipalities to cope with the crisis themselves, but local autonomy also gives them the opportunity to react more appropriately. Citizens, if the principles of self-government and autonomy hold, are more likely to accept austerity measures if they can and have to decide themselves than if those measures are imposed on them through a national government they do not trust. It might even be argued that being disengaged from their national government due to a lack of resources can actively be used by the municipalities to increase their independence and their autonomy.

The chance to act and to take the right measures to cope with the negative effects is not only related to the autonomy of municipalities, but also to their strength and capacity to implement the policies needed. Large and autonomous municipalities should thus make a local government system more resilient against financial and economic crises. Financial pressure might be used to complete pending reforms like amalgamations. Amalgamated municipalities, if the expectations hold true, promise better services at lower costs. At the end of the day, however, it will be an empirical question whether local government will become stronger and more autonomous or whether it will be more intensively controlled by higher levels of the state.

In many countries, the crisis awakened unitary reflexes by the national government, since they were the ones directly facing external pressures both from European institutions and globalized market players. National governments being held accountable by their electorate for the negative social effects of the crisis, such as the sharp increase in unemployment and social impoverishment, became eager to regain or obtain far-reaching control over general government finance and consolidate, as fast as possible, public budgets. Following particularly strong fiscal pressure and growing demands for local services, specific reforms related to autonomy and austerity were adopted in several countries. Although most

of these reforms were similar in many respects across Europe, decision-making procedures and the concrete policy mix could not be the same due to different national contexts and priorities. The same applies to the effects of these reforms and the trade-off between austerity and autonomy.

In some of the countries investigated, the crisis and the need for consolidation of public and municipal finance, served as windows of opportunity for pending re-centralization tendencies. But additional responsibilities and tasks were also delegated to municipalities (e.g. childcare) without corresponding compensation, which thus violated the principle of fiscal equivalence. In several cases, amalgamation of municipalities or inter-municipal cooperation were encouraged or imposed, while the rationalization of municipal organization, including privatization, cooperation with the private sector or the merging of municipal enterprises was promoted. Fiscal stress at the national level was frequently disproportionately transferred to the municipal level, often through severe cuts in state grants, which particularly affected weaker municipalities. Additionally, debt brakes were introduced and the control of local public finances was enforced.

Evidence about the impact of austerity measures is supported by LocRef findings with regard to the countries where fiscal provisions affected the local government in a direct and incisive way. Some countries, like Greece and Portugal, underwent a strong programme of measures imposed by Troika. The reforms influenced local autonomy through higher control over local finances, hiring and salary freezing, rescaling, amalgamation and fiscal cutbacks. In Spain, different acts weakened the autonomy of local government by affecting the financial sustainability, public debt (2012) and the general reorganization of local government (2013). They enacted coercive measures, fiscal compliance and central control on budgeting together with a reduction of functions. They also contributed to the elimination of the so-called Spanish residual clause that granted local government the power to complement the activity of other public administrations with autonomous choices. In Italy, a letter from the European Central Bank in 2011 led to downsizing local government through dramatic cutbacks and the elimination of the second tier. In 2012 and 2013 the Monti Cabinet approved three packages of measures of fiscal retrenchment, launching cutbacks, limits to public spending and the spending review. They favoured creeping recentralization and a degrading of the local autonomy achieved in the 1990s by extensive delegation of tasks without corresponding financial funds.

In Ireland, the government elected in 2011 abolished town councils (a second tier) and merged adjoining authorities, which led to an overall

reduction in local authorities. It also continued to amalgamate or to abolish local and regional bodies for tourism, economic development, fisheries and harbours. The Netherlands experienced a severe programme of rationalization through a reduction in funding and a series of budget cuts in disfavour of local government. Increasing delegation of tasks from the central government to the local ones without a corresponding share of financial resources added to local public debts, pushing the municipalities to upscale or closely cooperate or merge with surrounding ones. In Germany, some Laender established a supervising commissioner for indebted municipalities and imposed spending limits. In most Laender, a programme of reorganization of local government was introduced through territorial upscaling and financial supervision. Additionally, German municipalities started to voluntarily introduce cutbacks, outsourcing, privatization, staff reduction and a decrease in public service delivery. In general, the German municipalities adopted reforms which focused on a strategy of doing the same but with less. Other countries, like Finland and Slovenia, suffered specific financial retrenchment through the reduction in financial transfer. In Slovenia, this policy undermined the equalization grant that had historically supported local autonomy (2015) and favoured the amalgamation of municipalities together with inter-municipal cooperation and incentives to save money. The central state also reinforced supervision on local spending. In Finland too, central government subsidies were cut, provoking deficit budgets with the result that the central government allowed the local ones to raise higher property taxes. In order to cope with increasing local public debt, the central government promoted amalgamation, the abolition of municipal bodies, rescaling, cutbacks and recentralization for the indebted local authorities.

As far as the majority of the countries is concerned, however, amalgamations were rather an exception after the outset of the crisis. Greece, Ireland, Latvia and Turkey are the only countries which reduced the number of their municipalities dramatically (reduction of more than 50 per cent). Especially in Greece and Ireland, this can be more or less directly related to the financial situation of the municipalities. The reductions in the number of municipalities in countries like Finland, Germany, the Netherlands, Switzerland and the United Kingdom, which amount to between 8 and 25 per cent of the municipalities, can definitely not be seen as an immediate reaction to the crisis only, but rather as the result of ongoing structural reforms of local government, which were, at best, accelerated by the crisis. The furthest reaching amalgamation reforms took place much earlier: Finland (2005), Sweden (1952, 1964-77), Denmark (2007), Iceland

(2004), Germany (1968-1980, 1990), the Netherlands (1969-1992, 2004), Belgium (1976) and United Kingdom (1972-74).

Is austerity ‘killing’ autonomy? According to local government experts (see Ladner et al. 2015), there is only a limited number of countries where the crisis – beyond the political debate – led to a clear decrease in local autonomy. In countries like Greece, Lithuania, Romania and Slovakia, it looks like there was an increase in the scope of tasks municipalities are responsible for. The question, of course, is whether the municipalities also had the opportunity to increase their resources, which was definitely not the case for some of these countries, especially not in Greece. In countries like Hungary or Spain, the policy scope of the municipalities was rather reduced, which can be seen as a sign of lesser autonomy. The most obvious decrease in autonomy occurred in relation to the municipalities’ fiscal and financial liberties. A more coercive transfer system (Hungary, Iceland and Ireland) and less autonomy when it comes to borrowing (Greece, Hungary, Iceland and Italy) were some of the most frequent changes. Apart from these reported changes, we believe that the perceived reduction in autonomy had more to do with a reduced margin of manoeuvre due to a lack of resources than with institutional changes reducing their autonomy, at least in the majority of the countries.

Lessons and Policy Advice

In some countries the financial and economic crises affected local government quite strongly. In these countries additional tasks and the burden of coping with the negative effects of the crisis considerably limited their margin of manoeuvre. In some cases, municipalities also experienced stronger control of their finances by the higher state level. In the majority of the countries, however, no substantial decline in autonomy was detected. Amalgamations were not a common way to react to the crisis. Large and strong municipalities can make countries better equipped to face economic problems, but they do not make them immune. Strong and financially self-sufficient municipalities can serve as a stronghold against financial and economic crises. Municipalities need the necessary skills in the fields most likely to be affected (for example social security, unemployment) and the means to react (for example through an increase in investments and the creation of jobs). At the same time, they need their own financial resources and budgeting skills, which allows them to cope with financially less successful years.

Lesson 1.2.1: The financial and economic crisis increased pressure on municipalities, but not all countries were affected. The larger the municipalities' dependence on resources from higher state levels, the more likely their financial autonomy was reduced.

Lesson 1.2.2: In countries particularly affected, national governments could not support their municipalities sufficiently to cope with the negative effects of the crisis.

Lesson 1.2.3: In several countries, the principle of fiscal equivalence turned out to be inapplicable or violated on various occasions.

Lesson 1.2.4: In countries particularly affected, national government increased its control over municipalities' finances and spending activities. This led to the introduction of debt brakes and restrictions on borrowing.

Lesson 1.2.5: Large scale amalgamation reforms as a reaction to the crisis were rather an exception.

Lesson 1.2.6: Besides financial autonomy, the municipalities' local or general autonomy in most of the countries was not affected by the crisis.

Advice 1.2.1: Ensure that municipalities are well equipped to execute their services and strong enough to cope with negative crisis impacts. Municipalities having the capacity to provide assistance to their citizens in need and to invest in projects to maintain or create jobs can have a stabilizing effect in times of economic pressure.

Advice 1.2.2: Ensure financial health. Municipalities with healthy public finances are less vulnerable and less dependent on higher state level funding.

Advice 1.2.3: Guarantee municipalities their own resources (important share of the overall tax revenue) for service provision. Dependency on transfers endangers municipalities' resources in times of crisis, since national governments are likely to cut transfers more strongly in order to maintain their ability to function.

Advice 1.2.4: Abstain from unequally balanced austerity measures which violate the principle of fiscal equivalence. Autonomy and a well-accepted allocation of tasks and financial responsibilities lower the danger of blame shifting.

■ 1.3 Managing austerity at the local level: achieving efficiency despite cutbacks?

Making local administration more effective and efficient are almost universally valid objectives, which became particularly prominent in the course of New Public Management reforms. Local autonomy can be seen

as a hurdle to comprehensive implementation of new forms of organizing the politico-administrative system of municipalities. At the same time, it can also be seen as a chance to develop solutions which better suit the diverging needs of municipalities. Financial and economic problems intensify the pressure on municipalities to become more efficient and effective. Reforms, however, demand personal investment and additional resources which are difficult to mobilize in times of crisis.

Efficiency and effectiveness have been key intentions of public sector reforms for almost half a century. The wave of New Public Management reforms starting in the 1980s appeared to be a particularly promising way to reduce the increase in local government' expenditure and to concentrate not only on tasks and services which have to be provided, but also on the outcomes and goals to be achieved. In addition to the different reform trajectories oscillating between 'doing less' and 'doing it better', research is particularly interested in the different measures implemented to reform local public administration. Can the tools borrowed from the private sector successfully be adapted to the public sector?

How to organize the local administration and the employment of civil servants is generally in the hands of the local authorities. Higher levels intervene with respect to local finances and budgeting processes. The more autonomous local authorities are, the more diversity exists. High levels of autonomy make it more difficult to modernize local public administration in general, but also allow municipalities to customize their reforms and, perhaps even more importantly, there is some diversity as far as the implementation of reforms is concerned. Reforms have a more experimental character of trial and error. The latecomers profit from the front runners, well-functioning solutions are copied and mistakes can be minimized. Top-down solutions, like for example in the French case of the 'Loi organique sur les loi de finances (LOLF)', seem to make it easier to implement reforms comprehensively, but face the challenges of error and lack of compliance.

Reforming public administration is a complex endeavour and takes time. A new organizational structure and new processes can be designed easily on paper, but they also have to be implemented and accepted by the people working within the new framework. This needs a change of the administrative culture, which can take years. Of course, times of crises can increase the need for changes and help to get reforms started, but they need additional efforts and demand additional resources.

The overall assessment of the reforms shows diverging results. Apart from some general observations that instruments from the private sector cannot be transferred like-for-like to the public sector, it is the fact that the

different reforms did not equally fit well into the different administrative cultures and the different starting points with respect to the necessity of implementing the changes called for by the reform concept which led to very heterogeneous results.

Taken all together, NPM reforms were perhaps too ambitious, promising not only a more efficient and effective delivery of public services, but also a new role for the administration with respect to citizens and a new, outcome-related and forward-looking form of political steering. For quite a few researchers within LocRef, NPM belongs to the past. Some of the claims of NPM, however, have not disappeared and considerably contributed to modernizing local public administrations and improving the way they function.

There seems to be no direct link between local autonomy and internal reforms of local public administration. Comprehensive top-down reforms in centralized states were confronted with resistance and non-compliance. Local autonomy led to more customized solutions and prevented municipalities from reforming their administration where it was not appropriate. Very small municipalities do not face the same problems as larger cities. Guidance and support from higher levels and good examples of 'best practices', however, are highly appreciated by the municipalities.

The financial crisis did definitely not foster comprehensive reform of the local politico-administrative system. It is a commonly recognized phenomenon among researchers that reforms cause – at least in the short run – additional costs and demand considerable commitment from the people involved. Countries strongly affected by the crisis did not become particularly interested in the principles of New Public Management, nor did they reorganize their municipalities according to the overall framework of this reform movement. They did, however, rely on some of the cost saving elements that were part of New Public Management. Austerity measures aimed to increase efficiency basically through reducing the waste of financial resources. Central government increased its control over spending activities and the budgets of local government (debt brakes, limited opportunities to borrow money).

Common measures imposed on local government were a reduction in employees or the introduction of employment ceilings. The recruitment process remained in the hands of local government, but it could only be used under the direct authorization and control of the Ministry of Finances. Such top-down limitations were very successful, since some countries managed to achieve a reduction in administrative staff of 25%. A look at some of the countries particularly hit by the crisis shows that

there were considerable changes induced as a consequence of the crisis, but that they can hardly be linked to more proactive reform schemes.

Some central governments stressed the need to create Public Services Oversight Groups. These entities aim to promote better service delivery collaboration, endorse shared services and ensure centralized public procurement. In some cases, they also oversee financial balance and sustainability, where they have the power to withhold funding from the municipalities. Ireland, for instance, managed to create an effective general structure of public procurement. This structure takes full responsibility for procurement policy and procedures, and for driving reforms within four sectors (Health, Defence, Education and Local Government). In France, the Observatory of Local Public Finances was transformed into an Observatory of Local Public Management in order to link financial benchmarks to service delivery data.

As regards the financial dimension, the countries under fiscal stress (Portugal, Greece, and Ireland) behaved differently from the rest of the countries. Central governments restrained the power of municipalities to contract loans, but provided more autonomy to redefine a local fiscal policy. One important sort of revenue for municipalities are general purpose grants, allocated from central government. Despite the differences in computation between countries, this general grant is intended to promote a balanced division of taxpayers' money for the two levels of government in such a way that each receives a fair share suitable for its responsibilities. The general grant was reduced in Portugal (first from 30.5% to 25.3% then to 20.5%), in Greece (from 21.3% to 19.5%) and in Ireland (a global reduction of 35.7% after a consistent growth of 129% between 1999-2008). However, this reduction did not have a direct impact on the overall size of the budget of municipalities; in some cases, they even increased. With the exception of Italy, where the changes focused on a system of decentralization of functions and taxation governed by state law, many central governments conceived several acts to improve local fiscal policy. Some services that were free of charge started to be charged to citizens (the Irish case of water is the most iconic). In other cases, where fiscal stress was heavier, the municipalities' discretion to set the fee for services was suspended. In countries like France, where grant reduction was late and limited, fiscal autonomy was reduced.

Municipalities also experienced serious limitation of their ability to borrow money. While in some cases they were never able to engage in capital market borrowing, in others, central government placed limits on the amount of money that could be borrowed. Specific emergency man-

agement initiatives were put in place to restrict the level of discretion of municipalities.

Unlike France, the countries most affected by the financial crises (Italy, Greece, Portugal and Ireland), created Recovery Programmes for overly indebted municipalities. Sharply defined financial indicators automatically triggered the formal process. The adoption of a financial recovery programme implied restrictions on new investments, recruitment of personnel, and maximization of the fiscal burden imposed on citizens and the allocation of every available resource to debt reduction. These initiatives were a success, since they restrained the rise in municipalities' indebtedness, but definitely reduced the municipalities' autonomy.

Lessons and Policy Advice

Apart from being on the reform agenda in most countries in one way or another, New Public Management did not lead to one single way of organizing local administrations. Some countries implemented more of the instruments proposed, others fewer. In most countries, however, the term is no longer used and has lost some of its attractiveness. Local autonomy did occasionally help governments to abstain from further-reaching reforms in municipalities where they were not appropriate, but there is no evidence that it hindered reforms in general. The crisis led to some changes, but they one-sidedly focused on cost-saving effects. Reforms of the politico-administrative systems can increase the capacity of local governments to function well and make them more efficient and effective. To what extent ambitious and comprehensive reforms – like for example the reforms within the framework of New Public Management – really make the state work better depends on the starting point of a country in terms of performance, its administrative culture and the way the reforms are implemented. Internal NPM reforms are very ambitious. Although they contain elements which promise more effectiveness and efficiency, the reforms cannot be implemented successfully without additional costs and thus only partially help countries under financial pressure.

Lesson 1.3.1: Internal reforms under ‘New Public Management’ occurred in almost all countries, but did not lead to a single best model with which to organize local public administrations.

Lesson 1.3.2: The fact that NPM belongs to the past in the current reform debate should not overshadow the achievements of some of the reform claims of this reform movement.

Lesson 1.3.3: Local autonomy did not particularly hinder the implementation of New Public Management reforms, but rather helped municipalities to customize their reform activities.

Lesson 1.3.4: The financial crisis and austerity measures led to some drastic changes in some of the countries. These changes unilaterally focused on cost-saving issues and control. They cannot be called NPM reforms.

Lesson 1.3.5: Reductions in numbers of employees, more control of local public finances, reallocation of tasks and recovery programmes are changes triggered by the crisis in some countries. These changes must be seen as attempts to cope with the crisis rather than as proactive reforms.

Advice 1.3.1: Ensure well-functioning municipalities. Make sure that they follow the principles of ‘good local governance’ (see Denters et al. 2016; Council of Europe 2014). Municipalities need support and guidance when it comes to implementing administrative reforms.

Advice 1.3.2: Allow municipalities to design their administration according to their specific situation and their needs within the framework of ‘good local governance’. Municipalities need organizational autonomy to implement reforms in a way which serves them best.

Advice 1.3.3: Do not confound austerity measures with prospective reforms to increase effectiveness and efficiency. Reforms of politico-administrative systems are meant to increase the overall performance of municipalities and to prevent them from suffering in times of crises. Some of their claims might coincide with measures that appear helpful in times of crisis.

1.4 Impacts of austerity on local-level service provision: how to avoid a race to the bottom

Alongside territorial and internal reforms to make municipalities stronger, more effective and efficient in general, but also particularly in times of crisis, there are also ways to reorganize the tasks and services they are responsible for. Apart from completely cutting down services, municipalities can cooperate more intensively with the private sector, increase

municipal cooperation or accept higher state levels taking over the responsibility for some of the tasks. The autonomy of municipalities to reorganize the provision of tasks and services is one matter of interest; another matter of interest is the question of what impacts such reorganization has on the autonomy of municipalities.

How to organize the provision of tasks and services is one of the fundamental questions which concerns every state. Beyond the very basic question of what has to be done by the public sector and what has to be done by the private sector, which addresses normative concerns about the role of the state within society, there is an ongoing debate on the organization of tasks and services the municipalities should be responsible for. Of course, normative values have some importance here as well, but the question is more about the provision or, perhaps better, the execution of tasks and services. The final responsibility remains in the hands of the municipalities, even if they do not offer these tasks and services themselves through their own administration and their own civil servants. The size and the capacities of the municipalities play an important role here.

There are basically three directions municipalities can take when looking for alternative ways to provide their tasks and services. A first direction can be termed cooperation with the private sector. This entails different forms of outsourcing or purchasing of services and public-private partnerships. The spectrum is wide and the terminology varies, but the basic idea is that the municipality still has the last word but takes advantage of the competence of and the opportunities offered by private actors. The second possibility is the joint provision of tasks and services with other municipalities. Inter-municipal cooperation is a way to optimize the catchment area of a task, which results in lower costs or more professional provision. This is often seen as an alternative to amalgamations and offers the advantage that the catchment areas can be adapted according to the requirements of each specific task. The last possibility is intensified cooperation with higher levels of state. This must not be confounded with transferring the task to the higher level, which is nothing but centralization. The municipalities still contribute to the funding and by doing so – following the principle of fiscal equivalence – they should also keep some decisional power.

To what extent do these reforms have an impact on the autonomy of local government? Outsourcing, or more intensive cooperation with the private sector, does not necessarily lead to less autonomy, since the municipalities remain in charge of these tasks and services. One of the problems arising here is what political scientists call the ‘principal-agent’ problem. The municipalities have the role of the principal. They take the

final decisions, define the goals to be achieved and set the rules and conditions to respect. The private providers of the services are the agent. They know how to execute these tasks and retain all the important information. This gives them the chance to influence the terms of the contract in their interest. The municipalities depend on the know-how of their agents (private service providers). Although the municipalities' autonomy is not reduced, they might lose some influence on the tasks and services provided. In an ideal form, however, they receive precisely what they want and might get it at a cheaper price.

As for inter-municipal cooperation, it is often argued that this reduces local autonomy since the municipality no longer decides alone on the provision of a specific task, but together with other municipalities. Some even argue that inter-municipal cooperation leads to retrenchment of local democracy. The effects of intensified cooperation depend to a large extent on the way it is organized. There are ways to increase democracy through service contracts and binding mandates, political steering and supervising boards, referendums and initiatives. A single municipality, nevertheless, depends more on other municipalities and therefore loses its independence. The scope of tasks municipalities organize autonomously without interference from higher state levels, however, remains unchanged. Inter-municipal cooperation thus reduces the autonomy of single municipalities, but not of the municipalities in general.

Increased cooperation with higher levels of the state, on the contrary, can reduce the autonomy of the municipalities in general. This is particularly the case when the execution or the regulation of tasks and services is transferred to the higher levels of state. Following the broadly accepted principle of subsidiarity, transferring tasks to higher state levels should only take place when the lower levels are no longer able to fulfil this task and a countrywide solution is needed. Following the principle of fiscal equivalence, regulating, funding and executing should coincide on one level. Paying without any influence on the way public agents from the higher level do something is the worst case scenario for the municipalities. The – very unlikely – best case would be to receive all the money without any additional instructions so that they can use it for their own purposes according to their preferences.

The pressure to save costs and to become more efficient caused by the financial and economic crisis can be seen as a crucial element in reorganizing the provision of tasks and services and increasing cooperation with the private sector, other municipalities or higher levels of the state. It remains to be seen, however, to what extent the crisis triggered such a development and to what extent they were already part of ongoing

restructuring of the public sector. Since the early eighties, a number of methods and techniques aimed at restructuring public services under the name of New Public Management have been introduced in many European countries. Such methods are termed within the LocRef research framework as 'external NPM' techniques.

At the outset, the debate was particularly polarized, opposing privatisation and provision by the state. Apart from specific services and a limited number of countries where privatisation seemed to be the right way forward, the reforms thereafter concentrated much more on different forms of cooperation between the state and the private sector, although the normative undertones of the debate persisted. Municipalities did not stop being responsible for the tasks and services, but stopped providing them themselves (outsourcing, buy instead of make), chose organizational forms closer to the market (state owned enterprises), or simply accepted and supported private actors in offering services to their citizens (public-private partnerships). In more recent times, there seems to have been a revival of the municipal sector (re-municipalization).

At least in some countries, research within LocRef revealed a trend towards inter-municipal cooperation. This is not an entirely new form of service provision, nor is it directly linked to New Public Management reforms. It is interesting to note that a joint provision of services with other municipalities not only affects smaller municipalities, but is also practiced in countries with large municipalities. A loss of local autonomy, at least from the perspective of the different municipalities involved, as well as democratic deficits accompany increased cooperation, and amalgamations are often considered to be a better alternative. Single purpose cooperation ventures offer the advantage that they can be better adjusted to specific tasks, whereas multi-purpose municipalities are hardly the ideal size for all the tasks and services they are responsible for. The alleged loss of democracy has not been confirmed by larger international comparative research, but rather reflects anecdotal evidence.

Mixed forms of service provision – for example in the case of child day care – can be found in a variety of countries. LocRef research that compared countries like Estonia, Finland, Germany, Greece, Ireland, Portugal and Spain, revealed not only remarkable differences concerning the range of services offered, but also with respect to provision, regulation and funding (Hlepas et al. 2016).

Literature on multilevel governance takes up the increasing complexity when it comes to regulating, financing and executing public policies. Municipalities, for example, are responsible for primary schools in most of the countries, but they have no influence on the subjects taught and

they cannot cover all the costs themselves. Subsidiary and fiscal equivalence, although broadly accepted and widely used in the political debate, are only partially respected. In practically all the countries, there are quite important transfers from central government – or in the case of federalist countries from subnational governments – to the municipalities. In some countries they account for a larger part of local government income, and in some countries they are more often conditional. Up to now, there has been a lack of promising concepts of how to organize vertical cooperation effectively, giving the lower levels at least some discretion and not treating them as executive bodies only.

Austerity measures in countries particularly hit by the crisis hardly pushed the municipalities to reform the organization of their provision of services in a comprehensive manner. For some municipalities, cooperating with the private sector or with other municipalities proved to be helpful in maintaining services. A shift of additional tasks to the municipalities on the vertical axis without additional resources or cutbacks of resources where services still have to be provided was a common practice in countries under financial stress, but it was also constantly observed in other countries.

Lessons and Policy Advice

Municipalities are increasingly cooperating with private actors, other municipalities and also more intensively with higher state levels. All these forms of cooperation have an impact on the municipalities' autonomy, and there is an intensive debate on how these forms of cooperation can be improved without retrenching local autonomy. Austerity did not particularly foster cooperation, but the vertical relationship with the higher levels proved to be a source of conflict. Cooperation with other actors is an interesting way to provide services and tasks more professionally and at lower costs. Hereby, the possibility of influencing and controlling the provision of services politically must not be neglected, and the provision has to take place within the reach of local democracy.

Lesson 1.4.1: The way the provision of local tasks and services is organized depends on political preferences with respect to the role of the state as well as on the capacities of municipalities to provide the different tasks and services effectively and efficiently.

Lesson 1.4.2: Municipalities have the opportunity to cooperate with the private sector, other municipalities and with higher state levels.

Lesson 1.4.3: There is no single best practice. The extent and form of cooperation depends on the tasks and services as well as on the specific context municipalities are confronted with. Increasing cooperation has been on the reform agenda for quite a long time.

Lesson 1.4.4: The financial and economic crises did not lead to a clearly visible reorganization of local service provision. In especially exposed countries, however, municipalities had to take up new services without additional resources or maintain tasks with fewer resources from higher levels.

Advice 1.4.1: Maintain or develop appropriate instruments to control and steer tasks and services if they are provided by private actors.

Advice 1.4.2: Maintain or develop appropriate instruments to control and steer public service provision politically and ensure that they fall within the reach of local democracy if public tasks are provided together with other municipalities.

Advice 1.4.3: Make sure that the principles of subsidiarity and fiscal equivalence are not disrespected without convincing justification if (some parts of) local public service provision falls into the hands of higher state levels.

Advice 1.4.4: Contemplate the impact of changes in the mode of service provision from a mid- and long-term perspective. Moments of crisis are not necessarily the best moment for fundamental reorganization.

■ 1.5 Local autonomy, democracy and austerity: an ambiguous relationship

Local autonomy and local democracy are commonly seen as positive assets of local government. There are local public sector reforms which aim at increasing local autonomy and there are local public sector reforms which aim at increasing local democracy. This section deals with the link between local autonomy and local democracy and the impact of austerity on both of them.

The European Charter of Local Self-Government implies the idea that local autonomy is a prerequisite of local democracy. The safeguarding and enforcement of local self-government entails

“the existence of local authorities endowed with democratically constituted decision-making bodies and possessing a wide degree of autonomy with regard to their responsibilities, the ways and means by which those responsibilities are exercised and the resources required for their fulfilment, (...)" (Council of Europe 1985).

In more analytical terms, this implies that local autonomy increases the reach of issues which can be decided by the municipalities independently, and therefore also the scope of democratically elected authorities. Whether and to what extent the increase in autonomy also leads to an increase in local democracy in terms of democratic instruments and the opportunities for citizens to influence local political decisions depends on the transfer of decisional power to the citizens.

Any attempt to gain an idea of recent developments and trends with regard to local autonomy and local democracy, faces a series of conceptual and empirical challenges. First of all, we have to clarify the meaning of local autonomy. Local autonomy encompasses a variety of aspects, but not all of them are of equal importance for local democracy and citizens' influence. Whereas there are, apart from the different aspects to consider, also serious normative concerns to take into account for local democracy, for those in favour of direct democracy, a simple transfer of decisional power to the representatives is not sufficient; they attempt to increase the direct influence of the citizens instead. Additionally, the static analysis confronting local autonomy with local democracy has to be combined with a more dynamic perspective. Here, we are interested in whether an increase in local autonomy, or, more specifically, some of its components, leads to an increase in local democracy, or, more specifically, to an increase in some aspects of local democracy.

When it comes to the impact of the financial and economic crisis on local autonomy and local democracy, the first set of question asks whether the consequences are likely to be negative or positive. Financial and economic pressure, on the one hand, are likely to reduce the financial resources transferred to local government and might call for tighter supervision with respect to the municipalities' financial liberties and opportunities to borrow. On the other hand, it might theoretically also be possible that the higher level loses its grip on local government, being no longer able to steer local policies through subsidies and transfers. In contrast to local democracy, the scope of decisions does not necessarily increase, but the choices to be made might become more important and the interest in local politics is likely to increase.

A second set of questions asks whether autonomous municipalities with broad and well-established democratic procedures are more resilient to the negative impacts of a financial crisis and better able to take the necessary decisions to cope with the crisis. We can argue that autonomy increases the possibility of municipalities taking the most appropriate decisions. For some, there are ways to become more efficient through internal management reforms; others might have to cut down expenses,

and for others an increase in public spending and investments might help to create employment. One could also expect that the decisions resonate better with the citizens if they can take them by themselves or not too far away from them. The most important prerequisite here, of course, is that they decide on the use of their own resources and not on the money they receive through transfers and that they possess sufficient financial resources in the first place.

According to the results of broad comparative research conducted within LocRef, we found considerable differences as far as the autonomy of municipalities in the different countries is concerned (see the introduction to this chapter). Measuring with a multi-dimensional indicator and taking into account the legal position, the tasks municipalities are responsible for, their effective political discretion while fulfilling these tasks, their financial and fiscal autonomy, their autonomy with respect to the organization of their administration and their political system, and their immunity to and their influence on decisions on higher political levels, we can distinguish between countries where municipalities enjoy a high degree of autonomy (like for example Sweden, Denmark, Finland and Iceland together with Switzerland and Germany) compared to countries where local autonomy is very low (Ireland and Cyprus).

The quality of local democracy has up to now been under-researched. To get an idea of possible differences between the countries, we have, to a large extent, to rely on indicators which measure the quality of democracy in general, or more specific studies covering only some countries or some aspect of local democracy. One of the difficulties when comparing and quantifying democracy are competing normative concepts of democracy, for example whether it should be representative or more direct. Here, we focus on electoral turnout and trust in subnational governments.

Not astonishingly, it is far from simple to compare electoral turnout at local elections. The functionaries to be elected (mayors, councils, and executives), the electorate, the electoral systems and the electoral districts are very different. More or less comparable figures show quite a high turnout in the Nordic countries, but also in France, Italy, Portugal, Spain and Greece. Turnout figures below 50 per cent are found in countries like Switzerland, Poland or the Czech Republic.

Trust in local or regional governments is often taken as a prerequisite for a well-functioning democracy. The Nordic countries again show the highest level of trust. The Rhineland States also have a high level of trust, whereas the level of trust is considerably lower in the Southern European Countries (apart from France) and in the new democracies (with Estonia being the noteworthy exception). The Eurobarometer study

on the role and impact of local authorities from 2008-2009 confirms not only that trust in authorities is higher on a local level than on a national level, but that this level also remained higher during the financial crisis' (see Eurobarometer 2009).

Not unexpectedly, a high level of trust coincides with a low degree of corruption, and both aspects are strongly related to the quality of democracy in general. Here, the Nordic countries, together with Germany, Austria and Switzerland as well as the BENELUX countries show the best results.

It becomes quickly apparent that local democracy and local autonomy go hand in hand. Those countries with the most autonomous municipalities also score high when it comes to the quality of democracy. This is particularly the case for countries like Switzerland, Denmark, Sweden, Norway and Finland. Low autonomy countries such as Cyprus also score low on the democracy dimensions. Among the different components of local autonomy, it is the municipalities' freedom to decide on taxes, on their political system and their administration, as well as on a broad range of tasks which are mostly strongly related to the overall quality of democracy.

From a more dynamic perspective, there has been a significant increase in local autonomy over the last 25 years. This increase has been considerably stronger in the new democracies, which started off from a very low level of local autonomy. In the older democracies, the increase was much lower. Countries with the most notable changes upwards are Slovenia, Albania, Italy and to a lesser extent Lithuania and the Czech Republic. The most pronounced downward development can be found in Hungary. Another country where autonomy decreased remarkably is Spain.

For local democracy, however, we notice an increase with respect to the means of political participation. Participatory planning, participatory budgeting, citizen conferences and e-participation are just some of the tools municipalities started making use of. Such more direct involvement in local political decisions by citizens is often a reaction to decreasing turnout in local elections, which can be considered a loss of legitimacy on the side of the authorities. Increased 'customer orientation' promoted by New Public Management reforms and more demanding citizens when it comes to local services, however, can also be considered driving forces for participatory reforms. Further reaching democratic reforms shifting decisional power to the citizens by developing binding means of direct democracy, as has, for example, been done in Germany, are rather seldom. The same applies to far-reaching transfers of competence from one part of

local government to another. However, we must not forget that the idea of good local governance with its claims (rule of law, transparency, accountability, efficiency, etc.) made the baseline for local democracy more ambitious.

Has the financial crisis had an impact on local autonomy and local democracy? Evidence from countries like Italy, Portugal, Spain and Greece shows that the financial crisis negatively affected the transfers municipalities received from higher levels of government. If fewer transfers means fewer obligations linked to the transfers, this could mean an increase in autonomy. In general, however, fewer transfers simply means that local government are deprived of the resources needed to fulfil their duties. Empirical evidence also shows that in some countries, the financial autonomy of the municipalities was restricted by governments introducing budget control measures and reducing their autonomy when borrowing. The more municipalities depend on their own income, the less dependent are they on higher levels. The crucial question here is whether the crisis considerably reduced their ability to generate enough tax income. This, of course, is directly related to the municipalities' economic structure and the economic situation of their taxpayers and to their power to raise taxes. To what extent municipalities are finally able to use their autonomy to use the most appropriate measures to fight the crisis depends on the resources they have at their disposal and the question of whether possible spill overs can be excluded. Investments, for example, make more sense if the municipalities also profit from the additional jobs created.

The financial and economic crisis limits the field of possible decisions to be taken, but there is no direct institutional link to local democracy. Anecdotal evidence from Greece, for example, shows an increased interest in political decisions among its citizens.

Are local systems with strong, autonomous municipalities and well developed systems of local democracy more resilient to the impacts of a financial crisis? Obviously, when we look at the evidence, countries with more autonomous municipalities like the Nordic countries, Germany and Switzerland suffered less compared to Portugal or Greece. The question is whether this is in fact due to their municipalities' higher degree of autonomy, or whether there are other, much more important factors not considered in this context. It is difficult to argue that local autonomy or local democracy serve as a shelter against any economic problems or crises. Other factors like the state of the economy and the robustness of public finances (for example) play an important role as well. The opposite, how-

ever, that centralized countries with very little democracy managed to cope with the crisis better definitely does not seem to be true.

The claims for more local autonomy and local democracy, if they are taken seriously, can eventually lead to a considerable amount of diversity and inequalities. To what extent differences and diversity are accepted and acceptable are not primarily scientific but normative, cultural or political questions. The same applies to means chosen to deal with inequalities and diversity. The political stability of the countries with autonomous municipalities and a strong local democracy proves that the way they deal with these problems is largely accepted by the citizens.

Lessons and Policy Advice

The countries differ considerably with respect to the autonomy of their municipalities and the quality of local democracy, and both aspects seem to be linked to each other. Both of them have improved over the last few decades. Whether the crisis and austerity measures have had an impact on them is related to financial issues – i.e. pressures for more economic service provision – and restricted choices in democratic decisions. The results of LocRef research showed that the claims for more autonomous municipalities and more local democracy are justified. Although the impacts might be far from immediate and straightforward, countries with autonomous municipalities and a well-developed local democracy seem to perform better and to be more resilient to crises.

Lesson 1.5.1: Countries differ considerably both in terms of the autonomy municipalities have and in terms of the quality of local democracy.

Lesson 1.5.2: Countries with autonomous municipalities usually also have a more developed local democracy.

Lesson 1.5.3: There has been an increase in local autonomy over the last twenty-five years. This increase is particularly salient in some of the CEE countries.

Lesson 1.5.4: Local democracy has become a salient reform topic. Changes aim at offering citizens more ways to participate. More fundamental changes addressing the normative foundation or the power of different institutions, however, are rare.

Lesson 1.5.5: Most often, municipalities' margin of manoeuvre was reduced more generally by the negative impacts of the crisis (reduction in funds by higher levels and the ability to execute tasks). This sometimes reduced the scope of democratic decisions, but it certainly did not reduce the interest in politics.

Lesson 1.5.6: Only some of the countries with less autonomous municipalities and less developed local democracies suffered strongly from the effects of the economic and financial crisis.

Lesson 1.5.7: Whether local autonomy and local democracy make countries more resilient to financial or economic crises remains unclear. It seems, however, that local autonomy and local democracy go hand in hand with economically strong and well-functioning countries.

Advice 1.5.1: Implement measures to foster local autonomy and local democracy, since they pay off. They are in line with claims for good local governance and seem to strengthen the 'backbone' of economically strong and well-functioning countries. Be aware that municipalities' autonomy and a developed local democracy are not the only causes of success. Local autonomy and local democracy can also be a result of economic success.

Advice 1.5.2: If a real increase in autonomy and local democracy is envisaged, implement a power shift to local government and the citizens. Implement additional measures to cope with possible differences and inequalities that will result from this power shift, since it will lead to more diversity.

Advice 1.5.3: Do not use austerity measures to reduce the municipalities' general autonomy and to cut down democracy, since these measures will increase the pressure on municipalities. Citizens are more likely to accept measures they decide on by themselves than those chosen by higher levels of government.