

Size of Local Government,
Local Democracy and Efficiency
in Delivery of Local Services
—International Context and
Theoretical Framework

Paweł Swianiewicz

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1. HOW TO MEASURE THE SIZE OF A LOCAL GOVERNMENT?

There are at least two potential measures of the size of a local government: population number and surface area. Both of these have some advantages when applied to different public administration themes. Population number seems to be the most popular and the most powerful indicator [King 1984]—this relates directly to those consumers of locally provided services. Nevertheless, for some issues, such as network infrastructure, the area to be covered is an almost equally important challenge for local government. Simplifying matters, we may say that with some services, costs are first and foremost a function of the number of beneficiaries (customers), while with others costs are more dependent on the area being covered. In practice, both factors have some significance. For example: in order to construct a rational school network, local government not only has to take into account the number of students, but also the distance from residential areas to the closest school, the social benefits of maintaining small schools in remote rural settlements, the number of teachers to be employed, etc.

For some local government activities we might agree that the key factor determining cost efficiency is population density rather than simple measures of size, as mentioned above. However, in this book, we will concentrate first and foremost on population size, only making reference to surface area. There is a strong argument against expressing the size of a municipality based on population density. Any social research is useful as long as it results in reasonable policy implications. It is feasible (although sometimes a political challenge) to re-draw a country's administrative divisions, to increase or to decrease the population or area surface size of local government units. Even so, it is hard to imagine, unless under a dictatorship, that any country's administrative reform would have a short-term affect on population density within its existing units.

2. FRAGMENTATION OR CONSOLIDATION—INTERNATIONAL EXPERIENCES AND THEORETICAL ARGUMENTS

What is the optimal size of a local government unit? For many years this has been one of the most frequently discussed issues related to the organization of a state on a sub-national level. Such discussions can already be found in works of the classic philosophers. Plato, in his *Republic* and *Laws*, suggested that the ideal city should have a size sufficient for delivery of all important functions but small enough to protect the unity of the city. He came to the conclusion that the ideal number of citizens would be 7!, i.e. 5,040¹. In the 19th century, the recommendation to organize society into localities attracted the attention of utopians. Fourier (1829) suggested the organization into *falansters* (communes) consisting of 1,620 or, even better, 2,000 persons (inhabitants).

Turning to more contemporary discussions and solutions, it is striking how much the size of local governments varies in practice throughout different European countries. On one hand, we have England, the Nordic countries, and Holland with relatively large municipalities. On the other hand, France is divided into almost 40 thousand, very small, local government units. Table 1.1 briefly illustrates this variation.

Countries included in the analysis presented in following chapters of this book represent a good spread in regards to the size of municipal governments. For instance, Bulgaria and Poland belong to the group of countries with relatively large local governments. In contrast Hungary, Slovakia and Czech Republic, after the recent fragmentation processes, have very small units. This provides a good opportunity to observe a variation of political, social and economic processes amongst a variety of territorial organization settings.

Differences between countries may only be explained by history (tradition) and inertia of the spatial organization to some extent. The territorial organization of some states' municipal government is, indeed, deeply rooted in historical tradition and any change would probably be strongly resisted (France provides a classic example of such a situation). Still, we can also indicate countries in which the size of municipal government has only recently been re-shaped. For example, the history of the large British district is just over 20 years old.² Also, in Nordic countries amalgamation of small municipalities been in place no longer than the last 20–40 years. The structural changes introduced in European countries during the last 40 years have usually lead to enlargement of local government units. L.J. Sharpe in his report (1995) treats enlargement as a synonym to changes in territorial structures. The Sharpe generalization stresses the fact that fragmentation trends in Central–East European countries during the beginning of 1990's were very atypical. However, during 1980s and 1990s theoretical arguments in favor of the creation of territorially fragmented systems have become increasingly more pronounced in many analysis published in Western Europe as well.

Table 1.1

Average Size of (Municipal) Local Governments in Selected European Countries

Country	% of Municipalities Below 1,000 Citizens	Average Population	Average Area [sq. Km]
England and Wales	0	123,000	533
<i>Lithuania</i>	<i>0</i>	<i>66,000</i>	<i>1,166</i>
<i>Yugoslavia</i>	<i>0</i>	<i>49,500</i>	<i>487</i>
Bulgaria	0	35,000	432
Sweden	0	29,500	1,595
Holland	0.2	20,500	60
Denmark	0	18,000	150
Poland	0	16,000	130
<i>Macedonia</i>	<i>3</i>	<i>15,800</i>	<i>209</i>
<i>Slovenia</i>	<i>3</i>	<i>10,300</i>	<i>106</i>
<i>Albania</i>	<i>0</i>	<i>10,000</i>	<i>77</i>
Finland	5	10,500	730
Norway	4	9,000	710
<i>Croatia</i>	<i>3</i>	<i>8,800</i>	<i>104</i>
<i>Romania</i>	<i>2</i>	<i>7,600</i>	<i>81</i>
Italy	24	6,500	38
<i>Estonia</i>	<i>9</i>	<i>5,700</i>	<i>178</i>
Spain	61	5,000	60
<i>Ukraine</i>	<i>NA</i>	<i>4,600</i>	<i>56</i>
<i>Latvia</i>	<i>32</i>	<i>4,300</i>	<i>115</i>
Hungary	54	3,300	32
Slovakia	68	1,900	17
Czech Republic	80	1,700	13
France	77	1,300	15

NOTE: Countries analyzed in the following chapters of this book are highlighted in bold font, other Central and Eastern Europe countries are marked in italics.

SOURCE: Newton, Karran (1985), Baldersheim et. al. (1996), The Size of Municipalities..., (1995), Horváth (1999), Kandeve (2000).

The issue of the size of local government units has many important practical consequences. This goes beyond the typical results usually identified with territorial organization. For example, Page and Goldsmith (1987) claim that the shape of territorial organization, to large extent, will determine other characteristics of the local government system, including the allocation of functions and the nature of the contact between central and local governments.

Before we veer into deeper analysis of Central European countries, it is worthwhile to review the most important arguments for and against small/large local governments.

Keating (1995) claims that the discussion on optimal size of local government usually focuses on four dimensions:

- Economic efficiency—which scale may produce the most service at the least cost;
- Democracy—what structures can best secure citizen control over government and proper accountability;
- Distribution—which structures can achieve the most equitable distribution of services and tax burdens;
- Development—which structures are best equipped to promote economic growth?

It is the reform theory that provides the most essential arguments for territorial consolidation. These arguments can be summarized under the following items:

- *There is economy of scale in many local services.* Marginal cost of service delivery is lower if the total amount of produced services is larger;
- *Small local governments produce costs related to spillovers* (a.k.a. “free-riders”, those using services in a municipality but who live and pay taxes elsewhere). Many big cities and their suburbs, which have separate local governments, provide a good example of just such a phenomenon. Citizens living in suburbs pay their taxes locally but they still benefit from many services delivered in the center of the city. The “central municipality” carries the burden of providing the services used by commuters. To some extent, this means that tax-payers living in the center subsidize those who live outside city limits. The situation is even more dramatic when the rich inhabit the suburbs and the majority of those living in the center are relatively poor. Examples of spillover are also encountered in Central European countries. In the Czech Republic, many cities complain that surrounding municipalities are not willing to co-finance services (such as schools or administrative services), which are delivered in the city [Blazek, 1994]. During the beginning of 1990s, one frequent conflict in Poland was over financing public transportation to the suburbs. This service was delivered by a company owned by the “central city” but it was mostly serving citizens from surrounding local governments [Swianiewicz, 1997].

The spillover effect can never be eliminated (reduction of its negative impact is usually one reason for central grants systems) but it can be reduced if local government system is territorially consolidated. Obviously the extent of problems related to spillovers also depends on how local services are financed. For example, if tax on citizens' income is one of major local revenues, the situation can be quite different depending upon whether revenues are allocated according to place of residence (as in Scandinavian countries and Poland) or according to place of work (as in Bulgaria or the Ukraine). Central cities will no doubt benefit most from taxes on commercial activity and on commercial properties, while suburban municipalities will benefit more from tax on residential properties.

- *Large local governments can provide more functions, which may lead to more public interest and participation in local politics.* Page and Goldsmith (1987) argue that one of the most important reasons why Northern European countries are responsible for more functions than local governments in their fragmented Southern European counterparts, is the large size of their local governments. This observation was confirmed by Bours (1993) who grouped European local government systems into 4 clusters³: (A) large and responsible for numerous functions (Scandinavia, Netherlands, the United Kingdom), (B) average size and average scope of functions (Finland, Germany, Belgium), (C) small, with an average scope of functions (France, Spain, Switzerland, Austria), (D) small, with a narrow scope of functions (Italy, Portugal, Greece). This classification's correlation between size and scope of functions is very clear. The theory argues that a broader list of functions stimulates citizens' interest and participation as well as helping to attract "better quality" candidates to local councils [Dahl, Tufte, 1973]. Of course, this is also related to the fact that the *power and prestige associated with holding office in larger constituencies is greater* [Goldsmith, Rose, 2000].
- *Territorial consolidation provides more space for interest groups representing a pluralist society.* In this theory, interest groups as well as more developed party systems are seen as a positive emanation of pluralist society. In big communities, it is easier to avoid nepotisms or other forms of political clientele. It helps citizens influence local politics between the election periods. One potential danger is related to the presence of dominant pressure groups. Such a danger is smaller in large territorial units. Goldsmith and Rose (2000) also suggest that there is better representation of various minority groups in larger local governments, since bigger municipalities are usually more liberal and disadvantaged groups are less likely to meet with negative prejudices preventing them from entering the politics;
- *Similarly, in large local governments, there is a greater possibility of a strong civil society.* In large communities, there is a greater chance that a dense network of voluntary organizations will develop.

- *Large local governments enable promotion of local economic development.* This is the case because larger scale enables complex, coherent planning and also makes it easier to finance expensive infrastructure investment projects, crucial for promoting economic development;
- *Proponents' arguments about territorial fragmentation based on "community arguments" are very often idealistic and vague.* This line of argument tries to dispel some of the counter-arguments used by proponents of territorial fragmentation. It is argued that most people are more interested in getting good quality, cheap services rather than participating in the everyday decision-making and formulation of local policies. Further, to illustrate how vague the notion of "local community" is, Lyon (1987) enumerates 94 different definitions of this term.

The opposing arguments (in favor of territorial fragmentation) include both the idea of localism [Jones, Stewart, 1983] and that of public choice. Although branching from very different theoretical assumptions, both theories come to very similar conclusions—small is beautiful. The following arguments are those most frequently used to support this position:

- *Contact between councilors and citizens are much closer and politicians are more accountable to their local communities when in small units.* According to this argument, "social trust is based on strong personal ties in small communities. Decline of community and social trust resulting from increasing scale will be reflected in declining political trust" [Denters, 2002]. This high trust issue should subsequently be reflected in general positive attitudes towards the elected officials in small units;
- *In small units citizens can "vote with their feet"* [Tiebout, 1956] i.e. choose their preferred ratio of local taxes vs. services publicly delivered. According to the classical Tiebout model, people migrate to local governments in which the ratio of taxes versus services is closest to their personal preferences. Territorial fragmentation decreases the costs of migration and increases the chances of reducing the gap between implemented public policies and the individual preferences of citizens;
- *Small local communities are more homogenous and it is easier to implement policies that meet the preferences of a large proportion of citizenry* (to some extent, this is a less radical formulation of the Tiebout argument).
- *There is more incentive for citizen participation in small communities* because a single individual's vote will "weigh more". Denters (2002) provides an excellent illustration: in Schiemonnikoog, the smallest Dutch municipality, one councilor represents 111 citizens. While in Amsterdam, there is one councilor for almost 16,250 citizens. The rationale of this argument is additionally strengthened by the more socio-psychological argument that people are more likely to develop

a stronger sense of community and local identification in smaller, more homogenous settings. This, in turn, will heighten interest in local affairs and stimulate political involvement.

- *Small local governments are less bureaucratic.* In some functions, economy of scale is overshadowed by problems related to the co-ordination and management of large units. Administrative function is a good example of this.
- *Argument of economy of scale is irrelevant since it is possible to separate responsibility for service from actual delivery.* It is true that economy of scale is important in many services. But many services may be contracted-out to the private sector and, in such a situation, economy of scale depends on the size of the private company. Possible solutions may be found in American and British privatization of local services [Savas, 1987; Walsch, 1989] but also in the French model [Lorrain, 1997], in which large public utility companies serve many municipalities, or in Germany [Reidenbach, 1997], where economy of scale is frequently achieved by the creation of multi-sector companies providing complex services in small towns;
- *Fragmentation supports competition between local governments in attracting capital to those places where it will be most productive;*
- *Fragmentation supports experimentation and innovation.*⁴ If a given territory has many small local governments, it is both easier to experiment with various policies and to learn from neighboring territory's experiences.

The collection of arguments presented above requires at least one critical comment. As Sharpe (1995) notes, size arguments cannot be considered in the abstract. Quite often, what is quoted as an argument for or against small scale local government, in fact, is not related to the size itself, rather to the social nature of the community. For example, it is true that most small local governments have less developed pressure groups and/or weaker media systems. Yet, it is not because they are small, rather, because they are rural. Only some of arguments quoted above can particularly be related to the size itself.

3. ECONOMICS IN SEARCH OF THE OPTIMAL SIZE OF LOCAL GOVERNMENT—KING'S ATTEMPT AT A SUMMARY MODEL

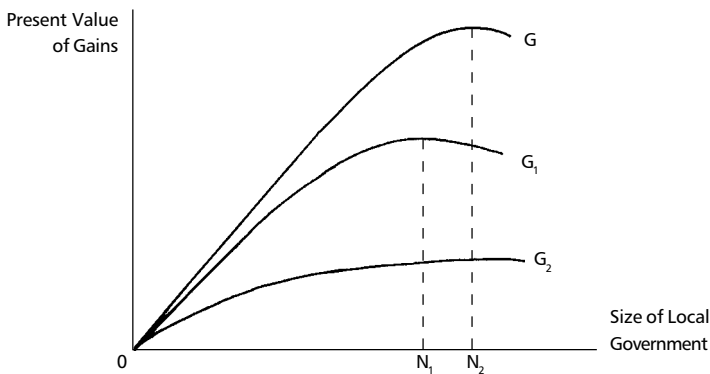
The economic analysis of optimal size for a local government is presented by King (1984). It provides a good summary of most the arguments presented above. Limited space available does not allow us to present the details of his model, but it is worthwhile to highlight at least the most important elements. The model starts with analysis of a basic situation in which:

- all citizens have similar tastes and incomes;
- governments do not co-ordinate with each other
- citizens are geographically immobile
- the authorities that provide a public service, also produce that service
- only one service is entrusted to sub-central authorities
- the area is geographically homogenous
- the population density of the country is broadly uniform.

These assumptions are successively released in the model analysis. The model is based on cost-benefit analysis methods.

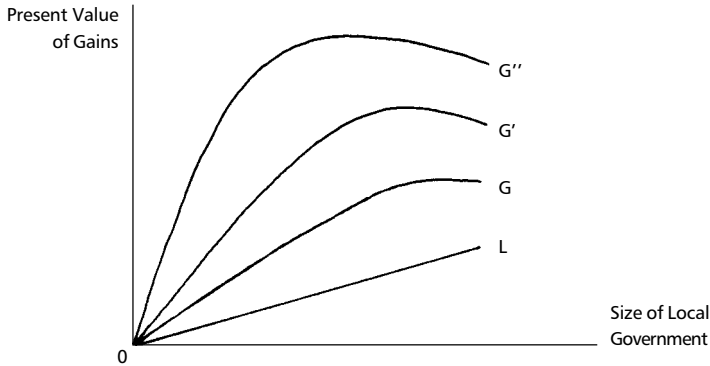
The basic relationship between present value of gains and size of authorities is presented in Figure 1.1. The curve OG1 represents gains from economy of scale (production and managerial gains)—with optimal size at N_1 , while OG2 represents gains due to internalization of externalities and approaching the optimal level of service provision. The total gains are shown by the line OG (with an optimal size at point N_2).

Figure 1.1
The Present Value of Gains and Size of Local Government



The “top point” of the OG curve depends on numerous factors—first of all, it differs depending on the service but it also depends on the demand for the service. If the demand increases, the optimal size decreases because the same quantity of services may be provided within smaller territory, while reducing unit costs. This change is illustrated in Figure 1.2, in which the original OG curve moves to OG’ and OG” with the increase of demand for the provided service.

Figure 1.2
Impact of the Demand for Services and Variation of Citizens' Preferences
on the Optimal Size of Local Government



The situation is more complicated if we release the initial assumption that citizens' preferences are uniform. This is illustrated by line L (illustrating looses), which slopes upwards with increase of population size, because the variation of individual preferences in larger municipalities is greater and the gap between the final output (actual provision) and citizens' tastes has to be larger.

Relaxation of further basic assumptions from the model introduces more complications:

- redistribution problems related to the geographical variation of the local tax base—if local governments are small, then variation in their fiscal capacity is greater. It leads to one of three consequences: (i) regional variation in the level of service provision (which sometimes is unacceptable for various political reasons); (ii) greater variation of local tax rates; (iii) complications in the grant redistribution system. It often happens that optimal size is larger than has been suggested in our earlier discussion because it helps to reduce redistribution problems;
- reduction of territorial spillovers also increases the optimal size;
- administrative costs related, for example, to tax collection—this is another factor leading to the increase of the optimal size (it helps to reduce administrative “unit costs” of tax collection);
- if services are not directly provided by the local government, rather they are purchased on the market, the OG curve becomes much more flat. However, this is not quite horizontal since small local governments may have problems with efficient control of contracts and may find themselves in monopoly provision situations more often than larger authorities.

With some simplification, we may say that the OG curve presents a summary of theoretical expectations for the impact of size on unit costs of service provision, while L line represents a summary of theoretical expectations for the impact of size on democratic processes. The theory also expects that distribution and development considerations will also push the optimal size in the direction of larger local governments.

4. SOME EXAMPLES OF EMPIRICAL ANALYSIS FOR THE IMPACT OF SIZE ON THE FUNCTIONING OF LOCAL GOVERNMENTS

There are many empirical analysis which try to expose the following questions:

- 1) How is size of local governments related to democracy? Is there any relationship between size and citizens satisfaction as well as between size and ability (and willingness) to participate in local public issues?
- 2) How does the size of local governments affect costs of local services' delivery and capacity for development?

Ad. 1.

In their classic analysis, Verba and Nie (1972) came to a conclusion which supports reform theory arguments—that is, participation is positively correlated with the size of local community. Newton (1982) and Nielsen (1981) formulated similar conclusions in their studies in the United Kingdom and Denmark. Yet, another classic book by Dahl and Tufte (1973) leads to opposite conclusions. Very interesting analysis by Mouritzen (1991) suggests that, in Denmark, trust in local government is low in big cities (over 100,000) and the optimal point is probably somewhere between a population of 15 and 20 thousand.

In their recent comparative analysis of the United Kingdom and Norway, Goldsmith and Rose (2000) found that, in both countries, local elections in larger municipalities attract more candidates, this may be interpreted as a larger interest in local politics. In Norway, large cities also have a more balanced social structure for their councils (i.e. representation by a larger proportion of female councilors). On the other hand, there is a strong (and continually increasing) negative correlation between local government size and turnout in local elections in Norway. In the United Kingdom, such a relationship has not been found. This is probably due to the large size of local governments in the UK, where a local government with a population of 50,000 is considered very small. For the nature of social links there is not a huge difference between a population of 50,000 and 100,000, but there is a significant qualitative difference between a community of 2,000 and 20,000.

Rose (2002) provides a comparative analysis of the relationship between size of local government and non-electoral participation in local politics in Denmark, the Netherlands and Norway. He comes to the conclusion that size is an important factor in explaining citizens local political activity. In small local governments, contacting local politicians, contacting local administration and—to a lesser extent—attending public meetings, are all usually much more frequent than they are in big local governments. For other analyzed forms of participation (participation in action groups and petitioning) the relationship is not so clear nor so straightforward. Analysis shows a low participation in the smallest municipalities (especially those below 1,000–2,000 citizens) as well as some advantages of larger governments.

Denters (2002) provides clear examples (on the basis of analysis carry out in the Netherlands, Denmark, Norway and the United Kingdom) that trust in local politicians is significantly, and negatively, related to the size of local government. In spite of theoretical arguments, which present different predictions in this respect, Denters concludes that the civic trust or higher competence perspectives (which provide an argument for better “democratic performance” in bigger municipalities) are not supported by empirical findings.

Many interesting examples of this are provided by a recent Council of Europe report [The Size..., 1995]. Analysis completed in Finland and Iceland did not lead to any definite conclusions on the impact of size. In Norway, it was found that there was larger voter turn-out during elections in small local governments but, on the other hand, larger units seem to stimulate participation through protest actions and general political communication seems to be more intensive. Also, in the Netherlands, size has no clear effect. For example, on one hand, councilors are easier available to citizens in smaller municipalities, but, on the other hand, in regards to consultations on decisions, large municipalities were found to be more active. However, these findings are questioned by Denters, De Jong and Thomassen (1991) who all criticize Dutch amalgamation policy anyway, arguing that it leads to a decrease in citizen satisfaction and participation in local public affairs. This is not always immediately visible in the data because participation is usually positively related to the level of education and low-educated citizens are frequently over-represented in small municipalities. Yet, when impact of size by the education level was controlled, the correlation became much stronger. Surprisingly, the same Dutch research did not find a correlation between the size of local government and the gap between policy preferences of citizens and local councilors.

In Sweden, some very interesting research tries to compare the situation before and after amalgamation of local governments. It found that, after amalgamation, the intensity of local political life and citizens orientation into local policy issues increased but the personal acquaintance between residents with local politicians decreased.

The Council of Europe report also notes also an interesting observation taken from Central Europe. One of problems with local democracy in the Czech Republic is that, in very small villages, it is often difficult to find enough citizens willing to be members of the municipal bodies prescribed by the law.

Ad. 2.

In regards to costs of service delivery and its efficiency, various empirical analyses lead to a variety of conclusions. It is generally accepted that the efficiency function in relation to the size is U-shaped, with the lowest point representing the effect of economy of scale. But location of this point is very different in various empirical analyses. Newton (1992), Sharpe (1995), as well as King (1984) in his theoretical analysis, all point out that optimal size may differ for various services. Therefore, optimal size depends on the allocation of functions to local governments.

The Council of Europe survey on the subject [The Size..., 1995] provides numerous examples of empirical analysis of the impact of size on the efficiency of local services' delivery. Still, there is a basic methodological problem with such analysis. It is extremely difficult to measure the output of certain services and there is certainly no objective method to measure the benefits arising from them. In practice, many researchers adopt a simplified method measuring only the cost-side, following a silent assumption that the level of service provision is invariant. However, some analyses are worthy of mention. In the Netherlands, it has been found that size of municipalities has considerable implications in regards to administrative capabilities concerning certain services such as social security, public order and safety. Yet, it has little importance in regards to others, such as public works. The same Council of Europe survey reported results of analysis occurring in many countries in which the question of the minimum size of municipal government has been asked. In quite a few of the countries (Italy, Norway, Denmark) the conclusion was that a population 5,000 is the minimal size for an efficient local government. Analysis undertaken in the Netherlands and Sweden led to even larger population threshold of about 8,000.

Most research agrees that larger size increases capacity of local administration to promote economic development. However, this finding happens to be in question as well. For example Denters, De Jong and Thomassen (1991), analyzing 30 Dutch municipalities with less than 30,000 citizens, could find no evidence that bigger municipalities are more successful in achieving their planning objectives. This fact, together with other findings, led them to the conclusion that *size of local government is far less important for various dimensions of the quality of government than is generally presumed.*

The brief review presented in this section clearly shows that, although most the empirical findings confirm theoretical arguments presented in the previous sections,

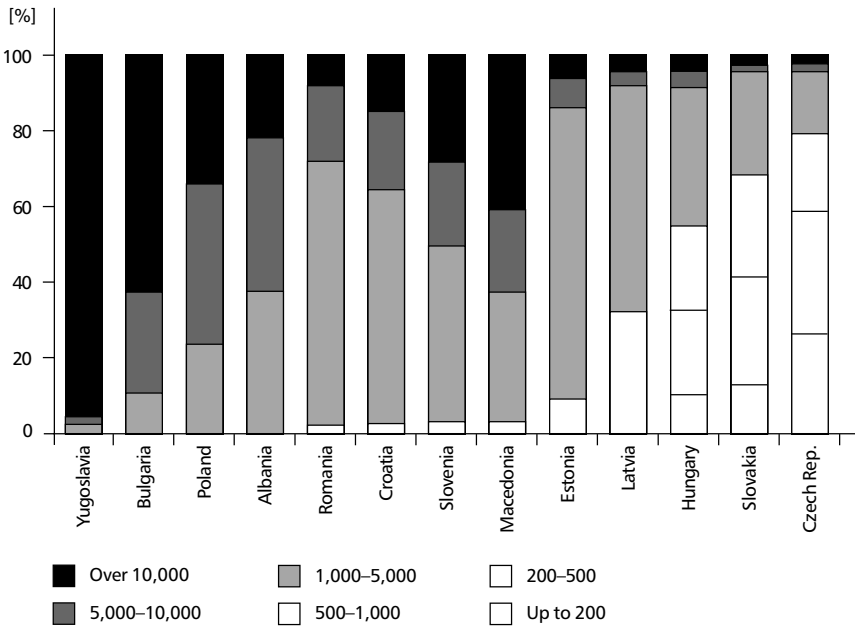
there are considerable differences in the theoretical approaches and a considerable variation of the empirical findings, which lead to far from univocal conclusions.

5. MUNICIPAL CONSOLIDATION AND FRAGMENTATION IN EAST-CENTRAL EUROPE—BASIC FACTS

In the beginning of 1970s, we witnessed the process of territorial consolidation throughout the whole of East–Central Europe. That change was, to large extent, inspired by the reform theory arguments and the very strong and wide-spread belief on the part of communist leaders in the economy of scale. Polish communes were amalgamated in 1973 and their numbers were reduced from over 4,000 to about 2,400. In Hungary, the number of municipalities was reduced from 3,021 in 1962 to 1,364 in 1988. In the Czech Republic, the number of municipalities was similarly reduced from 11,459 in 1950 to 4,104 in 1988. In Bulgaria, the number of municipalities was reduced from 2,178 in 1949 to 255 at the end of 1980s.

The beginning of 1990s was marked with territorial fragmentation in many of these countries, a process which might be seen as a reaction to the forced amalgamation of 70s. In Hungary, the number of municipalities sharply increased to 3,133 in 1992, while the increase in Czech Republic was almost 50% and number of Slovak municipalities increased by over 20 percent. The process of fragmentation in Poland was much less pronounced. Since 1988, the number of Polish municipalities has increased by less than 5 percent. Also, in Bulgaria, Romania, as well as in former Yugoslavia, the process of territorial fragmentation was almost non-existent. As a result, presently in Central and Eastern Europe we have examples of countries with many small local governments (Czech Republic, Slovakia, Hungary, the Ukraine, Latvia or—to a lesser extent—Estonia). We also have examples of countries in which the territorial system is highly consolidated (Lithuania, Yugoslavia, Bulgaria, Poland). There are several examples as well of countries which remain between these two extremes (Macedonia, Albania, Slovenia, Croatia, Romania). This variation is illustrated on Figure 1.3. In the Czech Republic almost 10%, and in Slovakia over 4%, of the local governments are merely tiny villages consisting of less than 100 citizens. Municipalities with less than 500 citizens constitute almost 60% of all units in the Czech Republic and in Slovakia the number is over 40%, while the same statistics are about 15% in Hungary. In contrast, in Bulgaria and Poland, none of local governments have less than 1,000 citizens and only a very few have less than 2,000. Big territorial units (over 10,000 citizens) constitute over 90% of all local government in Lithuania and Yugoslavia, almost 2/3 of in Bulgaria, 1/3 in Poland but only less than 5% in Latvia, Estonia or Hungary and just over 2% in the Czech Republic and Slovakia.

Figure 1.3
 Distribution of Local Governments According to Their Population Size



Not surprisingly, in the countries with territorially fragmented systems—the Czech Republic, Slovakia and Hungary (and also in some other countries of the region—such as the Ukraine, where the average size of a municipal government unit is just over 4,600 citizens, yet in rural areas the average size of over 10,000 of its local governments is just over 1,500 citizens) the issue of the size of municipal government has become among the hottest issues discussed both by local politicians and academics. It has been noted that small local governments (many of them with less than 100 inhabitants) cannot provide important local services and they slow-down the decentralization process [see for example: Szabo, 1991]. It has been also mentioned that territorial fragmentation increases problems related to spillover [Blazek, 1994]. The problems associated with small local government have frequently been the focus of very numerous analyses [see for example: Horvath, 1995, who focused his attention on service delivery issues, or Bucek, 1997, who discussed the weakness of small local governments in promoting economic growth due to their lack of capacity to undertake major infrastructure projects].

Contrary to the Czech Republic, Slovakia or Hungary, the issue of size of municipal government has not been widely discussed in Poland nor have any pointed changes been introduced. The issue has become important only locally, especially

in communities consisting of a small town and several surrounding villages. In such local governments, conflicts between urban and rural councilors were quite common. The former were accused of preferring spending on “pavements and flowers in the city”⁵ while the latter prefer development of water supply and roads in rural areas. Not surprisingly, the division between town and village was the most frequent reason for the modest increase in number of Polish municipalities during the 1990s. This is despite the other rational arguments proving there was even an increase of some service delivery costs after the split [Swianiewicz, 1996].

6. SIZE OF LOCAL GOVERNMENTS IN CENTRAL AND EASTERN EUROPE —WHICH THEORETICAL ARGUMENTS SEEM TO BE VALID?

Do theoretical arguments cited in the first section of this paper seem to be potentially valid in Central and Eastern Europe? We hope that the analysis undertaken in our LGPP project will help to answer this question. It may be best, however, to start by formulating some initial comments and hypothesis.

It seems to me that most of the arguments used in Western literature are worthy of consideration and we should keep them in mind when we prepare our analysis, although there are some specific remarks that are very important.

There is no doubt that *economy of scale* may be important to many local services provided in Central and Eastern Europe. One should also consider though that it is the impact of a weak infrastructure which in some cases makes the benefits of larger scale in rural areas questionable. For example, it is true that larger schools organized for children from a few small villages can be not only cheaper but also may provide better quality education. But for children from villages with very poor or non-existent transportation connections attending the school may raise additional problems which can overshadow the potential benefits. During a visit to the Ukraine, I was told that if snow falls are heavy enough, many villages are almost completely cut-off for most of the winter.

Similarly, we discuss the use of basic administrative services. Bulgaria definitely has the largest local government units among those countries under analysis. But those traveling to the municipal centers in mountain areas may find it very difficult. The village of Srbnica, in the Rodopy mountains, is located in the Municipality of Velingrad. The distance between the settlement units is well above 30 kilometers. There is only one bus per day (and not every day of the week) providing transportation to Velingrad and most citizens do not have their own cars. How can they use administrative services in the municipal center? Such a situation puts a very large question mark over the policy of territorial consolidation justified by the above mentioned theoretical

argument. It also requires significant “decentralization within the municipality” to allow the provision of basic administrative services down in individual villages.

But existing data clearly suggests [for Polish evidence see Swianiewicz, 1996, but similar calculations were conducted in other countries as well] that there is an economy of scale for administrative services in Central and Eastern Europe. Does it mean that the arguments, for local and public choice within larger organizational bureaucracies, are totally invalid? Not necessarily. It might very well happen that benefits from cheaper administrative services in large local governments are partially eaten-up by slower decision making processes and more frequent events of corruption (indirect evidence from Poland suggests that danger of corruption is much larger in big than in small local governments).

Arguments related to the *catchment area and spillover effect* remain valid but should be slightly reformulated. In several Central and Eastern European countries, some of the taxes providing local budget revenues are to be paid in one’s place of work not in one’s place of residency (Bulgarian and Ukrainian local shares in Personal Income Tax provide good examples). In this case, the list of losers and gainers will change. Under such a regulation, it is more likely that suburban municipalities will lose and central cities will gain.

Other theoretical arguments, which require additional comment, concern *better organized pressure groups and more diversified forms of participation in large local governments*. Can this argument, based on the experiences of Western democracies with relatively long traditions of democratic and civic society, be translated into a realistic scenario for Central and Eastern Europe where civic society is at a much earlier stage of formation? This question certainly requires further reflection. It seems that, in Eastern and Central Europe, development of local media (press, TV stations) is very important for pluralist politics and this factor may work in favor of larger local governments.

The set of arguments related to *closeness and openness of local authorities in small units* may be even more important in our region than in well-established Western democracies. Lack of well-established democratic traditions and political culture can make civic control over authorities difficult especially in big, more anonymous communities.

It seems that incentive for citizens’ interest in local politics can be also provided by *the system of voting*. The problem of rural local governments which consist of several settlement units is proper representation of individual villages. In the proportional system (like in Bulgaria) there is no guarantee that a council will not be dominated by representatives from the largest village (town). In the ward majority system (as in Polish municipalities below 20,000 citizens) more balanced territorial representation may be secured. Reports presented in the following chapters will provide us with opportunity to check whether this hypothesis is correct.

The Tiebout concept of *voting by feet* is highly controversial anywhere, but it has to be treated with special suspicion in countries in which spatial mobility is very low. For example, in Poland, a low level of incentive to migrate as well as structural shortage of housing flats, are seen as some of the most important problems in developing a sound policy to cope with unemployment. Still, there is no doubt that the actual ability to migrate, because of variation in local taxes, is quite small. We can treat the Tiebout theory as an interesting point of reference or as an example of elegant model, but certainly it would be unwise to try to apply it in our countries, word for word.

Last but not least, there is the public choice argument, suggesting that the *economy of scale effect should be achieved by private producers to which provision of local services might be contracted*. This raises the question: To what extent are the markets in Central and Eastern Europe developed? Naturally, the situation may differ from one country to another (as well as from one locality to another within each of the countries), but one can definitely say that the types of policies, recommended by the public choice theory, are still more difficult to implement in practice within Central and Eastern Europe than in Northern America or Western Europe.

7. SIZE OF LOCAL GOVERNMENTS IN CENTRAL AND EASTERN EUROPE —WHAT DO WE KNOW FROM EXISTING EMPIRICAL ANALYSIS?

In 1997, mayors from the Czech Republic, Poland, and Slovakia were asked their opinion on both the general idea of amalgamation and on the impact of possible amalgamation on different aspects of local communities' governance⁶ [for more details see Swianiewicz, 2000].

The first observation is that there are many missing values in the answers to relevant questions in the LDI survey—i.e. many mayors do not have very clear opinion on the issue. It might be interpreted in two ways: respondents either have not thought about the issue or they considered the various arguments (leading to different conclusions) and have difficulties deciding. At first glance, the former hypothesis is supported by the fact that, in general, when questioned about amalgamation, Polish mayors have remained undecided much more often (19%) than their Czech (7%) or Slovak (6%) colleagues. It may reflect the fact that, in Poland (opposite to two other countries), territorial division on municipal level is not a hot issue. But surprisingly enough, the situation appears differently when we consider opinions on individual arguments for and against fragmentation. In this case, the proportion of undecided Polish mayors is lower than in two other countries. The proportion of missing values in Poland varies from 2.5% to 12.9%. In the Czech Republic, missing values vary from 4.1% to 13.4%, with three other arguments with missing values

of more than 10% ratio. In Slovakia, the ratio varies from 7.6% to 17.2%, with five (!) other arguments with missing values of over 10%. This suggests that, while Czech and (especially) Slovak mayors usually have a clear general opinion on the issues of territorial consolidation (as we will see later, they are usually against it), their opinion is quite often of a more ideological nature rather than based on analysis of rational arguments.

In general, public choice and localism arguments for territorial fragmentation are much more convincing to Central European mayors than reform theory arguments for consolidation. Yet again, there are important differences between the countries analyzed here.

This is well illustrated in Table 1.2. Overall opinion on consolidation is the most negative in Slovakia. According to the mayors there, three of the strongest arguments against amalgamation are: it would increase level of conflicts between citizens, it would reduce support for local democracy and it would make contact between residents and councilors more difficult. The top-most convincing argument against consolidation is the fear of increased conflicts among citizens. It is also the only argument stressed more in Poland than in the two other countries. Perhaps Polish municipalities, which are usually much larger than Czech or Slovak, have had the most frequent negative experiences related to that issue. Indeed, in recognized cases of division, involving relatively big Polish local governments, the process usually started with conflicts between villages or the town and surrounding villages [Swianiewicz, 1995]. Also, conflicts between geographical areas are among the most important dimensions of political debate in local councils, especially in rural areas, where local politics is usually non-partisan.

On the other hand, arguments for consolidation that are usually the most convincing are: better efficiency of service delivery, possible increase of local autonomy and then (gaining slightly less support) that it would help to increase range of services delivered locally and it would help to adapt services to local needs. The score of the latter argument is surprising, since public choice theory uses this argument to support territorial fragmentation. However, Poland is the only country in which any of the arguments for amalgamation proved to be, all in all, convincing for the mayors (i.e. the average score, as seen in the Table 1.2, is larger than 0)⁷.

Arguments evaluated by mayors during the survey may be divided in two groups: those streaming from reform theory and those referring to arguments of localism or public choice. The summary results for the two groups or, rather, their defined arguments, are presented at the bottom of Table 1.2. Public choice arguments (for fragmentation) are seen everywhere as more important. On the other hand, reform theory arguments for consolidation are considered as largely valid only in Poland. However, support for this is not very high in Poland either. Their average score in favor of reform theory arguments is just over 0. At the same time, they see public

choice arguments for fragmentation more sharply than their counterparts from the Czech Republic and Slovakia.

Table 1.2
Opinions on Various Arguments for Merging Municipalities
in the Czech Republic, Poland, Slovakia

	Poland	Czech Republic	Slovakia
Overall opinion	-0.85	-0.72	-1.24
Conditions for local democracy	-0.61	-0.70	-0.78
Better efficiency of service delivery	+0.16	-0.05	-0.11
Reduce conflicts between areas of municipality	-1.27	-1.03	-1.06
Increase range of services delivered by local govt.	+0.04	-0.05	-0.04
A just distribution of services among citizens	-0.53	-0.56	-0.52
Stimulate contacts between citizens and councilors	-0.82	-0.94	-0.82
Increase local autonomy	+0.26	-0.08	-0.17
Help to adapt services to local needs	+0.10	-0.13	-0.03
Increase solidarity among municipal residents	-0.86	-0.64	-0.66
Increase political involvement of citizens	-0.55	-0.38	-0.11
Reduce need for state grants	+0.02	-0.22	-0.29
<i>“Reform theory arguments”—together</i>	<i>+0.04</i>	<i>-0.16</i>	<i>-0.22</i>
<i>“Public choice argument”—together</i>	<i>-0.67</i>	<i>-0.62</i>	<i>-0.56</i>

NOTE: The scale of answers was converted into -2—+2 scale, where -2 means—the argument is totally unconvincing (consolidation would make the situation worse), 0—consolidation would have a neutral effect, +2—the argument is convincing (consolidation would have a very positive impact). Scores below 0 mean negative approach towards consolidation, scores above 0 mean positive approach.

The issue of impact of size on citizens perception of local governments and willingness to participate was partially investigated in last year’s LGPP project [Swianiewicz, 2001]. However, it was the relationship between local governments and citizens (not the impact of size) which was the main focus of analysis and the results quoted below should be treated as preliminary only. It has been discovered that, in the Czech Republic, Hungary, Poland and Slovakia, size was the most frequently referenced variable influencing the variation in citizens’ opinions. As local and public choice theoreticians would expect, the smaller the administrative unit then the more positive the citizens’ opinions on most aspects of local authorities’ activities. They feel better informed and they are more often better acquainted with the local councilors. We will come back to these findings in the last chapter of this book.

It is hard to formulate very definite conclusions on the basis of the data collected by the “Public perception...” LGPP project, however, it seems that citizens within small administrative units, while enjoying many positive features of their local governments, are at least partially aware that far-reaching decentralization of functions on to very small authorities would be unrealistic or would lead to inefficiency of service provision. Still, this conclusion would require further investigation with the inclusion of economic—not only sociological—analysis.

8. THE STRUCTURE OF THE BOOK

The reports presented in the following chapters provide empirical analysis on the issues previously discussed in regards to four⁸ Central and East European countries: Bulgaria, Hungary, Poland and Slovakia. These analysis lead to general conclusions and practical recommendations which are presented both in national reports and in the summary chapter at the end of the book. The main focus is on the basic (the lowest) level of local governments, however, wherever it is appropriate, references are made to the situation within the upper tiers of government as well.

Each of national studies tries to answer following questions:

- What is the impact of the size of basic local government units on their efficiency and effectiveness? Efficiency considerations include; scale economies in service delivery, the costs of administration, as well as local economic development policies. Effectiveness includes; issues of public trust and participation in local public issues.
- What measures are taken in individual countries to compensate for territorial fragmentation? These measures may include; municipal cooperation, joint offices and differential assignment of functions. In amalgamated systems—how is representation of village interests secured (especially through the election system)?

These general issues are made operational in a list of more specific research issues:

- Impact of the size of local governments on the level citizens’ satisfaction with local government and preservation of community life. There are arguments, including those formed in the year 2000 following the LGPP “public perception study” [Swianiewicz, 2001], that people in small local governments are more willing to participate, trust local authorities more and are more satisfied with the performance of local administration. However, this is not necessarily true for the smallest groups and, anyway, it does not concern all dimensions of citizens’ satisfaction;

- Catchment area of services delivered by local governments. How often does it happen that services delivered by one local government serve population in the surrounding units as well? To what extent is this a problem for small local governments in rural areas? How this situation is dealt with? For example: is the service being delivered when a local government receives special compensation from the state budget? Are there mechanisms of horizontal compensation among local government budgets? Are there examples of voluntary and compulsory co-operation of local governments (for example in form of one-purpose associations)?
- In countries where one local government covers several settlement units—what are examples of “decentralization within local government”? How are the relationships between individual villages managed? Is there any form of government in individual villages? If so, what are its powers and modes of operation (in functional and financial terms)? What is the level of tension (conflicts) between villages within one local government and what are methods to manage these tensions? What measures are, or should be taken, to secure sufficient political representation of individual villages in the amalgamated system?
- The impact of size on unit costs in service delivery. Is there any evidence of the economy (or diseconomy) of scale in local services? In relation to which services has this been noticed?
- Impact of territorial organization on the allocation of functions among tiers of government. In some countries small size is a limit for the further decentralization of many important functions. In result, these are delivered by central government administration—is that the case in some East-Central European countries?
- Impact of territorial organization on local economic development policies. Is there any evidence that territorial fragmentation/consolidation makes economic development policies less or more effective?
- what are the most important features of national debates on the issue of size of local governments? Are those debates “a hot issue” on the political agenda or are they treated as of secondary importance?

Although there is still much to be done, we hope that this book contributes to filling some of the gaps in our knowledge and also provides input into important policy discussions going on in several countries of the region.

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NOTES

- ¹ *The number of our citizens shall be 5,040—this will be a convenient number; and these shall be owners of the land and protectors of the allotment* [Plato 360 B.C.E. *Laws*, Book V, in translation of B.V. Jowett]. Plato was counting heads of households only. So, taking into account the size of their families, he meant a city of about 25–30,000 inhabitants. Interestingly enough, this was a very similar size to identify as optimal by empirical analysis in the Polish national chapter further on in this book.

- ² It is worth noting that the United Kingdom, very recently (last ten years) engaged in discussion about creating a one-tier local government system, leading to even larger units of local government.
- ³ Bours tried to also include Central and Eastern Europe countries in his classification. However, since his data is out-dated and not very precise, we will skip that section of his classification here.
- ⁴ However, it is interesting to note that the most well-known programme, which focused on stimulation of innovations and experiments in local government, has been introduced in Nordic countries where the territorial system is consolidated rather than fragmented [Baldersheim, Stahlberg, 1994].
- ⁵ Direct quotation taken during an interview with one of village managers. [See: Swianiewicz, 1995].
- ⁶ I refer to the Local Democracy and Innovation Project which was financed by the Norwegian government and co-ordinated by Harald Baldersheim from the University of Bergen. The question I refer to was formulated in the following way: *A merging of municipalities can have an impact in several ways. In the event your municipality were to be combined with one or more neighbouring municipalities, do you think it would lead to an improvement or worsening with respect to following matters: ...* (individual items assessed by local mayors are presented in the Table 1.2).
- ⁷ A score over 0 means the mayors expected a positive impact from consolidation. For details of the scaling system used see the note below Table 1.2.
- ⁸ Initially, it was assumed that this book would also include a chapter on the Czech Republic but, eventually, it has not been possible to include the Czech report. Nevertheless, some examples from the Czech Republic are called upon in the introductory and summary chapters.