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“Optimal Local Jurisdictions’ Size and Recent Reforms”

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ABSTRACT

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The thesis aims to analyze whether the efficiency of local public provision of services can be improved by amalgamating small municipalities to bigger units. Based on the literature review improved efficiency is considered as the main outcome expected from a decentralized system of public service provision. Decentralization is supposed to increase administrative efficiency, effectiveness and responsiveness in the provision of services. However, the optimal rate of decentralization is a key issue in this respect. The topic is current and important both in Italy and in Finland. Both countries need to cut their public expenditures and both are also committed to the amalgamation process, in order to escape from a variety of economic problems such as ineffective governance and inadequate economic growth.

TABLE OF CONTENTS

ABSTRACT	2
TABLE OF CONTENTS	3
LIST OF FIGURE	5
LIST OF TABLE	6
CHAPTER 1: INTRODUCTION	
1.1 THE METHOD AND THE STRUCTURE	7
1.2 THE RESEARCH QUESTION	7
1.3 EXPECTED RESULTS	8
CHAPTER 2: THEORY OF LOCAL GOVERNMENT AND DECENTRALIZATION	
2.1 FISCAL FEDERALISM	9
2.2 THE DECENTRALIZATION ISSUE	10
2.3 THE ECONOMIC ROLE OF THE LOCAL LEVEL	14
2.4 OPTIMAL ASSIGNMENT OF FUNCTIONS BETWEEN CENTRAL AND LOCAL LEVEL	18
2.4.1 <i>The assumptions of Oates' Decentralization Theorem</i>	19
2.4.2 <i>The tradeoff between Decentralization and Economies of Scale</i>	22
2.5 THE OPTIMAL SIZE OF LOCAL JURISDICTIONS	23
2.5.1 <i>The model of Buchanan: Theory of clubs</i>	24
2.5.2 <i>The Tiebout hypothesis: 'Voting with your feet'</i>	28
2.6 COMPETITION BETWEEN LOCAL GOVERNMENTS: COMPETITION ASPECTS	31
2.6.1 <i>Political competition</i>	31
2.6.2 <i>Vertical competition and Horizontal competition</i>	32
CHAPTER 3: LOCAL GOVERNMENTS IN ITALY AND IN FINLAND	
3.1 THE ORGANIZATION OF ITALIAN LOCAL GOVERNMENT	36
3.1.1 <i>Regions</i>	37
3.1.2 <i>Provinces</i>	39
3.1.3 <i>Municipalities</i>	40

3.1.4 Mergers and cooperative agreements _____	48
3.2 THE FINNISH LOCAL GOVERNMENT SYSTEM _____	57
3.2.1 Historical evolution of Finnish local government _____	58
3.2.2 The organization of Finnish local government _____	60
3.2.3 The legislation on municipalities _____	62
3.2.4 Functions of local authorities _____	64
3.2.5 Municipal revenues sources _____	65
3.2.6 Alternative ways to provide local government services _____	66

CHAPTER 4: LOCAL GOVERNMENTS REFORMS: THE FINNISH AND ITALIAN EXPERIENCE

4.1 THE LOCAL GOVERNMENTS ACROSS EUROPE _____	69
4.2 THE REFORM PROJECT IN FINLAND _____	72
4.2.1 Framework Act's central content _____	73
4.2.2 The means of implementing the reform _____	74
4.2.3 Municipal merger grants _____	76
4.2.4 The aim of the reform: population size and scale economies _____	76
4.2.5 Evaluation of the reform _____	78
4.3 THE ITALIAN REFORM: GOALS AND INSTRUMENTS _____	80
4.3.1 The dynamics of the reform process _____	81
4.3.2 The nowadays agenda _____	82
4.4 IMPACTS ON VOTING BEHAVIOUR AND ELECTION RESULTS IN FINLAND _____	86
4.4.1 The value of local representation _____	86
4.4.2 Effect on voting turnout _____	87
4.4.3 Effect on voting behaviour _____	88
4.5 REDISCOVERING THE TERRITORY: POPULATION SIZE OF THE MUNICIPALITIES AND ELECTORAL BEHAVIOR IN ITALY _____	92
4.5.1 The data of the analysis _____	92
4.5.2 Effect on voting behaviour _____	93
4.5.3 Do electoral rules affect the local and central government behaviour? _____	98
CONCLUSIONS _____	100
REFERENCES _____	102

LIST OF FIGURE

FIGURE 2.1 – THE ALLOCATIVE EFFICIENCY CASE FOR LOCAL GOVERNMENT _____	20
FIGURE 2.2 – DETERMINATION OF THE OPTIMAL NUMBER OF CLUBS _____	25
FIGURE 3.1 – TOTAL EXPENDITURE OF MUNICIPALITIES BY FUNCTION IN ITALY _____	44
FIGURE 3.2 – CURRENT PER CAPITA EXPENDITURES OF MUNICIPALITIES BY DEMOGRAPHIC DIMENSION IN 2009. _____	49
FIGURE 3.3 – UNION OF MUNICIPALITIES _____	52
FIGURE 3.4 – NUMBER OF LOCAL COUNCILS ASSOCIATED IN UNION OF MUNICIPALITIES BY DEMOGRAPHIC DIMENSION _____	53
FIGURE 3.5 – NUMBER OF MUNICIPALITIES BY POPULATION SIZE AND AVERAGE DENSITY OF POPULATION _____	58
FIGURE 3.6 – MAIN BODIES OF FINNISH MUNICIPAL ORGANIZATION _____	60
FIGURE 3.7 – LOCAL AND JOINT MUNICIPAL AUTHORITIES REVENUES, 2009 _____	66
FIGURE 4.1 – REFORM PROJECT TO RESTRUCTURE LOCAL GOVERNMENT AND SERVICES (PARAS PROJECT) _____	75
FIGURE 4.2 – VOTERS BY CLASSES OF DEMOGRAPHIC SIZE _____	94
FIGURE 4.3 – TREND OF DEMOCRATIC PARTY AND PDL IN 2008 ELECTIONS _____	95

LIST OF TABLE

TABLE 3.1 – REGION, PROVINCES, MUNICIPALITIES. _____	38
TABLE 3.2 – DISTRIBUTION OF ITALIAN MUNICIPALITIES AS TO POPULATION RANGE _____	41
TABLE 3.3 – NUMBER OF MUNICIPALITY COUNCILLORS IN ITALY _____	42
TABLE 3.4 – TOTAL EXPENDITURE OF MUNICIPALITIES BY FUNCTION IN ITALY _____	45
TABLE 3.5 – CURRENT REVENUES OF MUNICIPALITIES _____	46
TABLE 3.6 – NUMBER OF SMALL MUNICIPALITIES BY POPULATION SIZE _____	48
TABLE 3.7 – DATA ON UNION OF MUNICIPALITIES _____	51
TABLE 3.8 – DATA ON UNION OF MOUNTAIN COMMUNITIES _____	54
TABLE 3.9 – MERGER OF MUNICIPALITIES IN THE LAST TWENTY YEARS _____	56
TABLE 3.10 – NUMBER OF COUNCILLORS _____	61
TABLE 4.1 – POPULATION, SURFACE AREA AND ORGANIZATION OF TERRITORIES IN THE EU-27 MEMBER STATES _____	71
TABLE 4.2 – THE PARAS PROJECT _____	73
TABLE 4.3 – MERGERS AS OUTCOMES OF THE PARAS-PROJECT _____	78
TABLE 4.4 – THE PURPOSE OF THE FEDERAL GOVERNMENT REFORM _____	81
TABLE 4.5 – THE NEW METROPOLITAN CITIES IN DETAIL _____	83
TABLE 4.6 – THE THREE CLASSES OF ITALIAN PARTIES IN RELATION TO THE DEMOGRAPHIC SIZE OF THE MUNICIPALITIES _____	94
TABLE 4.7 – MUNICIPALITIES VOTING PDL, PD AND NORTHERN LEAGUE _____	96

CHAPTER 1

Introduction

1.1 The method and the structure

The thesis presents a comparative analysis of the goals and forms of implementation of the Italian and Finnish Reforms. This paper is structured in the following way.

In Chapter 2, the theories of fiscal federalism are presented in order to understand the trade-off between centralization and decentralization. Moreover, the chapter analyzes the theoretical and conceptual issues related to the optimal size of local government and the competition between localities.

After establishing a comprehensive theoretical framework, Chapter 3 gives a general description and comparison of the Finnish and the Italian local governments system. Basic historical and institutional details allow to understand the main differences that characterize local public finance in the two countries.

Chapter 4 focuses on the two different institutional approaches followed in reforming the local governments of the two countries: on the one hand, the merger between municipalities in Finland, and on the other hand the inter-municipal cooperation and partnership arrangement in Italy. This chapter considers and presents elements describing their effects, with special attention to the voters participation and choices in the local elections. The last section concludes the paper considering the Reform process currently ongoing within local and regional structures in both countries, comparing the Finnish local government to the Italian situation. It is presented an evaluation on the mechanisms of inter-municipal cooperation, facing on the consequences of the Reform introduction on the local representation.

1.2 The research question

The questions that need to be answered include the following:

- What is the current situation regards the local government in Finland and in Italy, and what are the recent reform processes of relevance for these structures?

- What economic consequences there may be from amalgamation of small municipalities to bigger units, and how they may differ between the Italian and Finnish reforms?
- To what degree can local government amalgamation contribute to efficiency?
- Reform in Finland: Are the municipalities stronger than before and the differences between municipalities smaller than before?
- Reform in Italy: are the recent reform provisions able to implement the Italian government system in a more efficient way?

1.3 Expected results

Assessment of the validity of the two renewals and suggestions for policy improvements in the case countries.

The origins of contemporary local government system are complex, and have resulted in the bewildering array of local government institutions and functions now observed across the developed world. (Dollery and Robotti, 2008). In most countries, an adequate combination of local and central government is essential to achieve effective and efficient functioning of government. In order to avoid duplication of effort and wasted resources, it is necessary to ensure that decisions are made at the most appropriate level of government. The assignment of different function between central and local government necessarily reflects the division of service responsibilities between those tiers of government.

CHAPTER 2 *Theory of Local Government and Decentralization*

2.1 Fiscal Federalism

Fiscal federalism is the study of the determination and distribution of financial responsibilities and functions between different levels of government, as well as the interactions among the various tiers of government. Commonly, this is considered to be the relationship between national and local governments, in which each level of government has specific rights and obligations.

In many countries, both in the industrialized and in the developing ones, the existence of more than one level of government within the same geographical area raises many issues concerning the definition of an adequate relationship between the different jurisdictions, capable of reaching the assigned goals and improve the performance of their public sectors. Therefore, the central issue of federalism is whether certain goods and services or government responsibilities can be best provided and financed at the national or local level.

According to Oates (1999), *“the hope is that state and local governments, being closer to the people, will be more responsive to the particular preferences of their constituencies and will be able to find new and better ways to provide these services”*. (Oates, 1999)

As a consequence, since each country has different economic and societal characteristics, the achievement of efficient procedures for reaching the ‘best’ government organization depends on the optimal assignment of functions to the proper levels of government and on the adequate instruments at their disposal. Therefore, it is important to understand which responsibilities are best placed at a central level of government and which are more appropriate for a decentralized one.

The past few decades have witnessed a process of intensive transformations in intergovernmental relations where the highly centralized and unitary states have gradually created new levels of government next to the central one rising responsibilities or resources for regional or local government, while the decentralized countries have further increased the powers assigned to sub-national levels of government. Since very few countries have remained untouched, the theory of fiscal federalism and decentralization has become one of the most debated policy issues within

many local government jurisdictions and different are the questions that arise about its potential impact, the possible benefits but also difficulties that may occur. Whether decentralization is appropriate often depends on many country-specific factors. Still, some general issues are relevant to all countries (Litvack and Seddon, 1999).

2.2 The Decentralization Issue

The term *decentralization* is used to cover a broad range of transfers of authority and responsibility for public functions from the central government to subordinate or quasi-independent government organizations and/or the private sector – is a complex multifaceted concept (World Bank Institute, 1999). According to the United Nations Development Programme:

“Decentralization refers to the restructuring or reorganization of authority so that there is a system of co-responsibility between institutions of governance at the central, regional and local levels according to the principle of subsidiarity, thus increasing the overall quality and effectiveness of the system of governance, while increasing the authority and capacities of sub-national levels....Decentralization could also be expected to contribute to key elements of good governance, such as increasing people's opportunities for participation in economic, social and political decisions; assisting in developing people's capacities; and enhancing government responsiveness, transparency and accountability.” (UNDP, 1997)

Hence, it is a process that involves a gradual transfer of competences originally concentrated in central government towards other spheres of government, according to the *subsidiarity principle* whereby decision making and implementation are more efficient if taken as close to citizens as possible (UCLG, 2008). Then, a decentralized choice could increase economic welfare by adapting levels of consumption to the preferences of smaller and more homogeneous groups; instead, a more centralized decision typically involves relatively uniform levels of consumption so that to limit the diversity of outputs. These considerations are useful to realize that decentralization refers to a variety of different characteristics, policy implications, and conditions for success, which must be carefully analyzed in any particular country before deciding whether projects or programs should support reorganization of financial, administrative, or service delivery systems. (Litvack and Seddon, 1999). Indeed, decentralization can appear in different forms and combinations across countries, within countries, and even within sectors. For this reason, it is necessary to make a clear distinction between horizontal and vertical decentralization: *horizontal decentralization* refers to

the spatial disaggregation of governmental functions at the same level, with several governments providing a similar range of services to citizens, whereas *vertical decentralization* describes a hierarchy wherein different levels of government serve different functions. As a result, horizontal decentralization will empower local communities, and vertical decentralization will create conducive structural arrangements and transfer of powers, functions, responsibilities and resources. Moreover, on the basis of objectives, one can distinguish among political, administrative, fiscal, and market decentralization.

Political decentralization

Political decentralization normally refers to a process where decision-making power has been collocated at the lower levels of government in order to promote democracy and good governance: it can ensure a more efficient allocation of resources, enhance local resource mobilization and improve local governance. But the main argument in favour of political decentralizing is the purpose to give citizens and their representatives more influence in formulating and implementing policies. As a consequence, people are more inclined to engage in local political activities: decisions made with greater participation will be better informed and more relevant to the diverse interests of the society than those made only by national political authorities. The concept implies that the selection of representatives from local electoral jurisdictions allows citizens to better know their political representatives and allows elected officials to better know the needs and desires of their constituents. Political decentralization often requires constitutional or statutory reforms, development of pluralistic political parties, strengthening of legislatures, creation of local political units, and encouragement of effective public interest groups (Litvack and Seddon, 1999).

Administrative decentralization

Administrative decentralization aims at transferring decision-making authority, financial resources, and responsibilities for planning, financing, and managing certain public services from the central government to other, lower levels of government, agencies, and field units of government agencies. This transfer has three major forms - *deconcentration*, *delegation* and *devolution* - each with different characteristics and implications regarding resource mobilization and management accountability, and service delivery. It is the accountability factor that differentiates the main types of administrative decentralization (Thakur and Newman, 2000).

- a) **Deconcentration**: deconcentration involves very limited transfer of authority. This type of arrangement is most often referred to the redistribution of decision-making authority and financial and management responsibilities among different levels of the central government. This transfer changes the spatial and geographical distribution of authority, but does not significantly change the autonomy of the entity that receives the authority: deconcentration can merely shift responsibilities from central government officials in the capital city to those working in regions, provinces, or districts, or it can create strong field administration or local administrative capacity under the supervision of central government ministries. Moreover, it is possible to identify general deconcentration that occurs to the extent that a variety of tasks are deconcentrated to a horizontally integrated administrative system. Instead, functional deconcentration occurs to the extent that specific tasks are deconcentrated to the field units of particular ministry or agency (Schneider, 2003).
- b) **Delegation**: it is a more extensive form of decentralization. Through delegation central government transfers responsibility for decision-making and administration of public functions to local units of government or specialized agencies that are not necessarily branches or local offices of the delegating authority. Governments delegate responsibilities when they create public enterprises or corporations, housing authorities, transportation authorities, special service districts, semiautonomous school districts, regional development corporations, or special project implementation units. Usually these organizations have a great deal of discretion in decision-making. They may be exempt from constraints on regular civil service personnel and may be able to charge users directly for services.
- c) **Devolution**: devolution is the transfer of authority for decision-making, finance, and management to quasi-autonomous units of local government with corporate status. Devolution usually transfers responsibilities for services to municipalities that elect their own mayors and councils, raise their own revenues, and have independent authority to make investment decisions. In a devolved system, local governments have clear and legally recognized geographical boundaries over which they exercise authority and within which they perform public functions. Compared to the other two types of administrative decentralization, devolution provides the greatest degree of autonomy for the local unit. The local unit is only accountable to the central government insofar as the central government can impose its will by threatening to withhold resources or responsibility from the local unit (Schneider, 2003).

Fiscal decentralization

Fiscal decentralization refers to the public finance dimension of intergovernmental relations. It specifically concerns the reform of the system of expenditure functions and revenue source transfers from the central to sub-national governments. The basic characteristics for the establishment of an effective decentralization process and of a system for decentralized financial management should include transparency of allocation and predictability of the amounts available to local institutions and local autonomy of decision making on resource utilization. Without appropriate fiscal empowerment, the autonomy of sub-national governments cannot be substantiated and, in this way, the full potential of decentralization cannot be realized.

Fiscal decentralization can take many forms, including:

- *self-financing or cost recovery* through user charges;
- *co-financing or coproduction arrangements* through which the users participate in providing services and infrastructure through monetary or labor contributions;
- *expansion of local revenues* through property or sales taxes, or indirect charges;
- *intergovernmental transfers* that shift general revenues from taxes collected by the central government to local governments for general or specific uses;
- *authorization of municipal borrowing* and the mobilization of either national or local government resources through loan guarantees.

In many developing countries local governments or administrative units possess the legal authority to impose taxes, but the tax base is so weak and the dependence on central government subsidies so ingrained that no attempt is made to exercise that authority (Litvack and Seddon, 1999).

Economic decentralization

Economic decentralization is a form of transfer of government responsibilities and authority that moves planning and administrative responsibility or other public functions from government to non-public entities such as, private voluntary associations, community groups, cooperatives, or other non-governmental institutions with clear benefits to the society and involvement of the public. Indeed, this kind of decentralization is typically undertaken for services that had been primarily or exclusively under the responsibility of the central government and, now, are transferred to those

levels where the corresponding tasks arise. This often involves contracting out partial services provision or administration functions, deregulation, or full privatization, usually followed by economic liberalization and market development policies (Thakur and Newman, 2000).

- a) **Privatization** can range in scope from the provision of goods and services based entirely on the free operation of the market to public-private partnerships in which government and the private sector cooperate to provide services or infrastructures. Privatization can mean allowing private enterprises to perform functions that had previously been monopolized by government. It can also mean contracting out the provision or management of public services or facilities to commercial enterprises. Indeed, there is a wide range of public-private institutional forms and ways in which such functions can be organized, particularly in infrastructures. Privatization can also include financing public sector programs through the capital market, with adequate regulation or measures to ensure that the central government does not bear the risk for this borrowing, and allowing private organizations to participate. And finally, it can mean transferring responsibility for providing services from the public to the private sector through the divestiture of state-owned enterprises (Litvack and Seddon, 1999).
- b) **Deregulation** reduces the legal constraints on private participation in service provision or allows competition among private suppliers for services previously provided by the government or by regulated monopolies (Litvack and Seddon, 1999).

In recent years privatization and deregulation have become more attractive alternatives of government provision in many countries. Local governments are also privatizing by contracting out service provision or administration. Distinguishing among different types of decentralization already present in a country facilitates the discussion about tailoring policy plans to the existing structures and the possible impacts on the latter.

2.3 The economic role of the local level

In a democratic society, local governments can be referred to a locally-elected organization below the level of the state, province or region, providing public services whose benefits are mainly enjoyed in the area of its jurisdiction. Therefore, there exists a territorial structure of government where some decisions are taken and implemented at the central level, and others are taken and implemented by public entities located in different areas of the country. These local authorities

could have different nature varying in both geographic and demographic size, but they have a general power of competence in order to undertake decisions or activities that they consider to be related to local public interest (Bailey, 1999). Hence, it can be argued that the main role of local governments is to deliver public goods and services, seeking to determine the conditions for the maximization of economic welfare. Therefore, it is necessary that the allocation of competences and responsibilities at each level of government occurs properly.

The optimal structure of the government is the one that ensures a perfect correspondence between the boundaries of the jurisdictions that provide services and the area within which the benefits of the services produced are manifested. The role and responsibilities of the various government tiers are related to the traditional policy objectives of allocation, stabilization, distribution and regulation (Bailey, 1999). These four functions can be described in the following ways:

- **Allocation** is the government's function that ensures efficient allocation of resources, either in the market or through government provisioning. According to many economic theories, the provision of public goods and services in sufficient quantities is a fundamental activity for the government and their assignment depends on how large an area benefits from the public goods. Therefore, certain goods and services, in particular the national public goods, are always allocated to the central governments, so that they are often uniform across all jurisdictions regardless of the preferences of a particular jurisdiction. Instead, the local public goods are allocated at a different level, by local government, according to the quantity and quality of the goods or services provided in a specific jurisdiction (Robbins, 2005). A perfect competitive market economy necessarily achieves a Pareto optimal allocation of resources because all products and factors prices reflect their respective marginal costs. Markets fail to achieve allocative efficiency if they are less than perfectly competitive or if not all costs and benefits are reflected in market prices. Government intervention, at whatever level, can be justified in such cases if it corrects for market failure. The possibility of government failure has to be recognized as a constraint on the justification for intervention. In summary, local government have a potentially substantial allocative role in responding to cases of market failure at the local level, provided that intervention is not counter-productive in exacerbating market failure.
- **Stabilization** is the second function of government that can be obtained through prices stability, preventing excessive inflation and ensuring full employment. These goals can be addressed at the central government level through the formulation of both monetary and fiscal policies. For obvious reasons, it makes little sense for regional or local governments to manage economic

stability through macroeconomic policies. This is because sub-national governments have limited effect on macroeconomic stability due to their limited jurisdictions:

- They would be unable to engage in commercial policies, through manipulation of exchange rates, imposing tariffs and quotas on imports, or subsidizing exports across their borders.
- They could not be engaged in monetary policies, because they do not issue money.
- This leaves only fiscal policies. But local government cannot typically issue debt to finance current operating expenses, unlike the national government. Thus, these governments are limited to balanced budget changes in expenditures and taxes (Tresch, 2008).

For example, lowering taxes or giving cash grants to residents in one local jurisdiction to increase production in that area is almost certainly doomed to fail because the effects of increased consumption would leak to other areas (Moisio, 2002). Therefore, when fiscal and monetary policy is utilized at the regional or local level, economic spillovers are often realized across decentralized jurisdictions resulting in economic distortions. Given that fact, local government could adopt a do little or nothing strategy, letting the other local governments implement stabilization policies whose effects would spill over in their favor. For instance, when one State lowers tax rates, this action tends to stimulate that State's economy at the expense of the neighboring States. As a consequence, if local governments compete with each other in order to stimulate their local economies at the expense of other local governments, the result could be highly inflationary (Robbins, 2005 and Bailey, 1999).

- **Distribution** is the governments' function that ensures the maintenance of socially acceptable levels of equity in wealth distribution and market access. If these conditions are not met, redistributive policies can be enacted. It is generally argued that central government is more efficient than regional and local governments in ensuring income redistribution from the rich to the poor and in establishing minimum standards of public services across the regions (Ahmad and Brosio, 2006). The ability of local government to manage redistribution from high to low income groups is limited because of different social standards of wealth equity among their citizens, and because of the mobility of the poor, the rich and business activities across local boundaries. Indeed, jurisdictions that have a high effort in redistribution policies will attract the poor citizens from neighboring place and, at the same time, will create incentives for high income citizens to move out of those jurisdictions, distorting or preventing a successful distributive goal. Because of its nature, and interaction with the tax system, the demand for redistribution will increase, as income inequality increases: the consequence is a shrinking tax

base and a self-defeating redistributive policy. These considerations do not imply that local governments could not be involved in any kinds of redistribution. If mobility is low either because migration opportunities do not exist or are too costly, then moderate redistributive programs at a local level are possible. Moreover, there is some evidence that local governments are better able to identify beneficiary groups and to provide social and redistributive policies that support them in a targeted way. Many functions of responsibility of local governments have significant distributional effects, most notably health, public education and infrastructure services: each one is an indication of the important role of the level of government in attaining efficiency goals. One implication of such goals is the choice between taxation or user charges to finance these specific local public services and utilities. The aim is to improve budget responsibility and efficiency in pricing the individual benefit. Therefore the appropriate method of paying is by cost recovery through user fees, so that the price charged for these services reflects their value to consumers. But this also has clear distributive implications for the poor, it can reduce access and might necessitate accompanying individual social aid (Ahmad and Brosio, 2006).

- **Regulatory** function is finally the government role that establishes the rules and creates better decisions about the implementation of regulatory strategies. The central government usually plays a coordinating role in setting standards and monitoring compliance. This ensures compatibility and consistent quality across the national network and enables a wide variety of potential service providers. The decentralization of regulation depends on the political circumstances (Litvack and Seddon, 1999). In most cases, local government acts as agents for the central government in carrying out the regulatory function. Indeed, local governments will generally facilitate the adaptation of regulation to local conditions and preferences. At the local level, the government could regulate economic activity for a number of reasons: for example, regulatory functions may relate to town and country planning, policing central legislation relating to trading standards, the local environment and so on (Bailey, 1999).

According to Wallace Oates (1972), not all these roles of government are equally optimal for every tier of government, indeed efficiency is realized if the appropriate function is properly matched to the appropriate level of government. Some empirical evidences suggest that central government is best suited for providing a uniform public good, whether a minimum of diversity in preferences exists (Robbins, 2005). However, local governments are more efficient at providing goods and services when preferences vary from jurisdiction to jurisdiction. Consequently, among the four

main economic functions of government, resource allocation is primarily the concern of local governments, even though it depends on the good or service being allocated. Income distribution, stabilization and regulatory function are best performed by the central government, with complementary interventions of local governments. Since there is the possibility that central governments and local government roles may overlap, the division of those functions necessarily reflects the division of services and responsibilities between those tiers of government (Robbins, 2005).

2.4 Optimal assignment of functions between central and local level

Local government usually provides public goods and services based on local interests: the idea is that local government is closer to the people within a defined geographic area and so more responsive to their preferences than central governments. Conversely decision should be taken at a national level if they involve public goods which serve the entire economy. Indeed, not all functions can or should be financed and managed in a decentralized way. And even when national governments decentralize responsibilities, they must create or maintain the enabling conditions that allow local units of administration or non-governmental organizations to take on more accountability but at the same time they maintain policy and supervisory roles (Litvack and Seddon, 1999).

If local autonomy conflicts with central government's roles, the degree of local discretion may be represented by the choice between the following:

- The *centralized constraints model*, where central government establishes a set of constraints within which local governments can operate with full autonomy but they are required not to breach it.
- The *bargaining model*, where local government's autonomy is established within the Constitution and with which central government must therefore negotiate in order to secure its compliance with the national policies. The problem with this approach is how to ensure that each and every local government respects the agreement.

Therefore, the relationship between central and local governments may reflect different perceptions of the need for local autonomy, accountability, provision of welfare services and macroeconomic control (Bailey, 1999).

The problem of allocation of competences and responsibilities between different levels of governments includes that of defining the number of levels of government in a given system and the number of governments present at each level.

2.4.1 The assumptions of Oates' Decentralization Theorem

The question of which level of government should be responsible for the provision of local public goods, has been long debated in public economics, with the aim of providing specific guidelines to solve the problem of power assignment within the public sector .

According to Wallace E. Oates in his paper “An Essay on Fiscal Federalism” (1999), *“the provision of public services should be located at the lowest level of government encompassing, in a spatial sense, the relevant benefits and costs”* (Oates, 1999).

The principle here is that public policy and its implementation should be assigned to the lowest level of government so that to provide the quantity of goods and services that best meets local preferences.

More specifically, this argument refers to Oates' Decentralization Theorem (Oates, 1972) based on the consideration that:

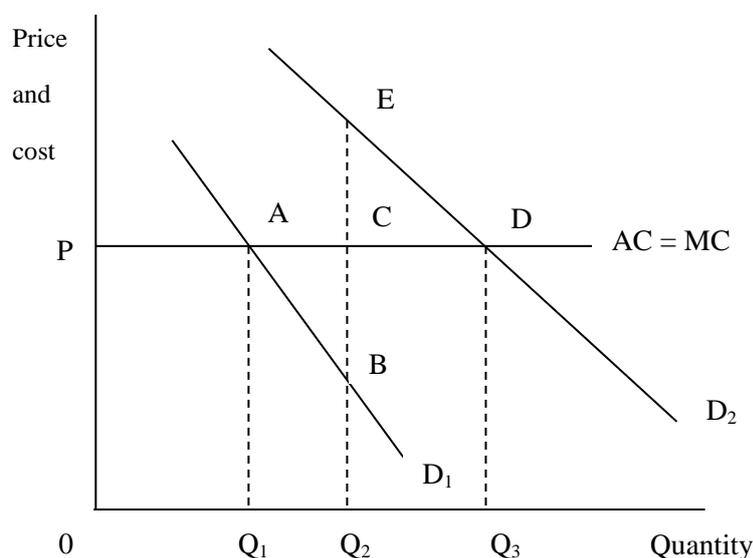
“For a public good – the consumption of which is defined over geographical subsets of the total population, and for which the costs of providing each level of output of the good in each jurisdiction are the same for the central or for the respective local government – it will always be more efficient (or at least as efficient) for local governments to provide the Pareto-efficient levels of output for their respective jurisdictions than for the central government to provide any specified and uniform level of output across all jurisdictions”.

The theorem defines a set of sufficient conditions under which centralized or decentralized provision of public goods is efficient: Oates' decentralization theorem is referred to the principle that the optimal size is that can most accurately match the supply with the demand for the provision of goods and services in the public sector.

Centralized choices lead to a homogenous provision of public goods to all citizens, failing to take account of local variations in preferences. Conversely, local authorities better match the local service provision with citizens' preferences, having more information than central government.

As a consequence it is possible to say that local government is desirable because national uniform services create a loss of consumer's surplus, as illustrated in Figure 2.1.

Figure 2.1 – The allocative efficiency case for local government



Source: based on Oates, 1999

We assume that:

- Costs in producing the output are constant such that the marginal cost (equal to the average one) is represented by a horizontal straight line.
- The society is composed of only two individuals represented by demand schedules D_1 and D_2 .
- The national government would decide to produce output Q_2 .

As it possible to see in Figure 2.1, at price P , individual 1 demands Q_1 while individual 2 demands Q_3 , respectively less than and greater than Q_2 .

The gains from decentralization deriving from the application of the model are measured in terms of social welfare. In this situation:

- Individual 1 is forced to consume more of the output than she wishes, the cost of the additional enforced consumption (the area Q_1ACQ_2) being greater than willingness to pay (the area Q_1ABQ_2).
- Likewise, Individual 2 is deprived of extra consumption for which she would be willing to pay the rectangle Q_2EDQ_3 , compared with a cost of only Q_2CDQ_3 .

Hence, Individual 1 incurs a deadweight loss of welfare measured by the area ABC while Individual 2 experiences a loss of CDE (Bailey, 1999).

The size of this welfare loss depends on several factors, in particular, on the differences between central and local choices, on the economies of scale in production of the output, and on the heterogeneity of preferences and price elasticity of demand. As a result of this consideration, welfare losses could be quite large whether associated with an identical provision of public services. Therefore, it is important for the reduction of the welfare losses that the size of local government is not too big because each local government's population becomes more homogeneous and outputs can more accurately reflect local demands. In order to support the decentralization theorem, it seems reasonable that the smaller the population size of a community the greater each individual citizen's impact on local collective decision-making (Bailey, 1999).

The decentralization theorem explains that *the optimal degree of decentralization depends on the heterogeneity of preferences, on the one hand, and inter-jurisdictional spillovers (externalities) and economies of scale, on the other hand.* (Oates 1972 and 1999)

Based on these principles, the optimal jurisdictional size from a functional perspective is the one that internalizes externalities and gains benefits of scale. It is important to note that in this perspective each policy has its own optimal jurisdictional size (Besley and Coate, 2003). Some tradeoff of welfare gain and increased costs associated with smaller size seems inevitable. The optimal size of jurisdictions will be determined by that tradeoff but, in practice, little is known about the relative sizes of gains in allocative efficiency and losses in economies of scale for different services as the size of jurisdictions is reduced (Bailey, 1999). According with Oates' decentralization theorem, the existence of economies of scale serves to qualify the allocative efficiency case for small local governments. In this sense, the economically optimal size of local government occurs when any gains from economies of scale exactly balance the reduced ability to respond to preferences which vary among citizens. This means that optimum size can only be determined in terms of the provision of a single service and that optimum size may differ in respect of different services.

Clearly, the determination of the optimal size of local governments requires estimation of the consumption benefits arising from decentralization and the production cost benefits arising from increasing scale (Bailey, 1999). However, as W. Oates (1972) and E. Page (1991) note, a direct measure requires a set of information and data that are likely to be difficult to collect.

Oates's theory of fiscal federalism has been extensively criticized, principally in terms of its application to real world situations. Numerous criticisms have been directed against the unrealistic hypothesis made in the model, in particular the absence of spillover among jurisdictions and the absence of economies of scale in the provision of public services. Although the theorem justifies the decentralization of administrative power in a multi-level system of government, it does not identify any particular insight about how local jurisdictions emerge, nor does it investigate the optimal size of local authorities.

2.4.2 The tradeoff between Decentralization and Economies of Scale

As already noted, according to Oates' famous decentralization theorem, economies of scale would serve to define how best to improve the efficiency in the provision of local government services. Indeed, this analysis can be applied to find the appropriate government structure in order to ensure that local authorities produce the right services at the right price (Boyne, 1992).

According to Slack (2004), "*Economies of scale occur where the per-unit cost of producing a particular service falls as the quantity of the service provided increases. In the context of local government, this means that the cost of providing a service falls as the number of people being served increases*".

Thus, it follows that the larger the jurisdictional unit system, the lower will be the cost per person of service provision.

Nevertheless, it must be stressed that scale economies will not be uniform across the range of goods and services provided by a local government since each output will have its own unique production characteristics.

Empirical evidences show that the efficient level of production depends on the different type of services in question and the units of measurement (e.g. jurisdiction size or size of the facility) (Hermann, Horváth, Péteri and Ungvári, 1999). Economies of scale are generally particularly pronounced for central administrative and governance functions and for capital-intensive services, like public transportation and water and sewage systems (Chernick and Reschovsky, 2006) but customer-orientated services such as municipal rangers or health inspectors, generate few scale economies because they require more employees when the volume of services increases. (Dollery, Byrnes and Crase, 2008)

Accordingly, as stated by Dollery and Fleming (2006), "*where local government produces a range of different services no single size of government will be able to produce all services at the*

minimum possible cost for each service". Certainly, *"a system of numerous small municipalities will result in higher expenditures for the same output, than a system of fewer larger councils"*. Although the supply of a service may benefit from a larger distribution area, diseconomies can occur when the enlargement of the local authority makes it more difficult to manage its activities (Robbins, 2005). Moreover, larger government units may also cause higher costs to the user/taxpayers because of congestion problems. Some recent works seek to give a more precise representation of the characteristics associated with public goods, including congestion effects. An extensive analysis on these problems has been studied by Agnar Sandmo (1973), who constructed a model where benefits are generated by joint consumption of private and public goods. He has shown a condition analogous to the Samuelson rule for optimal provision of public goods applied to 'collective factors of production'. While individual consumption of a Samuelsonian pure public good is insensitive to the size of the consuming group, Sandmo (1973) assumes that *"the quantity consumed by an individual of the final good will be a function not only of the quantity of the public good and of his own use, but also of the total use of the public good by all consumers"*. Therefore, technology of consumption becomes relevant if the output of a final good depends not only on the consumer's own use but also on that of others. This can be conveniently referred to the congestion effect, which is a result of excessive use of the private 'inputs' (for example, too many cars on a freeway). A consequence is that individual public good consumption falls as the size of the consuming group increases. In this connection, it should be emphasized that, *"provision of public goods is one of the most important means whereby the government can redistribute welfare in a market economy"* (Sandmo, 1973) so a reduction in congestion effects should be prompted by increased provision of the public goods.

2.5 The optimal size of local jurisdictions

Since the early 1950s, many economic theories have focused their analysis on the relationship between the size of local government, the efficient provision of their services and the degree of citizens' participation in local public life (Bailey, 1999). Of particular interest to the theme is how local citizens secure an optimal supply of the local collective good. There are two basic models used to analyze these issues, the Buchanan (1965) club model and the Tiebout (1956) model.

2.5.1 The model of Buchanan: Theory of clubs

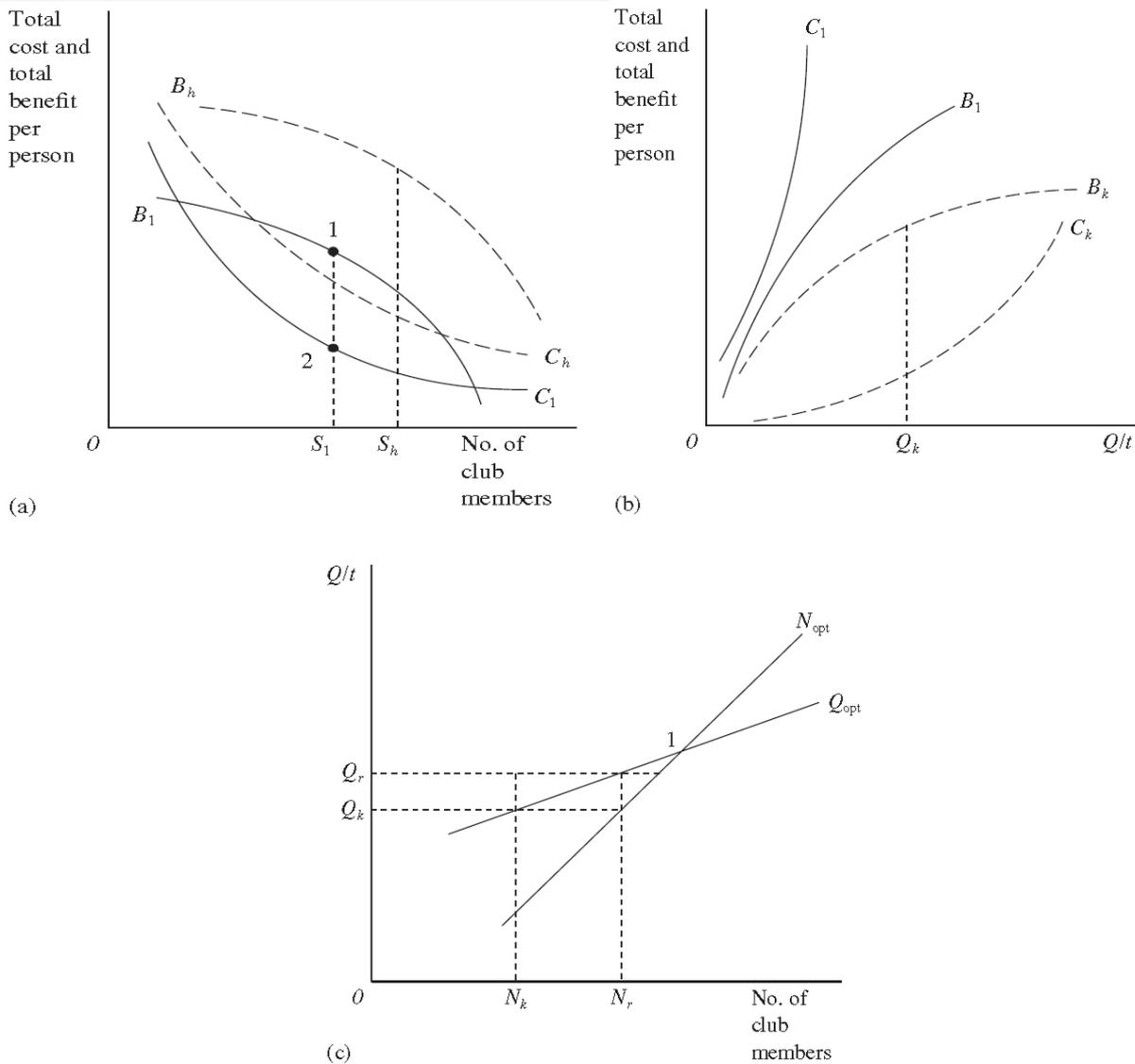
The analysis on the optimal size of the local government and the level of service that they should provide has been conducted using the concept of club. Since the benefits of local public goods are restricted to a particular geographical area and they cannot be enjoyed outside of that area, it is useful to consider local communities as a club, a voluntary group of people who join together to coordinate the provision of such goods and share benefits that better match their preferences.

The theory of clubs developed by the economist J. M. Buchanan (1965) has been used to justify the existence of local jurisdictions and also to identify the factors that influence the optimal size of each local jurisdiction in order to secure the optimal provision of local public goods and services (Tresch, 2002). In his most famous work, "*An economic theory of clubs*", Buchanan proposed a model that focuses on the relationship between the size of local communities or clubs and the cost per member of their services. It is based on the following assumptions (McNutt, 2002):

- a) All individuals are homogeneous, so that they have identical tastes for both private and public goods;
- b) Benefits and costs are divisible among the club members: the costs per capita for the provision of the good decrease as more members join the club, but the benefits begin to fall as more members contribute to congested level of membership.
- c) It is costless to the club to exclude members if necessary to obtain an optimal membership.
- d) There is no discrimination across members.

It should be emphasized that the objective is to consider the optimal provision size in terms of welfare of club members. Therefore, two fundamental aspects of the community formation process are to consider: the optimal quantity of goods and services supplied for each possible size of club and the number of members admitted (Cullis and Jones, 2009).

Figure 2.2 – Determination of the optimal number of clubs



Source: based on Buchanan, 1965

In order to discuss the analysis of Buchanan, it is helpful to illustrate the efficient mechanism for the provision of public goods in Figure 2.2, where the costs and benefits per member is measured on the vertical axis in both of parts (a) and (b), while the number of the club members is shown on the horizontal axis in part (a) and the quantity of good of the club is shown in part (b).

In part (a) of the figure, is presented the variation of the costs and benefits per person at the variation of the number of members, given the production level of the club.

Two kind of functions may be traced: the per person cost C_1 and the per capita benefit curve B_1 corresponding to a level of production 1, while C_h and B_h represent the cost and benefit function corresponding to a production level H, where H is greater than 1.

Essentially the cost curve (C_1) shows that per capita cost of producing a given quantity of the good decreases as the number of members that join the club and share the costs increases. Thus, the average cost to each member falls as more join the club.

The benefit curve (B_1) also depends on the number of members. Initially it may rise, but after a particular number have joined the club, there could be a congestion problem and benefit per person will fall (Cullis and Jones, 2009). Indeed, congestion costs require a limitation on club size whereas the possibility of sharing the costs of the club with additional members involves an increase of the membership of the club. As a result there would be an optimal size where the two contrasting forces balance each other (Dollery and Robotti, 2008).

When the group size is S_1 , the difference between benefit per person B_1 and cost per person C_1 is at a maximum distance. Therefore, S_1 is the group size for which the benefits are greatest and it is the only optimal for the club with costs C_1 .

Consider now an increase in the size of the community: the benefits per person might be greater (B_h) and the cost per person might rise (C_h); as a consequence, the increase in quantity would increase the optimal membership size to S_h . The connection between the optimal number of club members and the quantity of the goods is illustrated by the line N_{opt} in Figure 2.2(c) (Cullins and Jones, 2009).

Accordingly, for any quantity of the good in question there is an optimal membership.

In Figure 2.2(b), we assume a given number of club members and we trace the per capita cost (C_1) and per capita benefit (B_1) functions.

If we first assume that the good may be consumed by just one individual we may find that the optimal goods quantity is zero (Buchanan, 1965). Indeed, if the benefits enjoyed by the individual varied as B_1 , and the costs of increasing the quantity of good increase as C_1 , then it is clear that the individual would not purchase any quantity of the good.

However, if a group of individuals formed a club, the total costs per person would be reduced proportionately to C_k while the benefits would decrease to B_k , given non-rivalness in consumption. From this cost and benefit function derives the optimal goods quantity Q_k , relating to a club size of k .

The relationship between the optimal quantity of goods and the size of the club is illustrated by the line Q_{opt} in Figure 2.2(c) (Cullins and Jones, 2009).

The results derived from Figures 2.2(a) and 2.2(b) are combined in Figure 2.2(c), where it is possible to determine the optimal quantity and optimal membership simultaneously.

In part (c) of the figure, the two variables goods quantity and club size are measured on the ordinate and the abscissa respectively: the optimal membership size for any given quantity is illustrated by the line N_{opt} , while the line Q_{opt} defines the optimal quantity for any given membership size (Buchanan, 1965).

The point of intersection between these two lines, N_{opt} and Q_{opt} , represents the optimal club size, at point 1. Suppose, for example, that the membership is N_k . As a consequence, the optimal goods quantity is Q_k ; but at quantity Q_k the optimal number of members is N_r . With a membership of N_r the optimal quantity is Q_r , and so on. Hence, the individual prefers a larger quantity of the good, until the optimal quantity and the optimal membership size is attained at point 1 (Cullins and Jones, 2009).

Although the club model discussed may appear very simple, it highlights the crucial aspects of the community formation process. Specifically, it suggests how the community size depends on the type of public goods the people want to consume, but does not provide any insight about the optimal provision of public goods between central and local governments (Rosen, 1999).

Moreover the theory of clubs is based on strong assumptions that necessarily limit its applicability to real world situations.

- The above analysis has been undertaken under the assumption of homogeneity in tastes across the population. Since individuals have different tastes, the efficient solution may be only for individuals of similar taste to group together. However, with multiple groupings, some of the advantages of cost sharing may be lost (Cullis and Jones, 2009).
- Another assumption that makes the classic Buchanan theory not too concrete is the voluntarily joining the club and the possibility of leaving the club and joining another. This consideration does not provide valid perceptions for the debate about local government's size. Indeed, jurisdictions are entities characterized by some degrees of constraint; therefore citizens are bound to adhere to the jurisdiction whose geographical scope encompasses the area in which they live (Dollery and Robotti, 2008).

- Lastly, a further assumption in the Buchanan model refers to the provision of a single public good. A given local authority may be responsible for the provision of more than one local public good; hence, it implies the existence of an optimal local agency for any service or good provided. As a result it may be impractical to have a multitude of overlapping jurisdictions, each one specialized in providing a single public good. Clearly such structure could lead to large coordination and management costs and limiting the benefits in terms of better satisfaction of citizens' preferences, optimal size and better accountability of local administrators (Cullis and Jones, 2009 and Dollery and Robotti, 2008).

2.5.2 The Tiebout hypothesis: 'Voting with your feet'

Following the discussion of the optimal size of clubs, it is appropriate to consider a mechanism that justifies the formation of local communities and consider how individuals join the club that better matches their preferences. This issue was proposed by Charles Tiebout (1956) in his famous model as a direct response to Samuelson's (1954) conclusion that individuals would not reveal their preferences for public goods.

However, Tiebout argued that in a local community context the ability to move among jurisdictions reflects a preference revelation mechanism (Cullis and Jones, 2009). Individuals '*vote with their feet*' and locate in the community that offers a combination of public services and taxes that best meets their situation. If many localities are available, each with different levels of public services, individuals can choose the one that gives them the greatest satisfaction based on their need for public services (Rosen, 1999).

Tiebout believed that if individuals were free to search for the combination of local services and taxes that maximizes their utility, then social welfare would be maximized (Tresch, 2002).

Hence, Tiebout's objective was to think of a mechanism of achieving the efficient provision of public goods based on the following assumptions:

- *Individuals are completely mobile among jurisdictions and there are zero transport costs.* This consideration plays a decisive role in location choice. Costless mobility implies that individuals can move to that jurisdiction where public services are most close to their preference pattern. Moreover, Tiebout's consumers are all rentiers so the place of work puts no restriction on their decision to locate and does not affect their income.

- *Full knowledge of all the communities' characteristics.* It is assumed that the individual have perfect information with respect to each community's public services and taxes.
- *There are a large number of communities in which individuals may choose to live.* There are enough different communities so that each individual can find one with public services meeting his or her demands.
- *The public services supplied exhibit no external economies or diseconomies between communities.* When there are different preferences for public goods, the number of local communities required to produce equilibrium would be extremely large and this might imply the existence of many small communities. In that case, there would be scale economies of which independently operating communities might fail to take advantage.
- *Local government activities produce no externalities or spillover effects.* The assumption is that the effects of public goods provision in one town do not spill over into neighboring towns. That is, all benefits or costs are experienced by those residents in the locality. That is, the inhabitants of one region are affected by what happens in other regions only through prices and migration. If there are many spillovers effects among communities this might lead to inefficiencies, then it may be better to provide the public goods at a higher level of government than local.
- *There is an optimal population size for any level of provision of local public goods.* This optimum size may occur on the basis of their members' demands for public goods. Since land is in fixed supply, communities can enact exclusionary zoning laws, relating to certain uses of land. This condition is required for Tiebout equilibrium to be efficient.
- *Local government tries to attain the optimal size.* Communities below the optimum size seek to attract new residents to lower average costs. Those above optimum size try to deter new residents. Those at an optimum size try to keep their populations constant.

The Tiebout model is clearly not a perfect description of the real world. Tiebout recognized the highly abstract nature of his model and the restrictive nature of the hypothesis, noting that people are not perfectly mobile, preference patterns may vary, knowledge is not perfect, mobility is costly, spillover effects may occur, there are probably not enough communities so that each individual can find one with a set of services that suits it perfectly, and so on (Bailey, 1999).

Moreover, contrary to the model's implication, we observe many communities within which there are huge income differences and, hence, presumably different desire levels of public service provision. Actually, if people with the same preferences for the level of public goods live in

different communities because of different income levels, this could lead to social conflicts between rich and poor communities.

On the one hand poor people would like to move to rich communities in order to enjoy a high standard of public goods with a relatively light tax burden, on the other hand, rich people would oppose the entry of poor people into their communities for exactly the same reason. As a result, this competition among local governments may generate potential social problems and consequent social costs unbearable for any society, especially for a 'democratic' society. Consequently, the results of the Tiebout model have important implications in terms of welfare (Dollery and Robotti, 2008).

There have been several empirical analysis of the implication of the Tiebout assumptions, showing that residential mobility is limited to small areas; for instance, a certain degree of mobility is present between the city centre and the suburbs of big cities, based on demographic and occupational characteristics. It should be clear that the Tiebout mechanism provides qualification to the problem of good provision and increases the expectations about the welfare gains from decentralization (Cullis and Jones, 2009).

As Hughes has observed, *"Household mobility means that differences in local preferences and in the policies of local government may reinforce each other...in other words household mobility shifts the trade-off between local autonomy and national standard decisively in favour of local autonomy because it increase the homogeneity of such preferences between local jurisdictions"*. (Hughes, 1987)

However, the Tiebout model does not determine the number of local governments offering a different menu of public goods tax and expenditures; it can therefore only indicate that the greater the number of local governments the greater the welfare of consumer-citizens, because they can choose between alternative tax/expenditure packages. Thus, the results of empirical research into the Tiebout mechanism are clearly determined by historical, constitutional, sociological, political and other factors that influence location.

Despite all the limitations and qualifications of the Tiebout model, it still improves our understanding of political economy by specifying the foundations of social and political divisions within local jurisdictions. In stating what has to be the case for mobility to yield optimal results, migration cannot be relied only upon the revelation of preferences for local public goods. Other measures are also necessary (Bailey, 1999).

2.6 Competition between local governments: Competition aspects

According to the theories considered above – the decentralization of administrative functions, the research of the optimal size and the territorial mobility of residents – lead to the conclusion that local jurisdictions are rivals so they ‘compete’ for citizens. Three are the main forms of competition:

- **Political competition:** it can induce efficiency in local fiscal behavior;
- **Horizontal competition:** a geographical competition between authorities in different areas for a share of the market in households and businesses;
- **Vertical competition:** competition between different tiers of local government for a share of local tax revenues in the same geographical area (Dollery and Robotti, 2008).

All these types of competition have been extensively studied and considered to model intergovernmental relationships.

2.6.1 Political competition

Competition in political activities within any one local government occurs as different political parties compete for power because local politicians need consensus to accede to or to stay in power. A basic assumption is that politicians maximize expected consent. If this is the case ‘*given tax prices... politicians will endeavor to supply goods and services to their citizens desire*’.

Citizens exploit this pursuit of consensus to force local governments – that is, politicians – to compete to stay in office. For example, voters can compare performances and can remove elected officials when not satisfied by the outcome of policies.

Conversely, elected officials can try to secure re-election by attracting groups of individuals from other jurisdictions who are likely to vote for them, through specific policies (Ahmad and Brosio, 2006).

However, the effectiveness of political competition may be severely limited in practice because elections create only periodic contestability, so that one cast doubt on the proposition that parties tend to adopt the preferences of the median voter. Policies may, in fact, be determined by socio-economic factors, past commitments and national or local party ideology and control. Moreover, information is a crucial base for promoting competition.

As a consequence, if local voters have little knowledge of the cost conditions of local government services, neither political competition nor performance review could ensure efficiency (Bailey, 1999).

2.6.2 Vertical competition and Horizontal competition

In a multi-tiered government, it is important to understand the relationship that authorities located at different jurisdictional levels on the one hand and those placed at the same level on the other, entertain with each other (Breton, 1996).

One of the main models of competition in the public sector results from the work of Charles Tiebout (1956). He assumes the existence of a local government structure with numerous jurisdictions able to provide a solution to the problem of matching local policies to public preferences. Moreover, in a fragmented local government system, each unit is forced by competition of other local governments to supply goods and services efficiently in order to maintain existing citizens and firms and to attract new consumers in the jurisdiction. In this view, any local authority that can offer an optimal combination of public goods provision and taxation is likely to attract people and firms from one jurisdiction to another and therefore induce competition, improving in this way resource allocation. When competition occurs among government agencies situated at different levels, we can identify vertical competition; conversely, the horizontal competition occurs between government agencies all at the same levels (Boyne, 1998 and Dollery and Robotti, 2008).

Another interesting recent approach is offered by the competitive-government analysis of Albert Breton (1996). He argues that competition in governmental systems involves all centers of power. There is not only competition among governments of the same level, but also competition among governments of different levels which strengthens the governments' incentives to provide their services efficiently.

Breton's explanation relies on his description of competition within a single-tiered government structure. He considers an upper-tier government and others at a lower level. The model starts with some initial distribution of the activities between levels, which result in policies and programs. When there is competition between all these units, production migrates in and out (among private firms and government agencies) or up and down (between levels of government). According to Breton, the necessary processes will entail many kinds of information, transaction, and organization

costs, but the most important are the coordination costs arising when policies, programs, or products are divided between levels. He states that this division requires something like contractual relations and agreements, set to be self-enforcing or to have recourse to an external enforcer. One conclusion that emerges clearly from the analysis in Breton (1996) is that the efficiency of any governmental competition – whether vertical or horizontal – will depend principally upon the rules, which are presumably set and enforced by the central government.

The level of competition between local governments is a function of three factors:

- ***Local government structure***: the appropriate local government structure can facilitate both horizontal and vertical competition. In theory, the greater the size of local government the more institutional factors predominate over the preferences of the citizens. In effect, a large urban government will be less efficient in meeting the demands of its residents because it will tend to provide a uniform level of public services to people who have different preferences for those services. On the contrary, the presence of small government units results in competition that benefits citizens through increased efficiency in service delivery. It can facilitate both horizontal competition and vertical competition. Moreover, horizontal competition is positively related to the number of local governments serving a given area or population. The actual relationship between local government structure and its spending levels can only be determined by empirical research. However, conflicting research results may be due to a failure to take adequate account of the diverse nature of decentralization, which cannot simply be measured by the number of local authorities serving a given region or population.
- ***Local autonomy***: local autonomy stimulates competition in terms of both the quantity and quality of services because service provision is not heavily constrained by central government controls.
- ***The extent of central funding***: it is important for local competition since too high a level of central funding serves to disguise the real cost of local authority services, including any excessive costs, and so blunts the operation of the tax-price mechanism and, likewise, reduces the incentive to migrate.

In order to stimulate competition between local governments, all of these conditions must be satisfied simultaneously.

Vertical competition

Vertical competition takes place between central and sub-national governments and can be viewed, as explained by Albert Breton, as a mechanism that helps to determine an efficient assignment of functions among levels of government in order to induce more efficiency in political systems and greater welfare for citizens.

There are several normative principles that should be applied in the assignment of powers:

- Power should be assigned in such a way that the span of public goods should match as closely as possible the spatial boundaries of jurisdictions;
- Powers should be assigned on the basis of the subsidiarity principle, which calls for the assignment of powers to governments that are closest to the people;
- Powers should be assigned so as to encourage experimentation and innovation by younger and consequently smaller governments, thus reducing the risks of larger cost failures when experiments are undertaken by older and consequently larger governments;
- Power should be assigned in such a way as to preserve diversity;
- Power should be assigned so as to guarantee a maximum of individual political and economic liberty and, as a complement, to give to minorities a maximum of protection (Ahmad and Brosio, 2006).

Breton's judgment is that the criteria elaborated by the theory for the assignment of responsibilities between layers of government have a very limited capacity to explain the real world of assignments. What happens in most cases is simply reorganization of activities, which are new division of powers between jurisdictional tiers. Reassignment is driven, particularly in countries with effective mechanisms of checks and balances, by vertical competition that forces governments to supply goods and services at the lower tax prices possible. As in the case of markets, competition between governments maximizes consumer surplus. In effect, local governments are viewed as an industry in which local politicians and bureaucrats act as sellers of local services to their buyers: citizens, households and local businesses. The buyers choose where to locate, paying for local services through local tax-prices. In Breton's words, intergovernmental vertical competition '*will forge Wicksellian connections as tight as possible so as to be granted the expected consent vote of citizens*'; Wicksellian connection is the link between the quantity of a particular good or service supplied by governments and the tax-price that citizens pay for that good or services. As a

consequence, vertical competition generates assignments of policy responsibilities that reflect the comparative advantage of different tiers of governments (Ahmad and Brosio, 2006).

Horizontal competition

Local governments interact not only with the central government, but also among themselves. In fact, there are more horizontal than vertical interactions. Governments can interact with each other along three main channels: *preferences*, *constraints* and *expectations*. In presence of preference interaction the benefits of local public services provided in a jurisdiction spillover into neighboring localities. This could be the case, for example, of public transport, education, training and environmental protection. The second channel of interaction states that the fiscal policy of a jurisdiction influences the size of a 'resource' in nearby localities and affects the budget constraint of other governments. The tax competition model represents the classical example of the interaction of such indirect *constraint*. Indeed, tax competition theory yields two main empirical predictions: first, the desired tax rate in a jurisdiction depend on the tax rates set in nearby jurisdictions; second, the tax base located in a jurisdiction, is affected by the tax rate in that jurisdiction, as well as by those of neighboring jurisdictions. Finally, in presence of *expectations interactions*, an action chosen by a government affects the expectations of the electorates of other jurisdictions. In presence of an informational spillover from nearby jurisdictions, voters evaluate the performance of their own government relative to other governments. In reality each local jurisdiction interacts possibly with a large number of other jurisdictions and in most instances the influence of jurisdictions' policies will be reciprocal (Ahmad and Brosio, 2006). There is no reason to doubt that horizontal competition is based on comparative performance, for instance between municipalities, and it is based on the following mechanism that is at work in all kind of governmental system. As stated by Salmon (1987), one considers the case in which A and B are jurisdictions of a country and the two governments provide at least some services that are comparable. Under perfect jurisdictional competition, every person compares the performance of their government with the performances of the other jurisdictions governments and, hence, they can choose the community that produces his desired services at lower cost. In this case, if voters in B compare the performance of B's government with that of A's, they are more likely to vote for the officeholders in the next election if pleased with the performance of B's government more than with that of A's; at the same time they can choose not to re-elect that government if not satisfied for its performance. Incentives are thus provided to both officeholders (Galeotti, Salmon and Wintrobe, 2000).

CHAPTER 3

Local Governments in Italy and in Finland

3.1 The Organization of Italian Local Government

According to Article 114 of Constitution, “*The Republic consists of Municipalities, Provinces, Metropolitan Cities, Regions and the State*”.

The Italian Public Administration structure is basically characterized by three tiers of government: the state at the centre, the regions at the intermediate level and at the local level provinces, municipalities and Metropolitan Towns (*Città Metropolitane*), the latter provided by law but currently not yet constituted. In addition, there are other specific forms of agreement between local authorities, which consists of mergers and inter-municipal cooperation (Dollery and Robotti, 2008).

The bases of Italian local system have been influenced by the ideas of the legislation enacted during the 1798 French Revolution and Napoleonic times. The original characteristics developed have conditioned the institutional structures which incorporated them in the legislation of the Kingdom of Piedmont-Sardinia in 1859, and extended few years later, under the Laws of Administrative Unification in 1865, to the entire modern Italian State. (Moreno, 2012) At that time, politicians and governors had to decide whether to adopt a centralized model of state government or to assign greater autonomy to subnational government. The centralized solution prevailed, so that the Italian state exerted strict control on lower levels of government and determined their functions, in particular during the fascist period. Moreover, nationalism during the Fascist period did not made possible the growth of local autonomies and independent local governments (Dollery and Robotti, 2008). The 1948 Constitution attempted to upset the centralized approach and established the autonomy and decentralization of local governments as fundamental constitutional principles (art. 5). Initially, however, the Constitution did not reserve particularly attention to local authorities: among the twenty articles included in Title V of Constitution dedicated to the “*Regions, Provinces, Municipalities*”, most of them aimed to define the characteristic features of the regions, while few dispositions were related to municipalities and provinces (Vandelli, 2007). A subsequent constitutional reform in 2001, completely revised Title V of the 1948 Constitution redesigning the

relationships between the local government bodies, asserting that: “*Municipalities, provinces, metropolitan cities and regions are autonomous entities with their own statutes, powers and functions*” (Art 114), according to principles of autonomy and subsidiarity. In this way, it has been assigned to local governments specific autonomy, with the purpose to place them under the same plan and on parity with the State as essential parts of the Republic (UCLG, 2007).

3.1.1 Regions

The upper tier of local government consists of 20 regions, 15 of which have ordinary statute and 5 have a special statute, conferring them a large institutional and financial autonomy. The latter are Valle d'Aosta, Friuli Venezia Giulia, Trentino Alto Adige, Sicilia e Sardegna.

The main feature that distinguishes regions from other levels of local government is that they have legislative power in a number of subjects defined by Constitution, or constitutional laws in the case of special statute regions. Before Reform of the Title V, Part. II of the Italian Constitution in 2001, legislative powers of the regions were very limited. As a result of the constitutional amendment, the legislative autonomy of regional governments has been extended significantly, changing radically the division of competences between state and regions.

According to the Constitution, “*regions generally have legislative power with regard to subjects not expressly reserved to State legislation*” (art. 117, par. 4). Hence regions legislate in all the topics not directly assigned to the central state. They have also a concurrent legislative power within the basic principles set in these fields by the State, in the following areas:

- The **first area** consists of social services comprehensive of health protection; nutrition; sports; education, subject to the autonomy of educational institutions and with the exception of vocational education and training; professions; scientific and technological research and innovation support for productive sectors; job protection and safety. enhancement of cultural and environmental properties, including the promotion and organisation of cultural activities.
- The **second area** includes functions concerning land-use planning, specifically urban and regional planning. As regards instead communications, regions are responsible of planning transport in the regional context such as civil ports and airports; large transport and navigation networks; foreign trade. Important are also national production, transport and distribution of energy.

- The *third area* groups responsibilities for economic governance: harmonisation of public accounts and co-ordination of public finance and taxation system; local savings banks; rural banks; regional credit institutions; regional land and agricultural credit institutions (art.117 par. 3).

Regional responsibility is generally becoming extremely important, since regions also legislate most of the subjects concerning the administrative activities of local authorities (Moreno, 2012).

Table 3.1 – Region, Provinces, Municipalities.

REGION	POPULATION INHABITANTS	SIZE KM²	DENSITY INHABITANTS/KM²	NO. MUNICIPALITIES	NO. PROVINCES
Abruzzo	1.312.507	10.831,84	121	305	4
Basilicata	576.194	10.073,32	57	131	2
Calabria	1.958.238	15.221,90	129	409	5
Campania	5.769.750	13.670,95	422	551	5
Emilia-Romagna	4.377.487	22.452,78	195	348	9
Friuli-Venezia Giulia	1.221.860	7.862,30	155	218	4
Lazio	5.557.276	17.232,29	322	378	5
Liguria	1.565.127	5.416,21	289	235	4
Lombardia	9.794.525	23.863,65	410	1.544	12
Marche	1.545.155	9.401,38	164	239	5
Molise	313.341	4.460,65	70	136	2
Piemonte	4.374.052	25.387,07	172	1.207	8
Puglia	4.050.803	19.540,90	207	258	6
Sardegna	1.640.379	24.100,02	68	377	8
Sicilia	4.999.932	25.832,39	194	390	9
Toscana	3.692.828	22.987,04	161	287	10
Trentino-Alto Adige	1.039.934	13.605,50	76	333	2
Umbria	886.239	8.464,33	105	92	2
Valle d'Aosta	127.844	3.260,90	39	74	1
Veneto	4.881.756	18.407,42	265	581	7
TOTAL	59.685.227	302.072,84	198	8.093	110

Source: ISTAT, 2013

3.1.2 Provinces

According to Law 142/1990, the province is “*the intermediate authority between the municipality and the region, which represents its community, safeguards its interests, works for its development and coordinates it*”. The provinces perform broad competencies and powers being responsible for the “*administrative functions of provincial interests that concern large inter-municipal zones or the whole provincial territory*” (Art. 19 of D.lgs. 267/2000).

From the Unification of Italy the number of provinces has almost doubled: the 59 institutions present in 1861 have risen to 110 administrations, resulting in an increase in both revenue and expenditure because of the greater number of functions assigned. Specifically, the provinces handle the following matters: the coordination of provincial territorial planning, with particular reference to sectors such as soil protection, environmental conservation, including controls on efficient water use and emissions, planning of provincial waste disposal, road networks, transportation and some labour and job market issues. These competencies, in order to be actually carried out, require the legislative intervention of the state and region. Given their relatively modest role in administering resources, for years was discussed the abolition of the provinces, considered as ‘unnecessary’ entities. To be precise, the provincial governments are generally not very influential in metropolitan areas where municipalities are larger. On the contrary, they are considered necessary institutions especially in highly decentralized and fragmented areas where the municipalities are smaller, playing representative roles for the social and economic matters of the other local governments.

Legislative decrees 201/2011 and 95/2012 mandated the reduction of the number of the provinces and a process of reorganization according to specific structural indicators related to the territorial dimension and to the resident population. This involved the survival of provinces only as bodies coordinating the activities of municipalities, with no direct election of representatives. However, the legislative provisions adopted have not taken into account the impact that could be generated on other levels of government. The reorganization of the provinces was closely connected with the establishment of metropolitan cities, provided by Art. 18, which involved the simultaneous abolition of the provinces in their territory. Moreover, this law changed the previous legislation concerning the institution of metropolitan areas and metropolitan cities. While previously their institution could be decided by regional authorities, now the initiative was subjected to a referendum in each municipality concerned. If more than half voters were favourable, the initiative was submitted to Parliament for final approval by the adoption of a law. A metropolitan city formed according to this procedure acquired the same functions as those of a province, implementing forms

of decentralization as provided for under its statute, whilst maintaining the identity of local communities. However, the aforementioned decree was deemed in breach of the constitution by the Constitutional Court, and according to the stability law 2013, the new configuration of provinces has been temporarily suspended, as well as the application of the provisions relating to metropolitan cities.

A recent bill proposed by the government has provided substantial changes, starting from 2014: only two levels of government are planned, Regions and Municipalities. The provinces would be relegated to second-degree institutions, pending a constitutional law that amends Article 114 of the Constitution. According to a research conducted by Professor Manheimer, 64% of mayors consider the reform of the provinces not useful for the country, which would bring no savings, but rather it would weaken the territories. In addition, the president of the Union of Italian Provinces, Antonio Saitta, considers it as unconstitutional and undemocratic: *“the bill acts as if the Constitution has already been changed, and furthermore it creates confusion, because it does not clarify to whom the functions of the provinces would be transferred. Of course they could not go to the municipalities, which would not be able to exercise them”*.

Although temporarily postponed, the plan of reorganization of the provinces is difficult to achieve because it is not derived from a comparison with the territory either because it results be driven exclusively by the needs of centralization of economic and financial nature and according to the reduction of the entities themselves. It is therefore necessary to articulate and to attribute clearly the functions assigned, including strategic planning as a policy in the construction of the development goals and use of resources.

3.1.3 Municipalities

The lowest tier of government consists of 8.092 municipalities, a very large number relative to many other comparable countries. According to demographic dimensions, the distribution of Italian municipalities is extremely varied, marked by a great differentiation from few hundred people of smaller municipalities up to few million people of big cities. As shown in Table 3.2, most of the municipalities are small: more than 70% of total local councils have less than 5.000 inhabitants, while 14% have between 5.000 and 10.000 citizens, and the remaining 15%, have more than 10.1000 inhabitants.

Table 3.2 – Distribution of Italian municipalities as to population range

POPULATION SIZE <i>No. of inhabitants</i>	<i>No. of Municipalities</i>	<i>% of Municipalities</i>
< 1.000	1.951	24.1%
1.001 – 5.000	3.751	46.3%
5.001 – 10.000	1.187	14.7%
10.001 – 50.000	1.062	13.1%
50.001 – 100.000	95	1.2%
100.000 – 500.000	40	0.5%
> 500.000	6	0.1%
TOTAL	8.092	100%

Source: Istat, 2011

Basic organization

The organization of municipalities is characterized by three government bodies: a city council and a mayor, who are elected directly by the citizens, and a collective executive body, the Executive Board, composed of aldermen nominated by the mayor.

COUNCIL

The **Council** (Consiglio comunale) has organizational and functional autonomy. It is chaired by its own president, elected autonomously among the councillors, while in municipalities with less than 15.000 inhabitants, the Law allows the mayor or the president of the council to preside. The fundamental role of the Council president is to ensure the correct action of the Council: among several specific tasks, the president convenes the meetings and manages the tasks of the Council, monitors the relationships among political groups to safeguard the body's proper functioning, and ensures the respect of the rights of every councillor (Moreno, 2012).

The Council's competences are generally contained in the laws and regulations on local government, allowing the council to control only a specific series of acts considered 'fundamental' such as statutes and regulations, programmes, plans, balance sheets, constitution of associations, public services, and creation of tributes. Overall, the many acts reserved to the Council tend to emphasize the exercise of the fundamental functions of orientation and control of the institution.

Table 3.3 – Number of municipality councillors in Italy

<i>POPULATION</i>	<i>NUMBER OF COUNCILLORS</i>
up to 3.000	6
3.001 - 5.000	7
5.001 - 10.000	10
10.001 - 30.000	16
30.001 - 100.000	24
100.001 - 250.000	32
250.001 - 500.000	36
500.001 - 1.000.000	40
over 1.000.000	48

Source: Italian Ministry of Interior

According to Art. 16 of D.L. 138/2011, the composition of the municipal councils is related to the demographic dimension of the authority and takes into account the political groups represented in the body: it varies between 6 members for municipalities with less than 3.000 inhabitants, and 48 members for municipalities over 1.000.000 inhabitants (Table 3.3).

MAYOR

The *Mayor* (Sindaco) plays a fundamental role in the representation of external relations, management and execution of the functioning of the local authority. In particular he convenes and chairs the Executive Board, and also the city Council whether the President of the Council is not established; he controls the functioning of services and offices and the execution of local decisions, measures, plans and policies; he exercise other functions established by law, statute or regulation; he nominates alderman; he attributes and defines senior management positions; he nominates and revokes representatives of the municipality (Moreno, 2012).

The mayor holds the position of chief of the municipal administration and government officers, exercising a set of state functions under the management and control of the prefect and the Government. Therefore, the mayor's functions involve the following tasks and duties:

- Town hall and registry office.
- Public security
- Emergencies

There is a close interdependence between the Mayor and Council term of office: indeed, the Council has the power to determine the cessation of the Mayor, voting the distrust, as well as the Mayor has the power to determine the dissolution of the Council by resigning (Vandelli, 2013).

Also electoral rules are connected between mayors and city councils. They are elected through different electoral systems according to the demographic dimension of the municipalities:

- Municipalities with less than 15.000 inhabitants (smaller municipalities) elect their council using a *majoritarian system*, simultaneous to the election of the Mayor, for which is used a *first-past-the-post system*, that is with a single round of voting. Every city mayor candidate is indicated on the ballot pertaining to the list of candidates for councillors. The candidate receiving the most votes is elected mayor and the associated list obtains 2/3 of the seats, while the remaining are distributed proportionally among the other lists (Vandelli, 2013);
- Municipalities over 15.000 inhabitants (larger municipalities) elect their mayors through a *runoff electoral system*. By runoff it is meant a *two-stage electoral system*: if no candidate obtains an absolute majority of votes, then a second round of voting is held, opposing the two candidates who obtained more votes in the first round. The council, instead, is elected according to the d'Hondt proportional system with a possible majority bonus. (Bracco, 2013).

Term limits for the mayor are however the same: no more than two consecutive mandates are allowed (Dollery and Robotti, 2008 and Moreno, 2012).

EXECUTIVE BOARD

The *Executive Board* (Giunta comunale) is composed of the mayor, who acts as chairman, and an even number of alderman, established by the statute, within a maximum of 1/4 of the number of the councillor required by law.

The mayor nominates the aldermen according to the demographic dimension of the municipalities:

- In smaller municipalities, with less than 15.000 inhabitants, the mayor may choose citizens who are not councillors, if this is expressly established in the statute.
- In the bigger municipalities, with more than 15.000 inhabitants, since Executive Board and the council are separate, the mayor may still nominate citizens who are not councillors and the office of alderman and councillors are incompatible.

The aldermen are members of the Executive Board, and take part in the formation of collective decisions. The Executive Board cooperates with the mayor in governing the municipality. It adopts acts that are not reserved to the Council by law or statute or do not pertain to the Council's

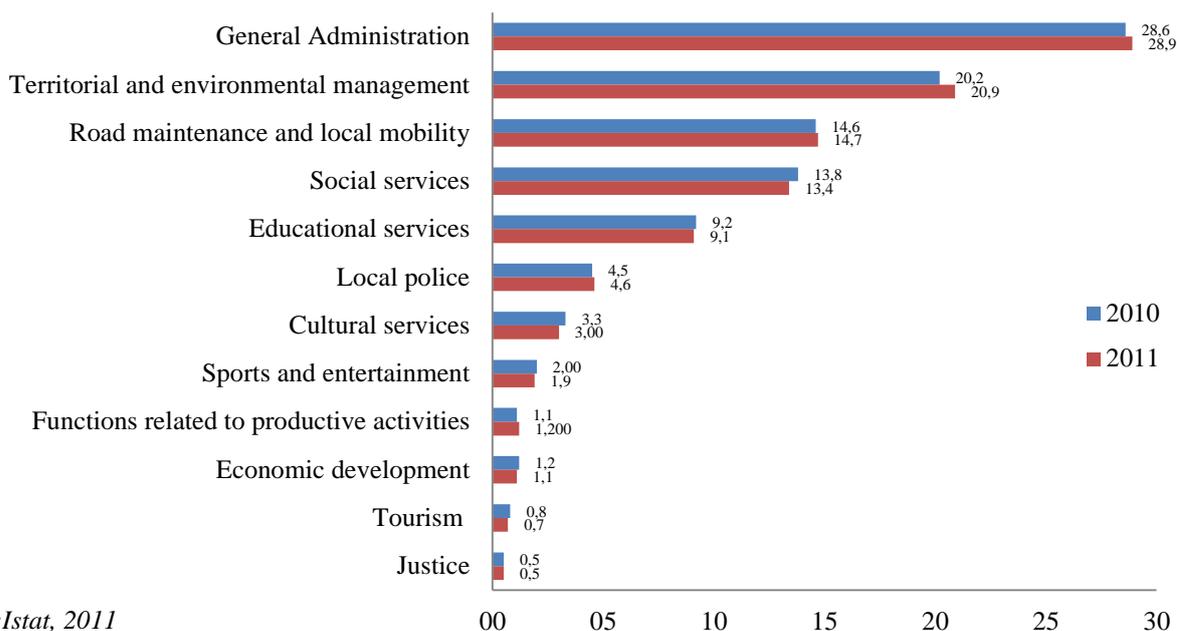
competences, nor to those of the mayor, the local authorities, the secretary and the executives. The Executive Board adopts actions following collegial deliberation, and its members have no direct competences regarding external affairs (Moreno, 2012).

Functions and revenue sources

Municipalities are local authorities nearest to citizens and operate a wide array of functions and services that represent the interests of the local community. According to the Consolidated Act, “belong to municipality all administrative functions relating to the population and the municipal territory, principally in the sectors associated with social services, land planning and economic development, and any other responsibilities not assigned to other government bodies by State or regional law, according to their competencies”.

The Municipalities’ competences were defined and expanded during the legislative evolution occurred in the 70's and 90's, as part of an important process of decentralization. For long time, the range of action of Municipalities has been restricted by national and regional legislation, but with constitutional reform of 2001 it was introduced a highly innovative environment in which municipalities occupy a central position. Therefore, Constitution has assigned to Local authorities “the functions and administrative duties relative to the interests and promotion of the development of their respective communities”, on the basis of subsidiarity, efficiency, and adequacy criteria.

Figure 3.1 – Total expenditure of municipalities by function in Italy



Source: Istat, 2011

According to Art. 14, of legislative decree no. 78/2010, the *fundamental functions* performed by local authorities can be classified in three basic sectors associated with:

- Economic development and the coordination of commercial activities and of premises, with the establishment and management of industrial and trade zones. Moreover, municipalities play a key role in economically significant services such as water supply, waste disposal, gas and energy.
- Land planning and city planning with the adoption of municipal building codes, tax collection and assessment of real property. Other responsibilities consist on civil defence and on transports, local road networks and traffic regulations.
- Social services consist in administrative services provided directly to people, including local police, personal social services and community assistance, organization and management of educational services, social welfare, sport and culture (Moreno, 2012).

Table 3.4 – Total expenditure of municipalities by function in Italy

FUNCTION	ITALIA		
	2010	2011	Var%
General Administration	20.561	20.272	-1,4
Territorial and environmental management	14.552	14.671	0,8
Road maintenance and local mobility	10.476	10.264	-2,0
Social services	9.960	9.410	-5,5
Educational services	6.655	6.371	-4,3
Local police	3.249	3.194	-1,7
Cultural services	2.399	2.135	-11,0
Sports and entertainment	1.472	1.354	-8,0
Functions related to productive activities	825	807	-2,4
Economic development	870	736	-15,4
Tourism	577	481	-16,5
Justice	364	336	-7,7
TOTAL	71.960	70.031	-2,7

Sorce – Istat, 2010-2011(million of Euro)

HOW ARE THEY FINANCED?

The current financing forms of municipalities consist of tax revenues, tariffs and fees and transfers from higher levels of governments. Since the early nineties, changes in the structure of local public

finance have been remarkable and in 2009 the highest results have been reached, with Law No. 42 on fiscal federalism, opening the way to a gradual move towards decentralisation of powers and an increasing degree of fiscal independence of local governments. The Law, based on a constitutional amendment passed in 2001, implemented Art. 119 of the Constitution in order to ensure the financial autonomy of local authorities, stating that: “*Municipalities, provinces, metropolitan cities and regions shall have revenue and expenditure autonomy and independent financial resources*”.

Based on this general principle, local resources derive from the following forms of taxation:

- **Local taxes managed autonomously**, (*tributi propri*) set and levied by local authorities related to their respective territories “*in compliance with the Constitution and according to the principles of co-ordination of State finances and the tax system*”.
- **Co-participation in revenues** obtained from fiscal tributes referred to the territory of each body.
- **Equalisation fund**, established by the State for the territories with low fiscal capacity per inhabitant.
- **Additional resources** and special interventions of the State, in order to promote economic development and to remove economic and social imbalance.

Table 3.5 – Current revenues of Municipalities (millions of euros)

	2008	2009	2010	2011	AVERAGE VAR% 2011/2008	VAR % 2011/2010
FISCAL REVENUES	20.057	19.501	20.602	30.078	9%	46%
Municipal tax	14.217	13.586	13.831	14.840	-2%	7%
Council Tax share of IRPEF/VAT	896	1.016	1.060	1.881	25%	77%
Tax	4.395	4.391	5.214	5.751	7%	10%
Other Tax	557	524	496	7.604	355%	1433%
NON-TAX REVENUE	10.589	10.595	10.697	11.479	1%	7%
CURRENT GRANTS	21.352	23.387	23.650	11.849	-11%	-50%
from State	15.212	16.094	16.758	7.167	-4%	-57%
from Regions	5.348	6.151	5.985	3.902	-6%	-35%
Other Grants	792	1.142	907	780	5%	-14%
TOTAL CURRENT REVENUES	51.997	53.482	54.949	53.405	1%	-3%

Source: ISTAT, 2012

In particular, the incidence of transfers from the central government declined over the last two decades from about 25% of revenue in 1990 to 15%, while tax revenues increased from 5% to 15%. Nowadays, local authorities have the right to exercise their powers through a plurality of local taxes. Among these the most important are:

- **IUC** (*Tassa unica comunale*) is the Unique City Tax, unique in name but not in reality because it actually envelops three taxes:
 1. **IMU** (*Imposta municipale propria*), which is paid by property owners for luxury primary residences, for secondary residences and for all the properties different from the main house (houses, warehouses, shops, hotels, etc.)
 2. **TASI** (*Tassa sui servizi indivisibili*) is a municipal property tax on real estate, which is annually due from 2014 by all property owners, including the households' primary residence, and that also contain a (variable) quota for renters. The tax base on indivisible services is based on the cadastral property value updated with a given coefficient. The rate amounts to 0,0025 for primary residences and to 0,0106 for all other buildings. Moreover, each Municipality can decide to increase or reduce the rates, up to a maximum of 0,0008. However, there are considerable differences in cadastral values and varying degrees of correspondence with market values, resulting in serious disparities within and among municipalities.
 3. **TARI** (*Tassa rifiuti*) that is a tax aimed at financing solid waste removal, according to the house dimension and number of occupiers;
- **MUNICIPAL SURCHARGE ON IRPEF** namely on Personal Income Tax. The rate amounts to a maximum of 0,8%. The law provides that municipalities could establish exemptions for low income levels. This allows municipalities to intervene in redistributive policies.

Moreover, the Law defined important principles of public finance coordination, specifically the so-called **standard cost criterion**. This states that local government must receive enough resources in order to finance the exercise of a basic level of services (*livelli essenziali delle prestazioni*) according to their standard costs, while they might deliver further services with own further resources. This principle has not yet been implemented and the definition of procedures for calculating the standard costs is under way.

3.1.4 Mergers and cooperative agreements

The creation of local government partnerships, particularly among small municipalities, has assumed growing importance for Italian municipalities during the last few years. In a context where almost 6.000 municipalities have less than 5.000 inhabitants, and of these about 2.000 have a population of 1.000 units or less (Table 3.6), Italy is characterised by a high number of small-sized municipalities (Anci, 2012).

Table 3.6 – Number of small municipalities by population size

	SMALL MUNICIPALITIES				MUNICIPALITIES OVER 5.000 RESIDENTS	TOTAL MUNICIPALITIES IN ITALY
	< 1.000 residents	1.001 – 2.500 residents	2.501 – 5.000 residents	Total		
NUMBER OF MUNICIPALITIES	1.948	2.131	1.604	5.683	2.409	8.092
% OF MUNICIPALITIES	24,1%	26,3%	19,8%	70,2%	29,8 %	100,0%

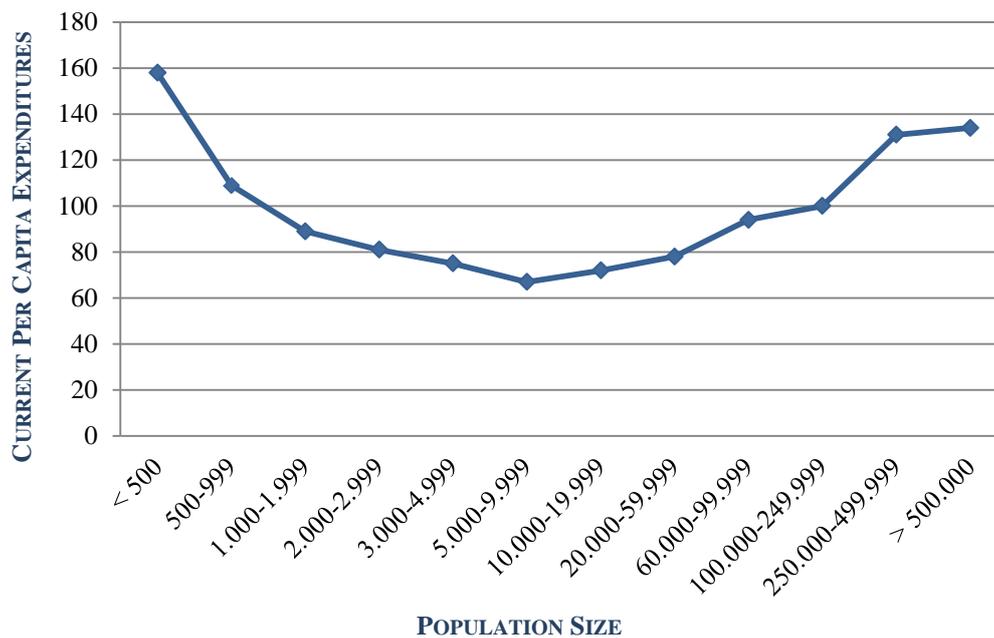
Source: elaboration IFEL on ISTAT data, 2011

These informations reveal the high fragmentation of our local authorities, particularly evident in the northwest of Italy. This is certainly an important aspect to consider because small municipalities have fewer resources and relatively more limited finances and technical capacity than larger ones, making them unable to fulfil public needs and deliver to their inhabitants the quality and the quantity of services they require.

Beyond geographical and socio-economic differences, there are great differences in the relationship between general activities and other services provided by small local governments.

Expenditures on general activities are not proportional to the population of the municipality: the share of these expenditures in municipalities with less than 1.000 inhabitants is about 70%, a percentage that falls to 50% for municipalities between 1.000 and 3.000 inhabitants and further decreases in those of larger size. The result is a per capita expenditure of government that assumes a U-shape distribution as shown in Figure 3.2; this indicates the possibility to exploit significant economies of scale in the production of local public services. In 2009, the minimum value of current expenditure per capita was placed in the population class between 5.000 and 9.999 inhabitants (Italian Ministry of Interior, 2010).

Figure 3.2 – Current per capita expenditures of municipalities by demographic dimension in 2009.



Source: Italian Ministry of Interior, 2010

In these conditions, a feasible solution is either to merge with or to share resources with other municipalities through inter-municipal cooperations: these forms aim to improve the performance, integrate processes, increase efficiency, save money, deliver better services and generate greater outcomes (Bocci and Frieri, 2012).

From 1990 onwards, central government and the regional authorities have adopted a set of laws encouraging and allowing the creation of partnerships between local authorities.

Moreover, the growing transfer of responsibilities to the municipalities has required additional capacity and adequacy of their administrations to deal with the changes that have occurred. Therefore, from 2000s a process of reform has regulated the exercise of competences and the organization of local authorities. Legislative Decree No. 267/2000, the “Consolidated Act for Local Governments” (Testo Unico degli Enti Locali – T.U.E.L.) is the most important legislation on local authorities. Specifically, it emphasizes the principle that the local entities should co-operate in order to regulate joint management of functions and services. In this respect, the law provides a wide range of association forms that could be chosen by local authorities according to the model that best suits their local needs and specific characteristics.

Therefore, three different partnership solutions can be identified (Boccia and Saponaro, 2005):

1. The ***institutional solution*** involves the reduction in the number of local authorities through a process of merging into a single municipality. For this reason, the model meets strong resistance among municipalities since its adoption leads to an irreversible loss of municipal identity.
2. The ***contractual solution*** is a less restrictive arrangement that does not affect the structure of the municipalities but simply involves the creation of public agreements or conventions among municipalities for the delivering and fulfilment of public services. Two forms of partnerships belong to this solution, *conventions* and *programme agreements*.
3. The ***mixed solution*** consists of a combination of institutional and contractual means. Basically this method provides for the establishment of ad hoc entities with extra-municipal competences, without compromising the identity of individual institutions. The main forms of inter-municipal cooperation are attributed to this category: they are *consortia*, *unions of municipalities* and *mountain communities*.

In Italy only the latter two approaches were followed.

In this framework, we will focus on the different forms of cooperation among municipalities by analysing their role, nature and competences.

CONVENTIONS

Convention (Art. 30 T.U.E.L.) is the simplest form of co-operation between local authorities whereby they can stipulate special agreements to coordinate their own resources and to deliver services by exploiting scale or scope economies (Brosio and Piperno, 2009).

Their constitution is simply an agreement reached by the Councils of the entities involved, which determines the purpose, duration, forms of consultation of the contracting parties, as well as their financial relationships and mutual obligations and guarantees.

Convention is one of the favourite forms of joint management between small municipalities; in many cases, a convention followed by subsequent inter-municipal agreements has represented the necessary step for more complex forms of partnership.

UNION OF MUNICIPALITIES

In Italy *Unions of Municipalities* (Art. 32 T.U.E.L.) are considered the most effective forms of inter-municipal cooperation.

Table 3.7 – Data on Union of Municipalities

	2011	2012	2013
UNION OF MUNICIPALITIES	337	367	373
N° OF MUNICIPALITIES	8094	8092	8093
N° MUNICIPALITIES IN ASSOCIATION	1663	1851	1881
% OF MUNICIPALITIES IN ASSOCIATION	20,5%	22,9%	23,9%
TOTAL POPULATION	60.604.889	60.626.442	59.685.227
POPULATION OF UNION OF MUNICIPALITIES	6.301.764	7.215.746	7.642.554
% OF POPULATION UNION OF MUNICIPALITIES	10,4%	11,9%	12,8%

Source: Anci (2011, 2012, 2013)

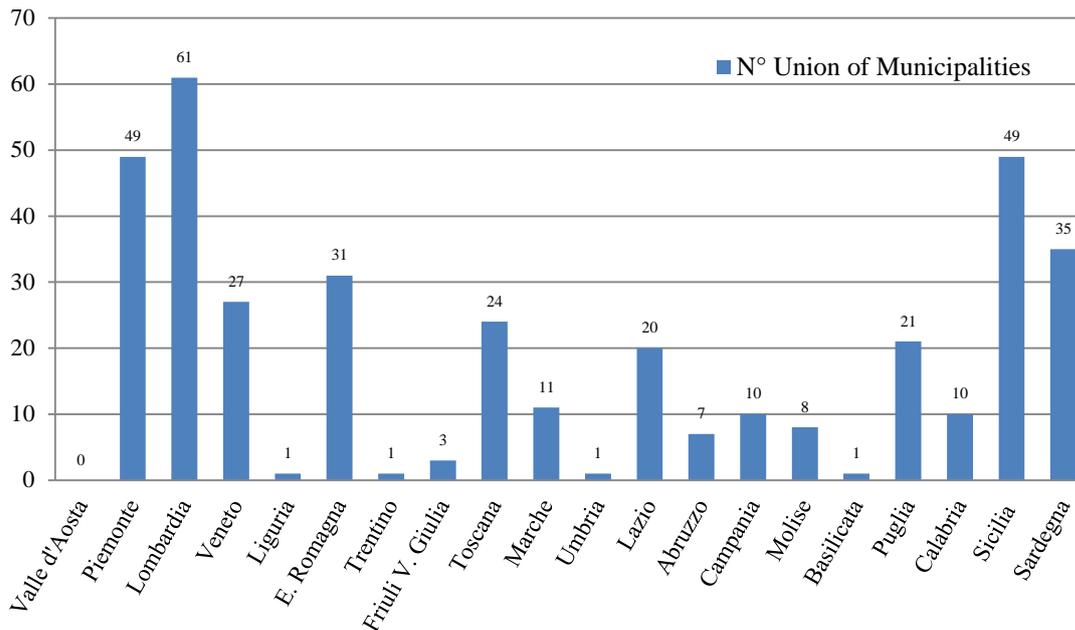
As Table 3.7 shows, the unions of municipalities are constantly increasing in recent years: in 2013, they are 373, involving about 24% of Italian municipalities.

In 1990, Union of Municipalities was considered as a form of association only necessary for the realization of mergers between smaller municipalities with specific demographic constraints. As stated by Law 142/1990, only councils with less than 5.000 residents could combine to form a Union of Municipalities (it could also include only one municipality with less than 10.000 inhabitants). During the following years, however, legislation has changed their configuration, making them highly flexible forms of cooperation. Therefore, the Unions of Municipalities are now defined by Article 32 of T.U.E.L. as “*local authorities comprised of two or more municipalities, generally neighbouring, which jointly exercise the functions determined by their competences*” (Italian Ministry of Interior, 2013). In these terms, the basic objective of the institution changes; it moves from the reduction of municipal fragmentation through merger of smaller municipalities, up to the associated exercise of municipal functions, regardless the size of the associated municipalities.

More recently, Act. No. 135 of August 2012 has identified *associative forms* as valuable tools for the rationalization of resources and cost containment, in order to achieve greater efficiency of the services provided, especially in smaller municipalities. In particular, Art. 19 mandated the

compulsory exercise in associated forms of all the fundamental functions, for municipalities with less than 5.000 inhabitants, and with less than 3.000 inhabitants if they belong or have belonged to mountain communities. This can be realized by one or more agreements, lasting a minimum of three years, or by means of mergers. The merged entity must have at least 10.000 inhabitants (5.000 if merged municipalities have until 1.000 inhabitants).

Figure 3.3 – Union of Municipalities



Source: ANCI - Union of Municipalities, 2013

Union of Municipalities is a form of local government with its own legal personality expressly provided for by the Italian law, even if the municipalities involved preserve their legal identity and they maintain their autonomy on all decisions that do not belong to the areas concerned to the agreement (Bocci and Frieri, 2012).

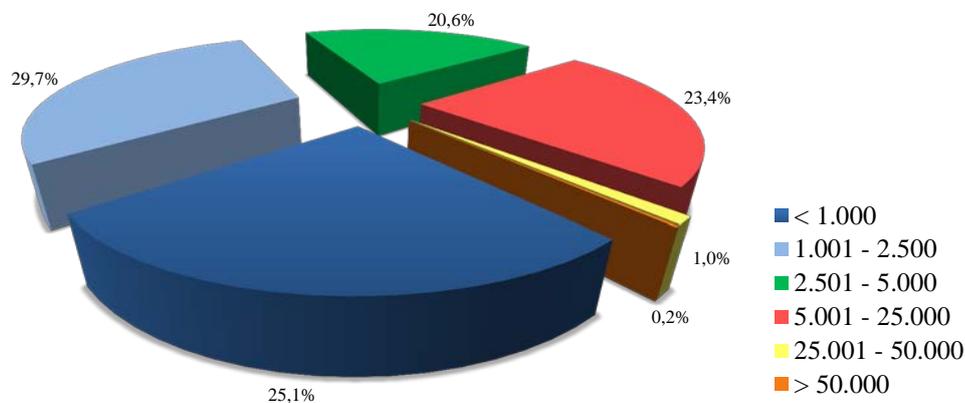
The Union is founded with a deliberation adopted voluntarily by the Councils of each associated municipality, in which are approved at the same time the Constitution Act and the Statute. The Statute defines the functions delegated to the Union, their resources and the organization of the government, which consists of administrators currently in office in the municipalities involved:

- The **President** is elected among the mayors of the municipalities associated;
- The **Committee** is created among the members of the executive of the associated municipalities.
- The **Council** consists of councillors elected among the members of councils of the associated municipalities, ensuring representation from each municipality (Anci, 2013).

Moreover, according to its statute, an association of municipalities is responsible for the promotion of the integration of administrative services and the coordination of the territory through development policies in order to improve the quality of services for citizens through the implementation of scale economies related (Italian Ministry of Interior, 2013).

Of course not all the Unions achieve the same level of benefits for the associated Municipalities. The key elements that characterize an effective Union are “*the joint definition of long-term strategies, the allocation and distribution of the resources among the partners and the regulation of the activities and relations with the end-users*” (Sorrentino et al., 2010).

Figure 3.4 – Number of local councils associated in Union of Municipalities by demographic dimension, 2013



Source: Anci-Ifel elaboration on Anci and Istat Data, 2013

Figure 3.4 shows the structure of association of municipalities by local council demographic size; it can be seen that more than 75% of 1.881 local authorities that joined a Union of Municipalities had less than 5.000 inhabitants and, out of these councils, nearly 25% did not exceed 1.000 inhabitants. It is confirmed that Union of municipalities are well suited to small municipalities. Nevertheless, it also emerges that Union of Municipalities are not exclusively suitable for the smallest category of councils. Indeed, we observe a significant number of municipalities with a demographic size over 5.000 citizens, especially within the range 5.000 to 25.000. This could indicate that Unions of Municipalities are not only a useful tool, but they are also perceived as a strategic opportunity for the improvement of local governance.

To be a successful and effective cooperation between municipalities, it is necessary to implement a joint performance management system in order to share vision and strategic intents, plan objectives, define targets, measure progresses and evaluate actions, behaviours and performance results (Bocci and Frieri, 2012).

MOUNTAIN COMMUNITIES

In the early '70s *Mountain Communities* were introduced with Law 1102/1971 with objectives and functions related to the maintenance and the implementation of social and economic policies in mountainous areas. Indeed, the aim of these entities is to represent and protect the ‘specificity’ of mountain areas, carrying out joint services and functions. This specificity has been clarified and developed by subsequent legislations, which have defined mountain community as a local authority with a representative body and an executive body composed of mayors, aldermen or councilors of the municipalities involved. They are regulated by Art. 27 and 28 of the Consolidated Act of Local Government, which provides special institutional arrangements in order to deal with problems related to the geographical situation and local fragmentation.

During years many changes were implemented for Mountain Communities, the latest were contained in 2008 Finance Act, which imposed a substantial review and reduction of these entities together with a reduction in revenue transfers in their favor, for a rationalization and simplification of infra-municipal entities. Hence Mountain Communities should be transformed into Union of Municipalities or be suppressed. In 2013 Mountain Municipalities were 3.204 and represented 39,59% of Italian municipalities, it is obvious that some regions, such as Valle d'Aosta and Trentino Alto Adige, have all of their municipalities located in mountainous areas.

Table 3.8 – Data on Union of Mountain Communities

	<i>2011</i>	<i>2012</i>	<i>2013</i>
UNION OF MOUNTAIN COMMUNITIES	264	260	218
N° MUNICIPALITIES IN MOUNTAIN COMMUNITIES	3588	3538	3204
% MUNICIPALITIES IN MOUNTAIN COMMUNITIES	44,3%	43,7%	39,59%

Source: Anci (2011, 2012, 2013)

CONSORTIA

Consortia (Art. 31 T.U.E.L.) are traditional forms of voluntary cooperation between municipalities that operate the provision and management of specific services of municipal jurisdiction. The consortium agreement is established by the adoption of a Convention and a Statute, approved with absolute majority by the Councils of the respective institutions concerned. The Convention regulates the jurisdiction of the consortium, the purpose and duration of the Agreement; the statute provides the arrangements and the organization of the Consortium. The choice of the functions of

the consortium is left to the discretion of the consortium institutions, since the law refers to the management of one or more services and/or functions and the only limit is the prohibition to establish more than one consortium between the same local authorities (Brosio and Piperno, 2009). The Consortium therefore assumes particular importance in the management of the associated administrative functions, not as a local authority, but as an instrumental entity. The purpose of the law is to provide a structure to the municipalities willing to ensure a better performance of the functions assigned to them. In addition, the joint management of some services allows small municipalities to support investments, quite expensive for a single entity and to improve the quality of services and save costs.

PROGRAMME AGREEMENTS

Programme Agreements (Art. 34 TUEL) can be established for the implementation of complex interventions that require coordinated action and the involvement of a large number of institutional bodies. Indeed, these agreements can regulate the development of an adequate structure to favour the cooperation between different levels of public authorities involved (municipalities, provinces, regions, ministries and other public bodies) in order to achieve effective outcomes from the policy decisions (Brosio and Piperno, 2009).

The programme agreements differ from other forms of association in the following aspects:

- For the greater number and the widest diversity of subjects that may be involved than in a Convention;
- For the object of the agreement and the structure of the organs much more simplified than the Consortium;
- For the specific objectives and the different purposes than the Union of Municipalities.

MERGERS

The *Merger* of municipalities is an instrument which has not been adopted a lot in the policies of reorganization and reduction of the number of small size municipalities.

Only in recent years the Italian system has focused on the promotion of voluntary merger processes, through special economic incentives from the state and integrative forms of incentives from the regions.

Although this situation has been accompanied by the gradual emergence of occasional experiences of mergers, however it is still not possible to consider them such as an instrument appreciable on national scale.

The T.U.E.L. assigns to the region the exclusive competence to modify the territorial boundaries of municipalities. According to Art. 117 and Art. 133 of the Constitution, the regional law establishing the new municipalities through a merger of two or more adjacent municipalities, must provide to the original communities the appropriate forms of participation and decentralization of services. Furthermore, the law specifies that in order to facilitate the merger of municipalities, the State delivers extraordinary contributions to municipalities that merge for ten years after the merger, in addition to regional contributions.

Table 3.9 – Merger of municipalities in the last twenty years

MUNICIPALITIES	POPULATION INHABITANTS	SIZE Km²	POPULATION / Km²	PRE-MERGER MUNICIPALITIES	YEAR
<i>Due Carrare</i>	8.656	27	334	2	1995
<i>Porto Viro</i>	14.609	133	111	2	1995
<i>Mosso</i>	1.692	18	100	2	1998
<i>Montiglio Monferrato</i>	1.745	27	62	3	1998
<i>San Siro</i>	1.865	19	103	2	1999
<i>Campolongo Tapogliano</i>	1.209	10	126	2	2009
<i>Ledro</i>	5.494	155	35	6	2009
<i>Comano Terme</i>	2.835	67	40	2	2009
<i>Gravedona ed Uniti</i>	4.223	40	104	3	2011

Source: Ifel-Anci,2012

During the last fifteen years. 9 new municipalities have been established as a result of the merger of 24 institutions: basically the merging municipalities were constituted by 2,6 municipalities on average, most of which with less than 5.000 inhabitants. Considering that these mergers are made up of small municipalities whose amalgamation is not sufficient to create large towns, even in terms of dimension. The result is that the mergers could not be identified as a suitable option aiming at increasing the size in order to achieve economies of scale or significant political weight.

Conclusion

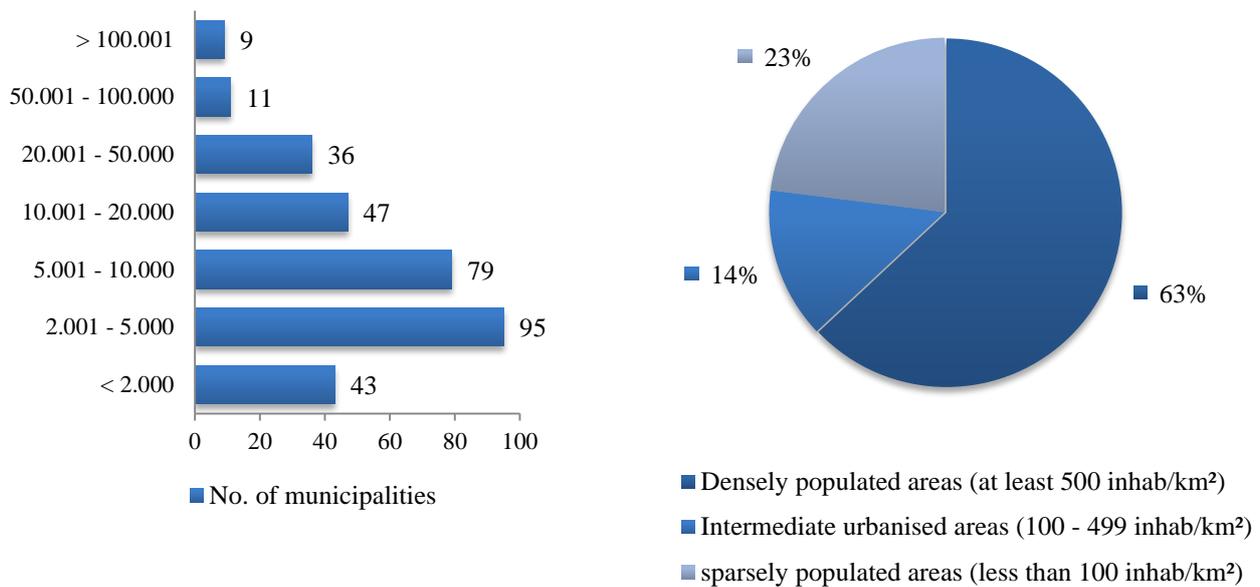
This brief overview of the Italian social-economic and institutional contexts highlights the deep transformations in competences, functions and also in the relationships among territorial levels. In this context, several legislative interventions have been adopted with particular attention to the inter-municipal cooperation phenomenon. Although the solutions proposed have been numerous, for long time few were the forms of cooperation experienced by local governments. The main reason of this situation was the plurality, complexity and instability of the laws but also the resistance of the institutions involved. After the reform of Title V of the Constitution and the introduction of Fiscal Federalism, the local authorities have been entitled with broader competencies and self-administration features and they were also fostered by central government to create more inter-municipalities cooperation. Since these efforts had only little success, nowadays a new tendency toward centralization is emerging, also to reach expenditure cuts in order to cope with the EU rules.

3.2 The Finnish Local Government System

In Finland, as well as in other Nordic countries, the local authorities enjoy a relatively strong autonomy, safeguarded by the Constitution, including the right to levy taxes and make decisions independently (The Association of Finnish Local and Regional Authorities). Actually, municipalities perform a wide range of functions and they are responsible for organising the majority of public services for their residents.

At the beginning of 2013, there were 320 municipalities. However, many are the differences among municipalities: some territories and municipalities are densely populated while others are less; there is a dichotomy between the country-side and urban areas, between large and small municipalities - most municipalities are small and about two third of them have very large geographical area (Bauby and Similie, 2013).

Figure 3.5 – Number of municipalities by population size and average density of population



Source: Association of Finnish Local and Regional Authorities, 2013

3.2.1 Historical evolution of Finnish local government

Local self-government and local democracy have a long tradition in Finland, which goes back to the late Middle Ages. The foundation for local government legislation was laid down between 1865 and 1873, when separate laws on rural and urban municipalities were enacted and local authorities gained the right to levy taxes (Moisio et al., 2010).

The Finnish Local Government system has developed gradually over time.

After Finland gained its independence from Russia in 1917, new provisions concerning local self-government were included in the first Finnish Constitution Act; these laws made obligatory the creation of Local Councils for all municipalities, displacing the old assemblies body of rural municipalities. In this way, the Local councils got the highest decision making power (Heuru, 2003).

During the first half of the century the local government functions remained limited; we have to wait the beginning of 1950s for the renovation of municipal legislation when the "New Local Government Act" was enacted. Under this Act were brought together the provisions on towns and rural municipalities.

It was from the 1960s that the public administration has expanded rapidly due to the increased tasks of the welfare state. Hence, the central government has assigned new statutory obligations and some state tasks to municipalities, so that, most public services such as health care, social benefits, basic education were performed by municipalities. Consequently, they received increasing responsibilities and became a local extension of the State (Moreno, 2012).

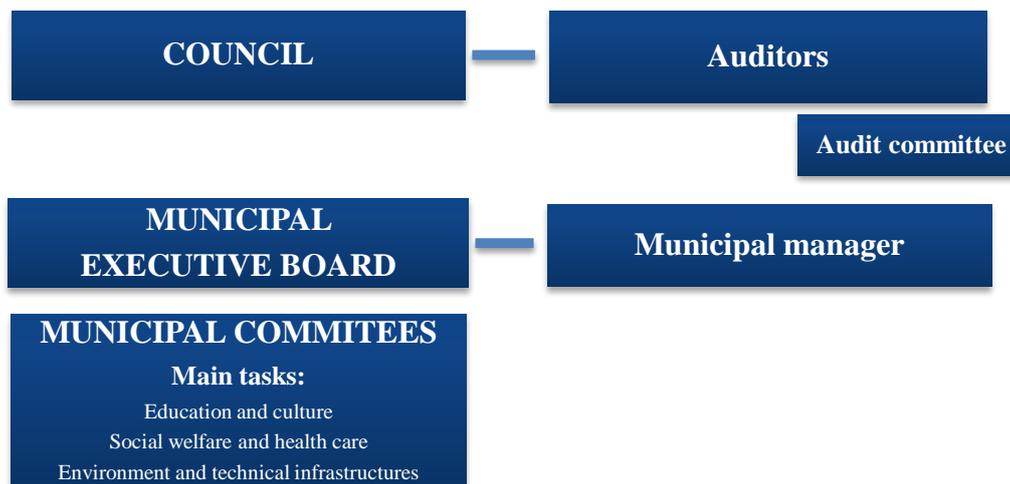
By the 1980's the uniform system of welfare services had spread all over the country and an experiment to increase municipal autonomy was initiated. However, the growth of municipal sector was halted in the beginning of 1990's, when a deep economic recession drove the public sector into a serious deficit, causing difficulties in municipalities. This situation forced the decision-makers to start a reforming process, which involved all sectors of public management (Moisio et al., 2010). Also provisions on inter-municipal cooperation were reformed by the introduction of the current "Local Government Act" in 1995: local authorities are now more free to organise co-operation by entering into inter-municipal agreements. Moreover, these reforms gave municipalities much more independence to decide their own matters and conferred them more powers to manage their functions and administrative structures independently. As a result of the crisis and the reforms that were introduced, it followed a period of modernisation and implementation of self-government, reinforcement of the sustainability of municipal economy, extension of local democracy and the reform of the structure of municipal administration (Moreno, 2012).

At the beginning of the 2000s, an extensive structural reform process was launched in Finland. In 2005, the so-called PARAS – Project to Restructure Local Government and Services was enacted. The reform aimed at making the municipal structure more efficient by encouraging voluntary municipal mergers and municipal cooperation in areas of public service delivery. However, the consequences of this process have not always been positive: in some cases existing cooperation between pre-reform municipalities has disappeared or been weakened when these municipalities were amalgamated (Lindqvist, 2010). Given the high degree of municipal autonomy in Finland, municipalities could therefore choose between merging and joining larger co-operation areas. Since it was not possible to use threats or sanctions to force municipalities into implementing the reform, the central government used financial incentives to encourage municipalities to merge. This led to a reduction of the number of municipalities from 452 in 2001 to 432 in 2005 (Blöchliger and Vammalle, 2012). The reform process is currently ongoing and it further reduced the number of municipalities to 320 in 2013.

3.2.2 The organization of Finnish local government

Finland is a highly decentralized state in which the public sector principally rests on the relation and cooperation between the state and the municipalities, which largely function autonomously.

Figure 3.6 – Main bodies of Finnish municipal organization



Source: Association of Finnish Local and Regional Authorities

The **State organization** consists of three administrative levels (COMMIN, 2007):

- At the *Central government* level operate the ministries and the government agencies.
- *Regional Administration* includes Regional State Offices (aluehallintovirasto) and several other regional state agencies for example Provincial State offices, Regional environment centres and Occupational Health and Safety inspectorates.
- *State and Local Administration* consists of State local districts, Employment offices, Tax offices, Customs offices and Legal aid offices.

Local government is based on self-government of individual municipalities, guaranteed by the Constitution. The basic unit of local government is the municipality (*kunta*). Currently there are 320 municipalities, 67 of which are cities (*kaupunki*) and the rest 253 are regular or ordinary municipalities. In any case, the municipalities are uniform in that they enjoy the same legal status, bear the same responsibilities, exercise equal authority, and have the same kind of democratic and executive bodies (Moreno, 2012). Despite this, there are considerable differences between local authorities such as the number of residents, the economic base, the geographic location, size and the level of employment.

Although municipalities can organise their administration relatively freely, the Local Government Act (1995) stipulates that each municipality must have a Council, an Executive Board, a municipal Manager and a Municipal Committee.

MUNICIPAL COUNCIL

The *Municipal Council (kunnanvaltuusto)* is responsible of the exercise of decision-making powers of the municipality. It is elected by the residents in a secret ballot every four year, using an open list D'Hondt electoral system. According this method each single vote is given to a single candidate, rather than to a party list. As a consequence, parties gain seats based on the sum of votes that their candidates get. The number of councillors is proportional to the population of the municipality and may vary from 17 to 85, as illustrated in Table 3.10 (Hyytinen et al., 2013).

Table 3.10 – Number of councillors

<i>POPULATION</i>	<i>NUMBER OF COUNCILLORS</i>
up to 2,000	17
2,001- 4,000	21
4,001- 8,000	27
8,001- 15,000	35
15,001- 30,000	43
30,001- 60,000	51
60,001-120,000	59
120,001-250,000	67
250,001-400,000	75
over 400,000	85

Source: *The Finnish Local Government Act*

The municipal council must decide upon strategic and financial outlines and on the main objectives for different municipal activities. Councils can set up committees that handle functions of a permanent character, for example, social and health care services, education, urban planning and environment and cultural and leisure services (Moreno, 2012).

MUNICIPAL EXECUTIVE BOARD

The *Municipal Executive Board (kunnanhallitus)* carries out the executive functions. Its members are chosen by the municipal council according to a proportional ratio. The composition of the

municipal board is based on the political makeup of the council: the parties represented in the council get seats in the municipal board according to their share of council seats. Thus, there is no real opposition in local politics and municipal elections do not typically cause major changes in local politics. The municipal board is the highest executive body of the municipality and it is responsible for municipal administration and financial management. Specifically, it arranges and implements the matters to be decided by the council, executes the decisions and ensures their legality (Moisio et al., 2010).

MUNICIPAL MANAGER

The *Municipal Manager (kunnanjohtaja)* is the highest level officeholder within the municipality, who works under the municipal board as the head of municipal administration, financial management and other functions. The municipality managers are elected by the Council and hold their position for a fixed term or permanently. The situation is however slightly different for the biggest cities, where city managers are often de facto politicians, who have risen up from city councils or national politics, elected by local councils (Moisio, 2010).

MUNICIPAL COMMITTEE

The *Municipal Committee* is responsible for the administration of the main areas of municipal activities. The committee members are elected by the Council by proportional vote, which may establish other committees to carry out municipal functions. They could include an Auditing Committee for auditing the municipal administration and finance, and an Election Committee for organising elections every four years (Moreno, 2012).

3.2.3 The legislation on municipalities

Due to the extensive decentralization of public services to local level and a single tier of local government, the Finnish municipalities have a broad range of responsibilities. According to Article 121 of the Constitution, the principle of autonomy or self-administration (*itsehallinto*) is conferred to municipalities, so that the central government cannot assign them new responsibilities without first passing legislation.

Local governments are responsible for providing various functions, among which all health and welfare services and all education services except for university education. Some functions are

mandatory duties set up by law, others are performed at discretion of the municipalities. Nevertheless, they must observe the relevant special legislation (www.vm.fi). In this respect, local governments rely on the following Acts:

- The ***Local Government Act*** (1995) forms the basis for local government and contains specific rules on their decision-making process and the organization of municipal administration. In a municipality the decision power is up to the local council elected by the residents for a four-year period. The Act contains provisions on how the municipalities must perform their functions and on other aspects of municipal administration. In fact, municipalities have broad powers in matters pertaining to their own administrative structures, such as institutions and their duties. Moreover, the Act contains provisions on the opportunity of local residents to influence decision-making and participate in the process, municipal finances, administrative and financial supervision, cooperation between municipalities and legal safeguards of local government employees and residents.
- The ***Act on Local Authority Boundaries***. The Finnish constitution stipulates that "*the country is divided into municipalities governed by their residents*". The Act on Local Authority Boundaries gives a broader meaning to this system by stating that the division serves both the purposes of self-government by local residents and general administration. General principles of municipal boundaries are laid down in the Act on Local Authority Boundaries, which contains provisions on such matters as the process of changing municipal boundaries, carrying out the necessary preparations and making decisions, and organizing the administration of a new municipality. The Act states that the system must ensure territorial cohesion of municipalities and workable community structures.
- ***Act on Central Government Transfers to Local Government*** belongs to a set of laws that stipulates the amount of central government transfers to local government, and the distribution of costs between local and central government.
- Other laws with provisions covering central government transfers to local government are the ***Act on Planning and State Grants*** in the Area of Social Welfare and Health, and the ***Act on the Funding of Educational and Cultural Services***. These acts contain provisions on state grants to basic municipal services in these two sectors (www.vm.fi).

3.2.4 Functions of local authorities

Local authorities has the responsibility to carry out functions falling within the sphere of its autonomy as well as other functions entrusted to it by law either alone or in cooperation with other local authorities. The general scope of municipal responsibilities is determined in Section 2 of the Municipal Act (1995): “*Local authorities shall perform the functions that they have undertaken by virtue of their autonomy and those laid down for them in the law. Local authorities may not be allotted new functions or duties, nor shall they be deprived of functions or rights, other than by passing legislation to this effect*”.

Accordingly, it is conventional to distinguish two spheres of municipal competences:

- The general municipal powers, which are based only on the municipal autonomy;
- The special municipal powers based on and defined by special laws on the services that municipalities must provide for their residents. The most important of these are in the fields of social welfare and health, education and culture.

However, there is not a clear distinction between general and special powers of the municipality nor are there any stable grounds for the determining how the functions should be distributed between central government and the autonomous municipal authorities. Thus, generally, each municipality is competent to handle all matters of common local interest. Considering that municipalities' competences are 'general', there is no exhaustive list of municipal responsibilities established by law, but there are several legislative enactments that regulate municipal competence in specific spheres (Moreno, 2012). Some of the basic public services conferred to the municipalities by Finnish legislation are the following (Rautio, 2006):

- Deliver, organize, and/or purchase most health care services, both primary and secondary, specialist medical care, dental services and promote a healthy living environment;
- Provide most social and welfare, including child day care and services for the elderly and disabled;
- Run comprehensive education, including pre-school, primary and secondary schools, vocational and professional education institutions, polytechnics and libraries; they also provide adult education, art classes, cultural and recreational services and services for the youth.

- Supervise land use planning and construction in their area; and control the municipal environment, including the maintenance of streets, energy management, water and wastewater, waste management, and harbours
- Manage public transportation, often arranged in cooperation with private companies.
- Promote of local businesses, employment and the development of information society.

Moreover, local authorities may undertake additional voluntary functions for the provision of basic services, not established by legislation. These tasks include services relating to free time activities of residents, additional occupational training and civic education.

3.2.5 Municipal revenues sources

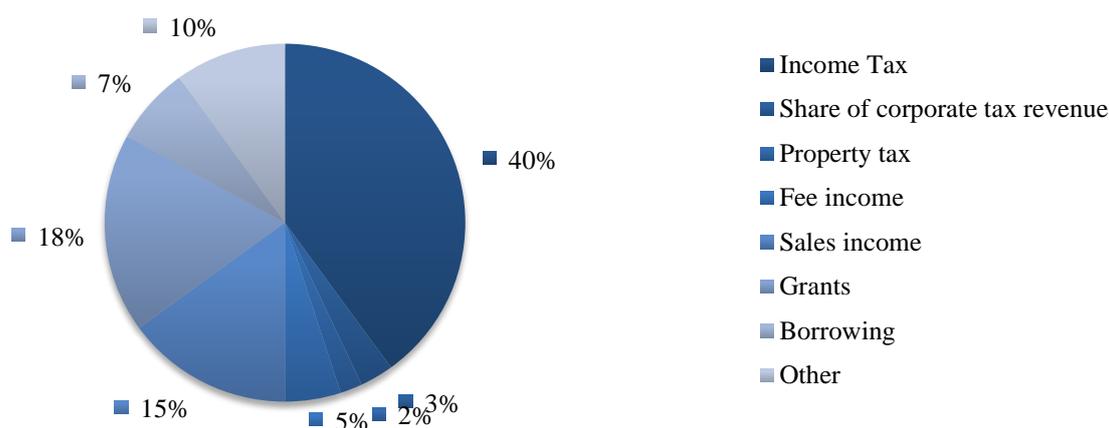
Finnish local authorities finance their expenditure from three main sources: local government tax revenue, transfers from the central government and various charges and sales revenues. The strength of local self-government derives largely from the municipalities' independent right to levy taxes and charge user fees. Therefore, most of the basic public services provided for the inhabitants of the municipalities are financed from:

- ***Municipal income tax revenue*** Municipal income tax revenue derives from a flat rate tax levied on personal income. The local income tax base is determined by the central government but each municipality decides independently on its income tax rate on the basis of the municipal budget. Municipal tax rates have been relatively constant over time, but recently have been steadily rising, partly as a response to decreasing tax base and partly because of the increase in public sector wages. Since municipalities are required to present a balanced annual budget, the economic pressure on municipal finances are immediately reflected in tax rates (Moreno, 2012).
- ***Real estate tax*** is another municipal tax determined by the taxable value of each property and by the tax rates set annually by each municipality. Although it may appear that municipalities are free to determine these rates, municipalities have little discretion over property rates since maximum and minimum limits are legislated by the central government. However, the share of this tax revenue has remained fairly modest in the municipal finances, and represent only 2,5% of the total municipal revenues (Moisio, 2010).
- ***Share of corporate tax revenue*** is not directly levied by municipalities, but they do receive their share of the State tax revenue. This share is determined by law and is presently set at

33% of total corporate tax revenue collected in their area, and amounts to less than 3% of total municipal revenues.

- *User fees and sales of goods and services* have been an important source of funding for municipalities, collected for managing some services such as local energy and water supplies, waste disposal, public transport, sewage networks and ports (Moreno, 2012). As in the case of local taxes, each local authority decides independently on the charges for such services.

Figure 3.7 – Local and joint municipal authorities revenues, 2009



Source: Association of Finnish Local and Regional Authorities

The other most important source of municipal income is grant from the central government, which cover nearly the 18% of the total municipal revenue. The block grant is defined using formulas based on variables that measure services need and cost differences in the municipalities. Indeed, State subsidies are usually paid out for funding the poorest municipalities and those with relatively high service needs.

3.2.6 Alternative ways to provide local government services

In Finland the reform of municipal authorities was prompted mainly by development of the welfare state, a local authority responsibility. It was necessary to create large-scale organizations in order to deliver services effectively and meet the demands imposed by the increased number of functions which central government assigned to them. Co-operation also allows economies of scale by reducing average costs per user, particularly for major infrastructure (Deffigier, 2007).

Inter-municipal cooperation

In Finland inter-municipal cooperation has always existed and municipalities have obtained the right to practise voluntary bilateral or multilateral co-operation based on their own needs. The state regained the initiative and encouraged co-operation through a reform which began in 1970; it gave it solid support from 1990 onwards through special projects and programmes and various types of grants. In a number of areas co-operation has got under way on the basis of legislation, with the government making it compulsory to organise certain inter-municipal services. However, municipalities have often themselves realised that they could not organize certain services standing alone.

The fact that nearly half of the Finnish municipalities have a population of less than 5.000 inhabitants means that many municipalities are too small to organise all their services alone. As a solution to the resulting problem of economies of scale, many Finnish municipalities have opted to organise the most demanding tasks through cooperative arrangements (Moisio, 2010). The most common form of municipal cooperation is the “*joint municipal authority*” (*kuntayhtymä*). It is set up by two or more local authorities to perform specific functions on a permanent basis, the most important include hospital districts, districts for care of the disabled and others related to public health, education and regional cooperation.

In Finland at the beginning of 2011 there were 184 joint authorities, which are independent legal public entities governed by municipal legislation and financed by member local authorities, thus they have no taxation right. Joint authorities are established by voluntary contracts between municipalities, whom allow them to decide on the basic activities and organization of the institution. The only exception is for hospital and regional councils, where each municipality is obliged by law to belong. In particular, small municipalities have set up municipal offices shared jointly by more than one local authority, to perform the common tasks.

Other forms of cooperation

In addition to joint authorities, other possible forms of cooperation between municipalities include the so-called “*Host municipality model*”. In this case, small municipalities have set up client-producer arrangements, in which one municipality manages some tasks on behalf of the other municipalities: the clients are municipal governments and the producers are the host municipalities.

By organising the services in this way, the goal is to obtain a decentralised, network-based operations model.

These arrangements are less bureaucratic than the joint authorities. *Contractual co-operation* is common in the areas of waste management, water supply, rescue services, building inspection, consumer and debt counselling, and education. Some contracts are statutory, such as co-operation agreements on rescue services, and contracts for building and maintaining regional emergency dispatch centres (Moisio, 2010).

In practice, municipal cooperation has replaced the intermediate government tier and has made it possible for the small municipalities to exist.

Municipal mergers as a form of public sector restructuring

In Finland, the past ten years has meant a clear decrease of the number of municipalities: local governments have been reduced by about one fourth through voluntary mergers.

Since mergers of municipalities have been and are one of the most significant forms of the Finnish public sector restructuring, they have been taking place continuously. The majority of them occurred during PARAS reform period in 2007-2013, with the aim to achieve municipalities with a minimum size of around 20.000 inhabitants.

In particular, this typical merger process has been undertaken in order to strengthen local governments, having an impact on some important municipal aspects:

- They generate cost reduction in the provision of certain mandatory municipal services;
- They ensure a better administrative capacity of the municipalities while reducing the administration costs;
- They contribute to design of policies tailored to the needs of different municipalities;
- They contribute to avoid duplications in the provision of facilities and to improve the efficiency of municipal investment policies, reducing the dependence of small municipalities on capital transfers from central government (IEB, 2011).

The majority of the mergers that took place were between two municipalities, but in some cases the merger includes more than two municipalities, as multi-municipal merger.

CHAPTER 4 *Local Governments Reforms: The Finnish and Italian Experience*

4.1 The Local Governments across Europe

In the past few decades many European countries have witnessed a period of intensive reform across many local government systems. Despite the significant disparities between countries, both in terms of localization, size, organization and resources, some general trends are visible since municipalities share common preoccupations (CCRE, 2009). Although the various reforms have focused on different aspects of local public administration and have varied widely across time and space, one common goal has been the '*perfect size*' of local government and their re-organization in order to ensure economic efficiency in the delivery of local public services and to improve the performance of the public sector (Moisio, 2012).

The European municipal landscape has changed radically in the past few years, especially in the last 10 years. The economic crisis was the opportunity to accelerate the reform process toward reorganizing territories, rationalize and pool resources in an effort to increase the efficiency of local public action (Dexia, 2011). Reforms at the municipal level have encouraged different solutions, in particular inter-municipal cooperation and municipalities to merge.

Municipal merger policies have been implemented to compensate for the economic disadvantages linked to the small size of many of the municipalities concerned (insufficient financial resources to carry out their responsibilities correctly, limited tax base, etc.). Such municipal reforms are underway in many European countries, reducing drastically the number of municipalities: in Denmark, the number of municipalities dropped from 270 to 98 in 2007 and in Latvia they went from 524 to 119 in 2009, but also in Finland the PARAS - Project to Restructure Local Government reduced the number of municipalities from 431 in 2006 to 336 in 2011. In Luxembourg, there were 106 municipalities in 2012 versus 116 in 2009; the downward trend is poised to continue and by 2017 there is expected to be 71 municipalities. In Greece, as part of its 'Kallikratis reform' of local administrations, the number of municipalities went from 1,034 to 325. In Germany, municipalities

continued to be merged in several Länder where the number has dropped 7% in four years, from 12,456 in 2007 to 11,553 in 2011. In several other countries this trend continues to meet stiff resistance, however (Dexia, 2011).

Nonetheless, governments are increasingly encouraging inter-municipal cooperation, which is seen as an alternative to merging municipalities or as a complementary route. Inter-municipal cooperation allows municipalities to join their resources in order to improve the management of local public services and to attain the sufficient size to carry out certain responsibilities (i.e. sewerage, water, transportation), while at the same time keeping their own municipal structure (CCRE, 2009). It has taken different forms including simple delegation agreements or shared services or more integrated and institutionalized forms of cooperation. Countries as Spain, Italy and Portugal have opted to develop the role of inter-municipal groupings rather than eliminate municipalities. In England, the government has asked districts to sign Shared Service Agreements for certain public services, as well as in France where 91% of municipalities in 2007 belonged to 2,588 inter-municipal cooperation structures with own-source tax revenue. Since 2012, a plan for inter-municipal cooperation has been completed in two-thirds of French departments (Dexia, 2011).

For our purpose, we mainly focus on Italian and Finnish cases and draw a comparison between the current reforms undergoing in these two countries:

- In ***Italy***, the reform of Title V, part 2, of the Constitution approved in 2001 introduced some innovations. The plan for eliminating small municipalities with less than 1,000 inhabitants seems to have been abandoned in favour of greater inter-municipal cooperation: the municipalities with fewer than 5,000 inhabitants have had to share their resources starting from 2013 (group purchasing, municipal unions) while reducing the number of municipal councilors.
- In ***Finland***, the new government seeks to accelerate the current pace of mergers implemented in 2007 through the PARAS programme of municipal services restructuring, which gradually reduced the number of municipalities. A new policy begun in 2012, entitled “New municipalities 2017”, which implements municipal reorganization with various configurations depending on the urban or rural nature of territories and aims at promoting the creation of an infra-municipal level. At the same time, municipal competencies are likely to be strengthened, particularly for social services (Dexia and CEMR, 2012).

Table 4.1 – Population, surface area and organization of territories in the EU-27 Member States in 2011.

	POPULATION (thousands)	SURFACE AREA (km ²)	1° LEVEL	2° LEVEL	3° LEVEL
COUNTRIES WITH ONE SUBNATIONAL GOVERNMENT LEVEL					
Bulgaria	7.534	111.002	264 Municipalities	-	-
Cyprus	804	5.695	379 Municipalities	-	-
Estonia	1.340	45.227	226 Municipalities	-	-
Finland	5.363	338.145	336 Municipalities	2 Regions	-
Ireland	4.476	69.797	114 Municipalities	-	-
Latvia	2.239	64.589	119 Municipalities	-	-
Lithuania	3.287	65.300	60 Municipalities	-	-
Luxembourg	506	2.586	106 Municipalities	-	-
Malta	416	316	68 Local Councils	-	-
Portugal	10.637	92.152	308 Municipalities	2 Autonomous Regions	-
Slovenia	2.049	20.273	210 Municipalities	-	-
COUNTRIES WITH TWO SUBNATIONAL GOVERNMENT LEVELS					
Austria	8.388	83.871	2.357 Gemeinden	9 Länder	-
Czech Republic	10.517	78.868	6.249 Obec	14 Kraj	-
Denmark	5.546	43.098	98 Kommuner	5 Amter	-
Greece	11.305	131.957	325 Demoi and Koinitita	13 Nomoi	-
Hungary	10.000	93.029	3.177 Telepulesek	19 Megyék	-
Netherlands	16.612	41.528	418 Gemeenten	12 Provincies	-
Romania	21.431	238.391	3.181 Local Authorities	41 Departments	-
Slovakia	5.430	49.034	2.930 Obec	8 Vyssie	-
Sweden	9.378	449.964	290 Kommuner	20 Landsting of which 4 Regions	-
COUNTRIES WITH THREE SUBNATIONAL GOVERNMENTS LEVELS					
Belgium	10.883	30.528	589 Communes	10 Provinces	6 Communautés and Régions
France	64.848	633.210	36.697 Communes	101 Départments	27 Régions
Germany	81.757	357.027	11.553 Städte and Gemeinden	301 Kreisen	16 Länder
Italy	60.468	301.336	8.094 Comuni	110 Province	20 Regioni of which 5 with special status
Poland	38.187	312.685	2.479 Gminy	379 Powiaty	16 Voivodies
Spain	46.073	505.997	8.116 Municipios	52 Provincias	17 Comunidades Autonomas of which 2 with foral regime
United Kingdom	61.990	243.820	406 Districts and Unitary Authorities	28 Counties	3 'Devolved' Powers
TOTAL EU 27	501.465	4.409.423	89.149 Municipalities and Local Authorities	1.126 Regional or Intermediary Authorities	105 Regions

Source: Dexia and CEMR, 2012

4.2 The Reform Project in Finland

In 2005 the Finnish Government introduced a Project to Restructure Local Government and Services, known as PARAS project. The reform process aimed at restructuring and reducing the number of municipalities in the country, for the creation of a system of governance that ensures high-quality public services delivery and secures equal provision of welfare services across the country also in the future. There are four main challenges that led Finland to the PARAS initiative.

1. The first concerns *territorial migration*: in the northern and in the eastern regions, municipalities have experienced an increasing migration of citizens to urban centers, especially younger people. As a result, the population that remained were aged people who required more specialized services; this situation made the provision of these services more difficult, considering that the delivery planning is principally based on population size;
2. The second concerns *demographic changes* and, in particular the *ageing population*: many municipalities had to deal with the growing demand for the municipal services due to the aging population, that was expected to rapidly increase, especially the demand for health care and elderly care services;
3. The third concerns the *high fragmentation of services* provided by the municipalities. Thus, municipal cooperation is becoming more and more important but at the same time it had become more difficult to manage it effectively;
4. Moreover, many municipalities were in serious *economic difficulties*. Many of them did not have adequate resources available to provide sufficient services and proper living conditions for their residents and various organisations (Vakkuri et al, 2010).

The reform program has been seeking to deal with all these difficulties, increasing the size of the administrations: bigger municipalities and intensified municipal cooperation are expected to help the local authorities to manage growing demand for the services (Moisio, 2010).

Table 4.2 – The PARAS project

The tasks of the PARAS project on service structures and municipalities are as follows:

- To evaluate and submit a proposal for the appropriate areas of responsibility for the statutory and other services assumed by the municipalities with due regard to the content and specific features of such services, including their availability, standard of quality and the long-term financial resources of the municipalities, as well as regional and language-related special features.
- To evaluate the restructuring of municipalities and cooperation across municipal boundaries at all regional levels up to the national level.
- To analyse and promote best practices for the organisation and production of various services.
- To evaluate the steering and development systems for the production of services and related research and to prepare proposals for further improvements.
- To evaluate the division of duties and allocation of costs between the Central Government and municipalities and to prepare the necessary proposals.
- To prepare the normative and legal changes related to the organisation and provision of services necessary for the implementation of the Project.

Source: www.intermin.fi

4.2.1 Framework Act's central content

The reform itself is carried out by local authorities within the limits of the framework law that defines the goals and regulates the process.

The principal goal of the reform was to strengthen the municipal economy and improve the municipal capacity to provide services. In addition, the equity was also considered: larger municipalities were argued to mean improved services for all inhabitants by diminishing the differences between more wealthy and poor municipalities. Moreover, the reform was implemented to enable the municipalities to make the welfare services more effective, and to find innovative ways of service production (Kettunen, 2011).

As specified in the Section 1 of the Act on Restructuring Local Government and Services (the Framework Act), the reform purpose is to:

“...create prerequisites for the restructuring of local government and services. The aim of the reform is to use local democracy as a basis for strengthening municipal and service structures, for improving the manner in which services are produced and organised, for overhauling local government financing and the system of central government transfers to local government and for reviewing the manner in which tasks are divided between central and local government so that the organisation and production of services which are the responsibility of local authorities would be on a strong structural and financial basis. The aim is to improve productivity, slow down the rise in local government spending and create a sound basis for steering the services organised by local authorities.”

According to PARAS framework Act, every local authority in Finland had had to prepare an implementation plan, explaining how they intended to reorganize their activities in order to reach the basic provisions laid down by law.

Therefore, municipalities or co-management areas responsible for primary health care and closely related social welfare services should have a population basis of about 20.000 at least. Similarly, municipalities or co-management areas responsible for vocational basic education should reach a population basis of about 50.000 at least (Meklin and Pekola-Sjöblom (eds.), 2013).

Exemption can, however, be made from these prerequisites on the bases of an archipelago environment or long distances (the distance between the municipal centres must be at least 40 kilometers along public roads). Flexibility is also allowed in order to safeguard language and cultural rights, principally Finnish and Swedish speakers and Sami people (CCRE, 2009).

4.2.2 The means of implementing the reform

Under the framework act, local authorities have been free to decide how to reach the minimum population bases. The options were to establish either a *municipal mergers* or a form of *municipal cooperation* with the neighboring municipalities in the field of social welfare and health services, in vocational education and training.

In cases where a partnership area is formed, a new joint municipal body must be established for the management of the relevant tasks. Also, municipalities may reform their own operations without a need to form mergers or collaborate with other municipalities.

Figure 4.1 – Reform project to restructure local government and services (PARAS project)

PLANNING V/2005 - II/2007	DECISION-MAKING AND EXECUTION II/2007 - XII/2008	EXECUTION I/2009 - XII/2012
Reform is planned and legislation enacted	Reform implementation is planned	Reform is implemented
Government decisions XI/2005-II/2007	Acts regulating the reform are enacted and adopted by Parliament	
Framework act is drafted and approved by Parliament	Management and evaluation of the reform	

Source: The Association of Finnish Local and Regional Authorities

The formation of municipal mergers and local government co-management areas was a multi-stage process (Meklin and Pekola-Sjöblom (eds.), 2013):

1. The **first stage** of the reform involves the formation of a number of municipal mergers and local government co-management areas, and making collaborative efforts in urban regions. Some of the municipalities were party both to a merger and to a co-management area. All these solutions are considered means for local government reform as opportunities for improving municipal operation. Therefore, the benefits of mergers, local government co-management areas and collaboration ultimately depend on how the newly established municipalities and co-management areas are able to exploit this potential.
2. The **second stage** of reform implementation is based principally on a renovation of the system management which includes organizational restructuring and introduction of new practices, such as life-course models, process organizations or purchaser-provider models. All these tools can be used to implement two basic municipal operations: the service provision and community development.

The framework law identified some other changes which would be negotiated between the state and municipalities, in order to allow a successful implementation of the PARAS reform.

4.2.3 Municipal merger grants

During the reform years, the central government has continued to encourage local authorities to complete mergers with a special merger grant policy and merger grants.

These financial incentives were determined according to three main factors:

- The ***timing of the merger***: the earlier the merger, the greater the amount received. The grants was 1.8-fold if the merger became effective on January 1st either in 2008 or 2009 and 1.4-fold if the merger was carried out at the start of 2010 or 2011.
- The ***number of municipalities involved***: the greater the number of municipalities party to the merger, the higher the amount of the merger grant.
- The ***size of the population covered***: better incentives were given to multi-mergers and to local authorities that reach the threshold of 20.000 inhabitants, and the amounts are greater the smaller the initial population of the municipalities that merge (Blöchliger and Vammalle, 2012).

Support to local government was justified for covering the fusion costs arising from municipal mergers. Starting from 2008, the merger grant was highest in the period 2008-2009, after which it was reduced yearly and finished completely from the beginning of 2013. Moreover, since central government transfer to many of the new municipalities arising from municipal mergers would fall, another incentive has been to ensure full compensation for the possible reduction in central government transfer for five years. Conversely, support for municipal mergers was clearly greater than the corresponding support for municipalities that had chosen inter-municipal cooperation as their solution: although not as much, fusion costs also arise in the formation of local government co-management areas.

4.2.4 The aim of the reform: population size and scale economies

In the last decade, many Finnish local government jurisdictions have undertaken the PARAS reform project aiming at strengthen their municipal structures. The reform project was certainly based on the idea of bigness related to the assumption of significant economies of scale in the local government services provision. Since economic difficulties was seen to depend on the small size, which causes vulnerability and difficulty in managing to produce all the required services, policy makers have thus amalgamated small municipalities into bigger geographical entities with larger

population in order to take advantages of the supposed scale economies: the larger the jurisdiction size and the population assisted, the lower will be the per capita costs of services provision.

However, a number of studies demonstrate that amalgamations itself do not improve the effectiveness of municipal service but the relationship is more complicated (Moisio & Uusitalo 2003). Some considerations could be of great importance in order to understand better the implications of scale economies.

The ability to achieve economies of scale depends in part on the optimal size for producing welfare services, which is somewhere between very small and very big units, both suffering from certain weaknesses. In Finland, recent studies carried out by Moisio, Loikkanen and Oulasvirta (2010) have investigated the effects of municipal mergers on per capita expenditures. The empirical evidence results to be mixed, with little evidence of economies of scale in large municipalities and thus relatively low cost efficiency in the provision of basic welfare services.

In particular, Alternative models indicated that municipalities with a population below 10.000 seemed to be less efficient than those in the range from 10.000 to about 40.000 inhabitants. In this range population did not explain efficiency differences practically at all (Moisio, 2012).

Other studies in Finland have focused on specific municipal services (health centres and schooling) found the optimal size of the municipality to be somewhere between 20.000 and 40.000 people (Moisio, Loikkanen and Oulasvirta, 2010).

Accordingly, the optimal size for different services may be different and economies of scale may depend on the specific service provided and thus are not uniform across the wide range of good and services provided by each local municipality.

According to Dollery and Fleming (2006) it might be highlighted that *'if councils each produce their own services and there are substantial aggregate economies of scale, then follows that a system of numerous small municipalities will result in higher expenditures for the same level and composition of output than a system of fewer larger councils'*. But particular scale characteristics pertain to specific services. It thus follows that *'the most efficient level of production will depend on the type of service in question'*, which implies that *'where local government produces a range of different services, each with its own unique production characteristics, no single size of government will be able to produce all services at the minimum possible cost for each service'*. As a consequence of these considerations, since different municipal activities have quite different optimal areas, it could be said that there is no functionally optimal size for municipal governments (Dollery, Byrnes and Crase, 2008).

4.2.5 Evaluation of the reform

A number of initiatives have been introduced through the PARAS project, and local authorities have taken an active role, even more so than expected. However, the research evidence seems to be mixed.

The most dramatic change has been the gradual reduction of Finnish municipalities from 416 in 2005 to 320 in 2013. In order to reorganize service delivery at the local level, smaller municipalities have been amalgamated and larger local authorities introduced. As a result, a total number of 67 municipal mergers took place during the period 2007-2013, the majority of them were mergers between two municipalities but also multi-mergers were experienced. The largest multi-municipal merger was the case of Salo, where ten municipalities involved in a merger: the new municipality will cover an evident commuting area. The same happened for Hämeenlinna: 6 municipalities merged into a new city of 90.000 inhabitants. In central Finland the city of Jyväskylä (85.000 inhabitants) merged with its two neighbors into a city of 125.000 inhabitants (CCRE, 2009). Although the number of municipalities was drastically reduced, the median population is still only around 6.000, which is low in relation to the wide responsibilities devolved to municipalities, notably in the health and education sectors. However, it was proposed a new map of municipalities in 2012, with mergers to be implemented of even to about 100 municipalities by 2015 (OECD, 2012).

Table 4.3 – Mergers as outcomes of the PARAS-project

YEAR OF MERGER	2005	2006	2007	2008	2009	2010	2011	2012	2013
NO. MERGERS OF TWO MUNICIPALITIES	8	1	13	1	16	3	6	0	6
NO. MULTI-MUNICIPAL MERGERS	2	0	1	0	16	1	0	0	4
TOTAL NO. OF MUNICIPAL MERGERS	10	1	14	1	32	4	6	0	10
TOTAL NO. OF MUNICIPALITIES	432	431	416	415	348	342	336	336	320

Source: Association of Finnish Local and Regional Authorities, 2013

Although the number of municipalities has diminished radically, a large number of cooperation among municipalities took place with the creation of 67 partnership areas, in which 253 local

authorities, mainly small ones, took part in. Yet, in spite of extensive cooperation, there were serious problems with the promotion of cooperation especially in health care and education, the core functions of Finnish local authorities. Some were the cases in which co-management areas have been disbanded: the causes of the ending of cooperation could be different for example the cooperation did not yield satisfactory results or one of the member municipalities started merger negotiations or co-management negotiations with new partners (Meklin and Pekola-Sjöblom (eds.), 2013). All these results from both municipal mergers and inter-municipal cooperations indicated that fewer and larger local authorities allowed Finnish communities to combine resources for the provision of education and health services in a more efficient way to a larger population (20.000 or more). At the same time, the newly created local authorities continue to provide adequate services for smaller and isolated communities no longer governed by their own local authority.

Hence, service delivery duplication was also minimized at the local level through the centralization of administrative support for the entire area.

Another important evaluation was from the perspective of local economy. One observation is that municipal mergers implemented during the period 2003-2009 have reduced the number of municipalities in deficit. However, the mergers have not yet produced substantial productivity gains, which can partly be explained by the fact that participating municipalities typically agree not to adjust the workforce following a merger. Two were the opposite situation implemented: on the one hand, a number of municipalities have opted for municipal mergers because their economic development prospects were quite poor; on the other hand, municipalities with reasonably good prospects and conditions for development have voluntarily begun to prepare municipal mergers. In these municipalities, municipal mergers are seen as promoting the region's development, wealth and residents' well-being (Meklin and Pekola-Sjöblom (eds.), 2013).

Unfortunately, the emergence of the global recession in 2008 has affected the economy of municipalities in general and disrupted the Finnish government's ability to support the PARAS project. The financial and managerial integrity of Finland's newly formed local authorities have been greatly tested by the recession. The financial stress on the municipalities has translated into tension between the national and local governments.

Today the reform project has formally ended, nevertheless, municipalities will continue with restructuring and modernization. Only a few years have passed since the municipalities have implemented reform measures. Therefore, the final results of the project are still to be seen and it is not possible to make any far-reaching conclusions about the broader impacts of the reform.

4.3 The Italian reform: goals and instruments

The debate on the Local government reform of the Italian State has been going on since the early nineties, when the Italian economic, political and social circumstances exerted strong pressure to introduce new models of local government facilitating the decentralization of the public sector.

One of the main challenge that led Italy to undertake a structural reform of the local governments and the debate on fiscal federalism have been the strong *interregional disparities* which has historically hindered the economic growth: the difficult and unresolved territorial dualism especially between the Northern and Centre regions and the South, involves not only a significant difference in levels of income per capita and thus of fiscal capacity, but also a wide gap in infrastructure facilities and services.

Similar economic differences can be found within each of the Northern, Central and Southern regions of Italy: some valleys in the north have income levels as low and infrastructures as poor as some areas of the south, whereas in the south, some areas have standards of living and infrastructures as high as anywhere in Europe. However, the most obvious differences remain in the Southern part of the country: in these regions the average per capita GDP is around a third lower than the value registered in the Centre and the North, reflecting a wide productivity gap; while unemployment is triple that of the northern regions. Moreover, despite a set of regional development policies, the southern regions have lagged behind the national average. As a consequence, the economic differences impact on fiscal positions: tax-raising capacity is lower, and deficits and debt are higher in the south, despite a comprehensive transfer system (CCRE, 2012).

The unequal economic and fiscal situation was one of the main drivers in the debate on decentralization, so that the constitutional reform of 2001 that set the stage for the fiscal federalism reform was meant to be a compromise between northern demands for more autonomy and southern demands for lower economic and fiscal disparities.

The other most important measures were aimed at balancing public finances and taking *control of the public debt*. Poor outcomes in terms of the efficiency and effectiveness of public sector activity were manifestly obvious. Therefore, lower level governments contributed greatly to this fiscal distress.

It is no easy thing to establish balanced and stable rules for the functioning of local and regional institutions in a country with such important economic and social differences, but with the implementation of fiscal federalism - it was deemed at the end of the last century - there was also the opportunity to *modernize the country*, to reform public administration, and to promote the

development of its regions and towns: this situation involves a radical rethinking of both public spending and tax revenue that goes well beyond the distribution of revenues between levels of government.

Table 4.4 – The Purpose of the Federal Government Reform

The main goals driving the federal reform were the following:

- To ensure a federal political/institutional system respectful of the history of the country and of its legal and cultural tradition, historically rooted primarily in a successful relationship between the central state and the other levels of government.
- To make more efficient the complex system of government through the allocation and delimitation of powers and functions in accordance with the objectives set by the Constitution.
- To ensure a plan of implementation of institutional and fiscal federalism, providing a clear definition of the role of each level of government, and planning and quantifying the resources in ways that ensure fairness, certainty and stability.
- To avoid all forms of subordination between the various levels of government, as contrary to the fundamental principles of self-government and responsibility those characterize the Italian constitution and any genuine federal system.
- To support a reorganization of the administrative system based on the principles of self-government and responsibility of each level of government.
- To promote and implement the transformation process of the municipal system, with, as its cornerstone, the fundamental objective of preserving the local governments' identity and unity.
- To create metropolitan cities, both as governing bodies and as strategic institutional tools for the relaunch of the country in Europe and in the world.

Source: CEMR, 2012

4.3.1 The dynamics of the reform process

The Italian federalist reform has extended over a long period and was pursued into several distinct stages. Each step made the reform more concrete and visible, while obscuring for as long as possible the more contentious elements.

Structural reform of the public sector began with earlier laws but reached its implementation in 2001 with *modification to Title V* of the 1948 Constitution. It introduced substantial innovations

into the organisation of public authorities and defined a new division of power and responsibility among governments: indeed, the Act have marked the shift from a centralised to a multi-polar system of institutions, enhancing the role played by local governments in local public policy administration.

The foundations were set to move from the conventional pyramidal structure whereby the State was on top towards a horizontal system where State, Regions, Provinces, Municipalities and Metropolitan Cities would be on an equal basis and jointly contribute to making up the Republic. In particular, the importance attached to autonomies was enhanced by building up a new institutional framework. This allowed also the increasing role of the Municipalities that deal with the smallest areas and are closest to citizens.

Law 42/2009, in place since 2009 introduced some important rules concerning local and regional authorities' financial resources, which gave greater autonomy than ever before to the local governments; it has stipulated that regions were entitled to the tax on productive activities (IRAP, a kind of business tax), and to a share in both the value-added tax and the personal income tax. Tax revenues should be sufficient to cover spending levels for an average region. The local level was entitled to the property tax and some other minor taxes.

About 10 years after the 2001 reform, the debate on fiscal federalism has been reopened with the necessity to identify the imperfection and then to intervene to correct them. The negative aspects of Title V of the Constitution come from a high burden of litigation in courts between the State and the local authorities and from the fact that it turned out that some of the functions devolved such as those pertaining basic infrastructures, could be better managed at the central level. Also the financial crisis contributed to shifting policies toward centralization. For this reason, the Government has presented a draft reform of Title V of the Constitution.

4.3.2 The nowadays agenda

The recent Act proposed by the Minister Delrio, "Measures on metropolitan cities, the provinces, the unions and mergers of municipalities", has reintroduced the debate on the main issues of fiscal federalism and on a review of local governments functioning. There are principally "three pillars" on which the current Local Government Reform is based. They are (i) the establishment of metropolitan cities, (ii) the overcoming of the provinces, (iii) the promotion of inter-municipal cooperation and mergers between smaller municipalities. The three pillars are explained in the following ways.

CREATION OF METROPOLITAN CITIES

The importance of the municipalities and inter-municipal associations was reaffirmed with the establishment of ten “Città Metropolitane” or *Metropolitan Cities* around the country’s largest urban areas.

The bill identifies ten Provinces that will be replaced with the metropolitan cities since January 1, 2015: they will be Turin, Milan, Venice, Genoa, Bologna, Florence, Bari, Naples and Reggio Calabria, and Rome Capital City with special rules. Reggio Calabria is postponed until the expiration of the provincial bodies 2016.

These new ‘expanded’ local authorities will be created to respond to the problems of a territorial reality objectively more complex than the others; they will deal with land-use planning, including communication facilities and networks of services and infrastructure, the organization of public services of general interest within the metropolitan areas, and finally economic development.

The territory of the metropolitan city will correspond to the respective provincial territories that collect around 17 million inhabitants and shall be responsible for institutional planning and strategic development planning, coordination, promotion and management of integrated services, infrastructures and communication networks.

Table 4.5 – The new metropolitan cities in detail

PROVINCE	POPULATION OF THE METROPOLITAN CITY	NUMBER OF MUNICIPALITIES IN THE PROVINCE	POPULATION OF THE CAPITAL OF PROVINCE
<i>Napoli</i>	3.054.956	92	962.003
<i>Milano</i>	3.038.420	134	1.242.123
<i>Torino</i>	2.247.780	315	872.367
<i>Bari</i>	1.247.303	41	315.933
<i>Bologna</i>	976.243	60	371.337
<i>Firenze</i>	973.145	44	358.079
<i>Genova</i>	855.834	67	586.180
<i>Venezia</i>	846.962	44	261.362
<i>Reggio Calabria</i>	550.967	97	180.817
<i>Roma</i>	3.997.465	121	2.617.175

Source: Elaboration from the Ministry of the Interior data

The debate on the identification and delimitation of the metropolitan cities in Italy is concentrated on the efficiency of these institutions; whether the institutions are not efficient enough, they can reduce or increase the transaction costs, thus affecting the overall performance of the economy and the welfare of the community. Therefore, any review of the institutional arrangements must act to reduce transaction costs, in order to:

- a. Find correspondence between the real boundaries of municipalities and those of the formal institutions;
- b. Reduce the time of the public decision by limiting the number of decision makers involved;
- c. Exploit economies of scale and scope;
- d. Select and concentrate investment.

The question that rises is whether the Bill 'Delrio' allows to achieve these goals. According to Iommi (2014), the definition of the metropolitan cities proposed appears unsatisfactory for at least three reasons:

1. *First*, it provides the automatic transformation of the provincial territories in metropolitan city, without any consideration of more objective criteria such as the population levels and urbanization, attraction of commuting flows and mobility in general, the presence of particular productive functions.
2. *Second*, it introduces the possibility of increasing too much the number of metropolitan cities, thus weakening the concept of metropolitan poles as strategic areas for boosting competitiveness.
3. *Third*, because it confers to the new entity the same functions of the provinces, with few additional powers, and provides a "weak" mechanism for the government: it is assigned to a metropolitan council, consisting of a subset of mayors and councilors of all the entities involved.

The bill proposes essentially a metropolitan city that is a place of municipalities' aggregation, all of which maintain the ownership of their functions on the territory.

For a reform, whose beginning can be traced back to the law 142/1990 and whose objective is to relaunch the country's competitiveness by improving institutional efficiency, it is definitely a modest result.

OVERCOMING OF THE PROVINCES

For years the Reform of the intermediary level of government, that is the Provinces, has been a very heated matter: the Law 135/2012, a bill proposed by Minister Delrio, finally has changed the characteristics of these bodies, making them a second-level institution.

The reform is not really about the abolishing of provincial administrations: indeed, they will continue to exist. In light of the new measures introduced by the Delrio law, it seems more accurate to speak of a re-ordering: it has provided the reduction of the number of provinces from the 107 that exist now to 97. From 2015, they lose many of their powers and will become assemblies constituted of the mayors and councilors of the municipalities in the province, without any additional compensation. The other 10 provinces will be turned into “metropolitan cities”, with more concrete powers, mainly relating to transportation, communication and economic development (Bruno, 2014a).

The new provinces will retain the management of school construction and maintenance beyond to functions concerning the general planning about transport, environment and mobility. In addition, they will have the function of controlling discriminatory behavior in the workplace and promoting equal opportunities. All other functions will go to municipalities unless the regions will prefer to keep them for themselves (Bruno, 2014b).

PROMOTION OF INTER-MUNICIPAL COOPERATION

The main provisions laid down by the “Delrio bill” about the inter-municipal cooperation concern the strengthening and the increasing of their autonomy and the introduction of organizational rules for unions of municipalities, as well as incentives for the merger of small municipalities, mainly referring to the exemption from the stability pact.

The municipalities with less than 5.000 inhabitants (3.000 inhabitants for Mountain Communities) are compelled to share certain competences in order to generate substantial economies of scale.

The structure of the unions of municipalities is strengthened, simplifying the regulations and expanding the functions performed in a partnership, now extended to all the core functions of municipalities. In addition there are also other functions that municipalities can share now, such as anti-corruption, transparency, auditing of accounts, monitoring and evaluation.

4.4 Impacts on voting behaviour and election results in Finland

Voter participation in the elections represents a significant aspect in the development of a society. Usually, it is believed that a low participation affect negatively the quality of democratic representation. On the economic level, empirical studies have shown that a higher voter turnout is associated with important effects such as more redistributive policies and a higher efficiency of public administration.

The impacts arising from municipal reform should be reflected in various ways on municipal residents who elect their representatives, finance municipal operations and use services provided by the municipality.

For this reason, an issue of interest to be investigated includes how municipal mergers that have been implemented during the reform years have affected voter turnout, the nomination of candidates, turnover of municipal councilors, changes in support for political parties and in power relations, as well as the realization of local representation in the municipal elections (Meklin and Pekola-Sjöblom (eds.), 2013).

4.4.1 The value of local representation

The size and the number of local jurisdiction may have a direct effect on voting behavior. Principally, the optimal size of municipalities depends on two opposing considerations. On the one hand, economies of scale and inter-jurisdictional spillovers from local public services favor the large municipalities. But on the other hand, in large municipalities it is more difficult to tailor services to the preferences of the voters, principally as the size of a municipality increases, also the diversity of preference among the voters increases. Another consideration arising from the Tiebout (1956) analysis, is that decentralization is an efficient tool for pricing local public goods, considering that citizens can "vote with their feet" by moving from one jurisdiction to another, and find the one that is more closely suitable to their preferred combination of taxes and public services. As a consequence, fewer and larger municipalities mean that citizen-voters have fewer choices and municipalities face less competition (Saarimaa and Tukiainen, 2012).

Considering the above arguments, it is important to understand how voters in local municipal elections reacted to the recent wave of municipality mergers in Finland, after the introduction of the reform project to restructure municipalities and services in 2005.

The mergers have been always voluntary and decided independently at the local level by municipal councils. However, some opposition from both municipal politicians and citizens has been raised, mainly because the municipalities surrounding central urban areas could lose their influence since their local representation on the new council is not strong enough (Meklin and Pekola-Sjöblom (eds.), 2013). For instance, in a situation where a merger involves a small municipality and a large municipality, it will probably result in a new council where only a few councilors are citizens of the smaller municipality. The resulting restructuring of public services could concentrate the provision of services to densely populated areas. Therefore the presence in the new council of a councilor that is originally from the small municipality is likely to defend local services because her voters and the councilor herself prefer them (Saarimaa and Tukiainen, 2012).

4.4.2 Effect on voting turnout

Considering the voter turnout trends in the municipal elections related to the size of a jurisdiction it was possible to investigate the impact that municipal mergers have had on voting behavior.

According to a research conducted by the Evaluation Research Programme ARTTU, coordinated by the Association of Finnish Local and Regional Authorities, the possible effects of municipal mergers have been examined on the one hand by comparing merged municipalities to other municipalities and on the other hand by comparing the central urban municipalities and the peripheral areas of merged municipalities with each other. Of particular interest in the analysis are the data of local elections that were held in the PARAS reform period, specifically before and after the merger wave.

Evidences by municipal groups show that voter turnout in the municipal elections of October 2008 increased by 2.7 percentage points when compared against that for the elections four years before, when the restructuring of municipalities and services was still only on the drawing board. The increase was recorded in both merged municipalities and other municipalities; in merged municipalities, however, the increase was one percentage point larger than in the others. Moreover, in municipalities that merged in the period 2006-2007, there have been some differences between the centers and peripheral areas in voter turnout; indeed, the turnout of voters in the peripheral areas of these mergers rose slightly more than that for the largest municipality of the merger.

The direction of the trend changed in the municipal elections of 2012 where voter turnout dropped by 2.9 percentage points from the previous elections. The decline was recorded in all types of

municipalities but, in contrast to four years earlier, it was now more pronounced in merged municipalities than in other municipalities. The decrease in voter turnout in the new merged municipalities was roughly the same in central urban municipalities and in peripheral areas. In 2012, voter turnout in the peripheral areas of municipalities that had merged earlier, in 2007–2009, decreased by just over one percentage point more than that in the central urban municipalities. In the case of merged municipalities, this situation could be considered as a gradual decrease rather than a collapse in turnout when compared against municipalities that continued as before. As a result, inspection of the level of voter turnout instead of the change reveals that turnout is still somewhat higher in peripheral areas than in central urban municipalities (Meklin and Pekola-Sjöblom (eds.), 2013).

However, this is largely a question of the traditional differences in voter turnout associated with municipal size whereby people in small municipalities vote more actively than people in the large urban centers. Indeed, turnout could diminish in municipalities that undergo a merger due to an increase in population size and the effect should be greater in small municipalities as they experience a relatively greater population increase. As a consequence of the reduced turnout, pooling of votes could be even more crucial for those who vote in small municipalities (Saarimaa and Tukiainen, 2012).

4.4.3 Effect on voting behaviour

It is possible to consider the municipal mergers as *electoral boundary reforms* that increase the number of candidates and parties available to voters. At the same time political competition is intensified so that the set of candidates competes against each other but also over the council seats and the number of council seats. These boundary reforms create an interesting effect on voters' behavior and their preferences for local representation.

Special emphasis on voting behaviour and the importance of local representation in Finnish municipalities was given by Tuukka Saarimaa and Janne Tukiainen (2013) in their analysis.

To identify such preferences and behaviour, they used the information on votes received by individual candidates and polling districts data from two municipal elections held in 2004 and 2008, before and after the merger wave. Thus, a fundamental feature of the Finnish system exploited for the analysis was first of all the fact that Finnish Municipal elections use the open-list D'Hondt method: this was a crucial aspect for the analysis because each voter gives a single vote to a single

candidate; in this way, not the parties but the voters can influence the position of their local candidates on the given party list even after a merger. The further significant feature was the number of polling districts that varies between municipalities, but the important thing for our purpose is that they are used for vote counting and voting location purposes only. Since they do not change due to a merger, it is possible to know the location of voters also after the merger.

The authors based their analysis of voting behaviour on a difference-in-differences (DID) method which is facilitated by the use of data of vote distributions and candidates where the unit of observation is the pre-merger municipality. Specifically, since municipalities are divided into polling districts, it is possible to decompose a merged municipality into the original pre-merger municipalities and trace back which candidates received votes from the pre-merger municipalities also in the post-merger elections in 2008. The comparison would not be possible if it were taken in consideration only the number of votes for each candidate at municipal level, because it would not be possible to trace back which votes actually came from different parts of a given merger.

By analyzing how municipalities' vote distributions change due to the mergers, Saarimaa and Tukiainen took in consideration some outcomes relevant for the analysis:

- The *number of candidates in a municipality*: after a merger the council size of a municipality is larger than the council size of the municipality before the merger. As a result, the number of candidates that voters can choose from increases after a merger.
- The *total number of votes*: since the number of eligible voters remains about the same after a merger this variable is used as a rough measure of turnout in order to understand how the voters react to a merger. The only proviso would be that different people vote and abstain in the pre- and post-merger elections; if this does not happen we should observe a change in turnout.
- The *vote share of the most popular candidate* in a particular municipality.
- The *Herfindahl index of the candidates' vote shares*: the larger the index is, the more concentrated the vote distribution is.

The researchers used these variables to perform an empirical analysis in order to consider whether voters truly value local representation and whether they vote strategically in order to obtain a local representative; at the same time their analysis focused on whether the location of the public services matters to voters.

First of all, Saarimaa and Tukiainen's expect that citizen-voters should like having a local representation in Finnish municipalities for a number of reasons:

1. Voters' preferences are likely to be heterogeneous according to the type and level of local services. If households sort into local communities based on their preferences concerning local public goods, a local candidate is likely to share voters' preferences over the service-tax bundle provided by the municipality. By service-tax bundle we refer both to the overall size of the local public sector, but also how spending is divided across different services, such as schools or primary health care.
2. Local governments satisfy the heterogeneous preferences of voters from a common pool of funds, which implies that voters need an own representative in order to receive their own share of benefits from local spending and to prevent others from spending too much.
3. Voters' preferences are likely to be heterogeneous with respect to the geographic location of the services. If councilors and voters consume similar services, a local representation living close to a voter is more likely to share the voter's preferences over the geographic location of public services (Saarimaa and Tukiainen, 2012).

Analyzing whether voters actually value local representation, in particular the results from the DID strategy concerning vote concentration show that a merger increases the concentration in the vote distribution. This increase is large and highly significant. Considering the changes in political competition induced by municipal mergers, the authors have found that voters in municipalities that have underwent a merger between the two elections, pooled their votes to strong candidates compared to voters in municipalities that did not merge. More specifically voters from smaller merging municipalities concentrate their votes to particular local candidates more than voters from the larger merging partners, simply because the benefit of vote concentration is related to ensuring small municipalities to gain a representative into the new post-merger council. Therefore, the authors find that municipal mergers lead voters to concentrate their votes on those local candidates that seem to defend the geographic location of public services best.

Moreover, this effect is heterogeneous with respect both to the relative size of the merged municipalities and to voters' geographic location. Saarima and Tukiainen assume that after a merger there is pressure to concentrate at least some services to the business center of the largest municipality merger. Thus, the results indicate that the effect of a merger on vote concentration increases as the distance between the old municipality and the new municipality center increases. This effect is also very large: as the distance of the smaller municipality to the center of the largest

municipality in a merger increases by 10 km, maximum vote share increases by 4 percentage points that is roughly twice the vote share from its baseline.

Besides, when it was analyzed distance jointly with population differences, in order to separate the effects due to general preference heterogeneity from the effects of location of public services, it resulted that only the distance matters.

Saarimaa and Tukiainen concluded that preference heterogeneity among voters may influence municipal decision-making; in particular voters' preferences over the location of public services are the main reason why voters value local representation.

The analysis offers plausible causal evidence concerning preferences for local representation that uses actual voting data, instead of survey data. Moreover, the results are also highly robust and valid considering the DID common pre-trend tests, placebo regressions based on earlier elections, alternative control group (specifically municipalities that considered merging but eventually did not), controlling for observables and within merger group analysis.

Obviously, there could be several possible alternative explanations that could explain the findings concerning local representation. For example, a possible explanation could be that due to a merger some important national politicians become available to all voters of the merging municipalities; this could happen especially in the case of a small municipality that merges with a larger city.

Another possible situation could be due to political parties: after a merger the number of available local candidates and party lists could increase, changing in this way the choice set at disposal of the voters. If voters do not value local representation, we should probably observe less concentrated vote distributions after the mergers because voters are likely to find better matches from the larger number of alternatives. On the contrary, a more concentrated vote distribution after the voters are presented with a larger choice set implies strong preferences for local representation.

Finally, voters may continue to vote for local candidates simply because they have better information about the quality of local candidates.

It is plausible that some unobservable factors may have an effect on both merging and post-merger vote decisions. However, even if this is the case, the heterogeneous effects analysis should be internally valid, because there the main comparison is within mergers. Thus, these analyses should not be biased by factors that cause the mergers.

4.5 Rediscovering the territory: Population size of the municipalities and electoral behavior in Italy

In the last fifteen years many studies have widely analyzed the Italian elections and the numerous publications on the matter have thoroughly examined the dynamics of the coalitions and parties, electoral participation, the changes in voting behaviour and the electoral flows.

In order to describe and explain the victories and losses of the coalitions and parties that have alternated in power in the last twenty years, the analyses have principally based on the intersection of the aggregate data with socio-economic variables, on the use of sample surveys or on the examination of the historical territorial differences between the different geo-political areas that in every election duly recur.

However, most of Italian electoral studies have left out a variable, that is, the demographic size of the municipalities. According to the study conducted by Vincenzo Emanuele (2011), it has been analyzed the results of the 2008 Italian general election focusing the attention on the territory, considered as centrality or peripherality of the municipality where vote is cast; this variable might be important to understand the electoral behaviour of the Italians and it might even be an essential dimension for the electoral results.

4.5.1 The data of the analysis

The investigation of the elections from the point of view of the population size of the municipalities consists in determining whether and how the size (in terms of inhabitants) of the same municipalities has an effect on voting behavior.

Therefore, it becomes crucial the way to choose to investigate this variable.

Using data from Istat last general population census (2001), more than 8.000 Italian municipalities were divided into 5 classes of demographic size:

1. *Municipalities from 0 to 5.000 inhabitants;*
2. *Municipalities from 5.001 to 15.000 inhabitants;*
3. *Municipalities from 15.001 to 50.000 inhabitants;*
4. *Municipalities from 50.001 to 100.000 inhabitants;*
5. *Municipalities above 100.000 inhabitants.*

The limit of the second class that has been chosen has a threshold of 15.000 inhabitants since it is the limit set by the electoral law of municipalities. Moreover, the threshold of the last class is set at 100.000 inhabitants, so that to make the latter category most numerous - consisting of 42 cities - and also because it is more likely to believe that a city over 100.000 residents has socio-economic characteristics suitable to a large city.

In order to develop a complete mapping of the incidence of demographic variable on the vote and highlight the specificities linked to the regions of the country, the territory has been divided in 4 geo-political sub-units, adopting the classification of Cise (Italian center of electoral studies):

1. *North-west* (Piemonte, Liguria);
2. *North-east* (Lombardia, Veneto, Friuli Venezia Giulia, Trentino Alto-Adige);
3. *Red belt* (Emilia-Romagna, Toscana, Umbria, Marche);
4. *South* (Lazio, Abruzzo, Molise, Campania, Puglia, Basilicata, Calabria, Sicilia, Sardegna).

In this way, through the use of these 20 units of analysis (5 classes of demographic size x 4 geo-political areas) it is possible to analyze the vote for political parties, coalitions and electoral blocs in the 2008 elections, also using some indices to effectively summarize the empirical evidences emerged.

4.5.2 Effect on voting behaviour

It is well known that electoral systems have a strong impact on the behaviour of voters, politicians and parties.

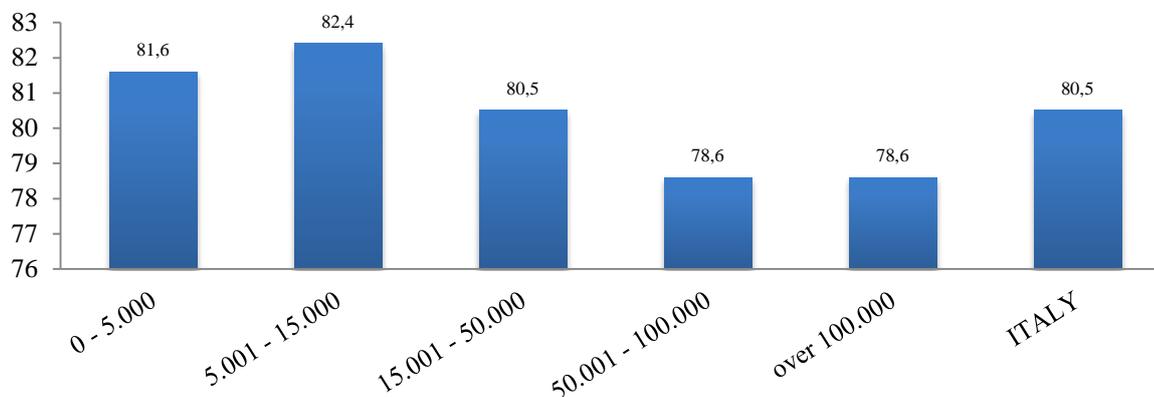
This study concerns the 2008 vote to main Italian parties, coalitions and electoral blocs and uses the analysis of variance to calculate the tightness of the association between the above variable and the vote through a synthetic index.

First of all, the first thing to determine is whether the independent variable, that is the demographic size of the municipalities, has an effect on voter turnout.

As shown in Figure 4.2, there is actually an impact but quite modest. In the elections of 2008, the percentage of voters has fallen to a record low in Italy (80.5%), a decrease of 3.1 points compared to 2006 elections (83.6%). The highest participation is revealed in small towns (82.4%) and micro areas, while in the major cities the participation is nearly 4 points lower (78.6%). This trend is

similar when analyzing the individual geopolitical areas, with the exception of the ‘red belt’ where the big cities are on average with the other categories (84.4%).

Figure 4.2 – Voters by classes of demographic size



Source: Based on data from the Ministry of the Interior, 2008

The findings are very interesting and in some ways surprising. Demographic size matters, especially in some areas (North) and for some parties (Northern League, Pd, Udc, Idv).

First of all, evidences suggest that it is more important in the North than in the Centre-South: here, the voters’ behavior is more diversified across the demographic size classes, where the micro-areas and small towns are so politically distant from the large Northern cities.

Table 4.6 – The three classes of Italian parties in relation to the demographic size of the municipalities

<i>CHARACTERISTICS OF THE PARTY</i>	<i>TYPE OF PARTY</i>	
Tend to lose votes among the smaller towns and cities	<i>Village oriented</i>	Lega, Udc, Svp
Tend to gain votes from the smaller towns and cities	<i>City oriented</i>	Pd, Idv, Sa
Tend to be indifferent to population size	<i>All around</i>	Pdl, La Destra, Mpa

Secondly, the population size results to be more important for some parties than for others. In particular, it is possible to classify the Italian political parties according to the different importance that the population size have had on each of them.

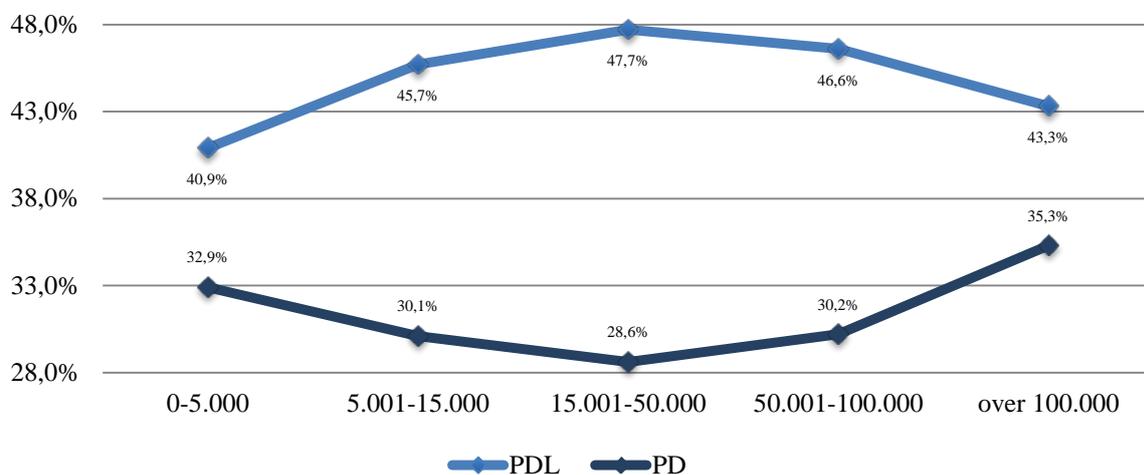
Thus, three possible voter behaviours could occur:

- Some parties, definable as «*city oriented*», tends to achieve increasing electoral results whenever the size of municipality grows (Pd, Idv);
- Other parties, labelled as «*village oriented*», show an opposite trend, that is strongly rooted in small towns and at a systematic loss of votes when demographic size increases (Northern League, Udc);
- The third type of behaviour is given by some «*all around*» political forces (Pdl, La Destra, Mpa) that show indifference to the demographic variable: for these political forces, the coefficients of association are low and cannot be found a clear trend of voting for the different classes of population size.

From this simple classification, we draw an interesting conclusion: there are no parties of the left or center-left who are 'all around' or 'village oriented', but neither center or right parties that they are 'city oriented'.

Moreover, according to the analysis of Emanuele (2011), it results that the parties of the center-left and center-right, follow two different paths, opposite and specular: the right systematically decreases, while the left grows starting from a city size of 15.000 – 50.000 inhabitants.

Figure 4.3 – Trend of Democratic Party and PDL in 2008 elections



Source: Based on data from the Ministry of the Interior, 2008

Relating to the Democratic Party, it tends to grow between the first and fifth demographic range, reaching its maximum result in largest cities. Figure 4.3 shows a curious "U" trend, which is reflected so perfectly with the opposite path of the PDL. This is because the Democratic Party demonstrates robustness in micro-areas (32.9%); then it declines rapidly, reaching the lowest point

in the most populous class, and therefore decisive of the entire country, that is the municipalities with more than 15.000 residents: here falls to 28.6%, then in the medium-sized towns returns at the same level of small towns (30.2%), and finally to rise in the large cities (35.3%).

The path of the PDL is the exact reverse of that of the Democratic Party: the party is at 40.9% in the micro-areas, and then grows until it reaches its peak of 47.7% in the medium-sized municipalities (the largest percentage reached by a party in this election, even higher than that obtained by the Democratic Party in large cities). Instead, in the two "urban" categories there is a gradual decline, up to reach the 43.3% in the larger cities.

In order to better understand the basic characteristics of the impact of the independent variable on the vote to the Italian parties, the study of Emanuele (2011) used the municipalities divided by class of demographic dimension, between the third and fourth quartile (top 25%) and between the minimum and first quartile (Bottom 25%) concerning the voting to the three main Italian parties: PDL, Pd and Northern League; the three parties that have been chosen are well representative of the previous classification, each belonging to a category.

Table 4.7 – Municipalities voting PDL, Pd and Northern League

ITALY	CLASS OF MUNICIPALITIES	PDL		PD		LN	
		TOP 25%					
MUNICIPALITIES	N	N	%	N	%	N	%
<i>0-5.000</i>	5.761	1.295	22,5	1.396	24,2	984	26,2
<i>5.001-15.000</i>	1.601	445	27,8	424	26,5	257	26,1
<i>15.001-50.000</i>	525	211	40,2	138	26,3	32	11,7
<i>50.001-100.000</i>	96	43	44,8	27	28,1	0	0,0
<i>above 100.000</i>	42	12	28,6	21	50,0	0	0,0
<i>Total</i>	8.025	2.006	25,0	2.006	25,0	1.273	25,0
BOTTOM 25%							
MUNICIPALITIES	N	N	%	N	%	N	%
<i>0-5.000</i>	5.761	1.489	25,8	1.574	27,3	785	20,9
<i>5.001-15.000</i>	1.601	412	25,7	352	22,0	326	33,1
<i>15.001-50.000</i>	525	88	16,8	71	13,5	122	44,5
<i>50.001-100.000</i>	96	6	6,3	8	8,3	23	56,1
<i>above 100.000</i>	42	11	26,2	1	2,4	17	63,0
<i>Total</i>	8.025	2.006	25,0	2.006	25,0	1.273	25,0

Source: Based on data from the Ministry of the Interior, 2008

Table 4.7 shows, in the top 25% section, the division made between the municipalities in which the three parties obtained the highest percentage of vote; while in the bottom 25% section are concentrated those municipalities where the three Italian parties have received less votes. In this

way it is possible to effectively identify the voting trends in relation to the demographic size of the municipalities.

The *PDL* has been classified as an 'all around' and in fact does not show a specific concentration in a category of municipalities, although on a closer examination appears to be particularly strong in the central group.

The 25% of the municipalities where the party is better represented, in fact, consists of 43 out of 96 municipalities that belong to the 50.000-100.000 class (44.8%) and 211 out of 525 municipalities of medium size (40.2%), while the other 3 classes are in line with the average (25%).

Similarly, in the municipalities included in the Bottom, compared with a substantial balance in the representation of the municipalities up to 15.000 inhabitants, and the big cities (12 out of 42 in the Top and 11 among the Bottom), there is a strong underrepresentation of the municipalities between 15.000 and 100.000 inhabitants, with only 6 of 96 medium-sized towns (6.3%).

The *Democratic Party*, representative of the "city-oriented" group, confirms its "metropolitan" inclination: this party place 21 large cities (50%) at its third quartile (which corresponds to 36.7%), while only one is within its first quartile (that is below 23.4%). Even in urban cities the party is well represented, with 27 cities in the top 25% and only 8 in the bottom 25%. Small towns and medium-sized municipalities are close to the average in both groups considered; only between the micro-municipalities appears to be a strong underrepresentation of the party: those between the minimum and the first quartile are 1.574 that is 134 more than there would be in the case of perfect balance with respect to the average (1.440 is in fact 25% of 5.761, the total of the Italian micro-municipalities).

The main representative of the 'village oriented' group is the *Northern League*. For this party the analysis of the municipalities at the top and bottom 25% was conducted considering the 25% of the municipalities where the Northern League is present with their own lists, since the party is active only in some areas of the country (mainly in the North and in the Red Belt zone): thus was only analysed 1.273 municipalities instead of 2.006 as for the other parties.

The demographic trend is faithfully reproduced from this analysis: in the top 25% there is no evidence in municipalities over 50.000 inhabitants, and even the medium-sized municipalities are under-represented, they are only 32 (11,7%).

On the other hand, the micro-municipalities (984) and small towns (257) are above the average of top 25%. The numbers are reversed in the sample regarding the worst areas: the 785 micro-areas are much lower than the average, 199 less than the number of those belonging to the top 25%. The underrepresentation in municipalities over 15,000 inhabitants is clearly visible and the percentage

of municipalities increases with the increase of the population size: 44.5% of medium-sized municipalities, 56.1% of the medium towns and 63% of large cities are part of this sample.

4.5.3 Do electoral rules affect the local and central government behaviour?

An interesting approach on the effects of the different electoral systems on local and central governments was given by the analysis presented by A. Bracco and A. Brugnoli (2012).

This work tries to verify the extent to which the central government decisions on grants and the local government decisions on local taxes depend on the different electoral systems.

A relevant feature of the Italian system exploited in the analysis is that the Italian municipalities are equal in terms of funding and powers, but – as explained in Chapter 3 – they have different electoral rules for the election of the mayors and the city councils according to the size of the municipality:

- For municipalities below the threshold of 15.000 inhabitants a single ballot system is applied: a *first-past-the-post electoral system*;
- For municipalities above the threshold of 15.000 inhabitants a dual ballot system is applied: a *runoff electoral system*.

The authors based their analysis on a regression-discontinuity design (RDD). According to this approach, the comparison of the municipalities just below and just above the population threshold has allowed the estimation of the effect of the electoral system on the electoral participation, regardless any other factors that may affect the voter participation.

The empirical analysis is founded on a dataset of Italian municipalities for the period 1998-2008. According to these information, the study takes in consideration principally two relevant factors: when the incumbent mayor has been elected through a runoff election and the population at the time of the last municipal election for that specific municipality.

The study has presented strong and significant evidence on the effects of the institutional setup into public finance dynamics, especially in terms of intergovernmental grants, and tax revenues; moreover, the main conclusion that the different electoral systems may affect central and local government, is explained by a number of reasons:

1. *First*, runoff is a more competitive electoral system, which should insure a better selection of the political class.

2. *Second*, the competitiveness of the electoral system and the ability of the elected mayor can influence the capability of mayors to transform revenues into public good.

3. *Third*, runoff municipalities show stronger political participation

All these considerations have led Bracco and Brugnoli to state that the central government favours the municipalities whose mayor has been elected with a runoff system and simultaneously, there is evidence that runoff elected mayors levy lower taxes to their voters, since they find it easier to provide public goods more efficiently.

While this last effect is welfare enhancing, the former is distortionary. In this situation, different institutional solutions for similar jurisdictions should be carefully evaluated in order to not create inequalities in the public goods provision and more generally in terms of voter's welfare.

CONCLUSIONS

The main conceptual and theoretical models delineated in Chapter 2 on the traditional theory of fiscal federalism, the decentralization of administrative powers and the optimal size of local authorities - namely Oates, Buchanan and Tiebout models – offer insights into evaluating the various structures of the Finnish and Italian local government systems and the possible ways to re-design the inter-governmental relations towards the Reform process, currently ongoing in both countries.

The main objective of reforms should be to obtain optimally sized jurisdictions through the allocation of administrative functions and tax instruments, thus maximizing the benefits of services that accrue to the population.

Recent structural reform policies aimed at the amalgamation of small, adjacent local councils into larger local government entities in the belief that the average costs service provision would fall due to economies of scale contingent on bigger councils.

In Chapter 3, a broad examination of the structural characteristics of local governments in Finland and Italy has led to find huge differences in the national systems, related to the number of fiscal tiers, the type of functions assigned and to the importance of inter-municipal cooperation. In Finland local government represents a single tier of government, where the joint municipal authorities and other inter-municipal cooperation have effectively replaced the missing government tier at the local level. Whereas in Italy there is a multi-tiered system, with several layers of local government and different forms of inter-municipal cooperation that should help the municipalities to solve the problems of fragmented local government structures, specifically, problems in service delivery coordination, benefit spillover of local public services, lack of economies of scale. However, the operating environment of local government is in a stage of transition and municipal finances face great challenges. In Chapter 4, therefore, the analysis has focused on the goals of the reform in relation to the municipal problems.

At the moment it is not clear whether the Finnish reforms on local government will need further revisions. It seems that the question of balance between municipal tasks and financing is still unsolved. In order to be able to face this problem, the central government policy towards local government sector needs to be better coordinated. During the past decades, the central government ministries have delegated various tasks to municipalities. Perhaps the burden of tasks of the

municipalities should no longer be increased and now the political discussion about which tasks should be provided locally and which tasks should be centralized or privatized, should start again.

As for the Italian situation, for years, the experts had argued that a structural reform was inevitable for reason both of efficiency and of equity. However, this led to a set of abandoned or failed reform attempts.

Nowadays there is a widespread perception that there are too many levels of local administration, a lack of delimitation of competences, and too many overlappings. Management efficiency is also questioned, due to the creation of unnecessarily large or oversized facilities in relation to municipal size, and to numerous examples of planning corruption.

In this framework, political choices have a decisive role for designing a working institutional framework. On their turn, they are influenced by the effects on voting behaviour of different institutions, a topic examined in Chapter 4.

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