

# The inter-municipal cooperation in Switzerland and the trend towards amalgamation

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*In Switzerland, the ongoing reforms of fiscal federalism put municipalities under increased fiscal stress. A majority of the municipalities had responded by increasing the cooperation with neighbouring municipalities over the last few years. Simultaneously, many discuss or are directly involved in a possible amalgamation project. Accordingly, the paper aimed at describing how cooperation has presently developed between Swiss municipalities, in order to illustrate the existing trend towards amalgamation. Current surveys helped us estimate the growing importance of inter-municipal arrangements together with the surge of amalgamations. A further goal was to investigate if cantonal financial incentives to municipal amalgamation essentially benefit the cantonal community, following the fiscal equivalence principle, or if they rather benefit amalgamating municipalities. In reality, equivalence does not exist. However, this may possibly be the condition to reduce inequality among amalgamating municipalities.*

*En Suiza, las reformas relativas al federalismo fiscal han puesto a los municipios bajo una fuerte presión fiscal. La mayoría de las entidades han respondido a este fenómeno incrementando la cooperación con los municipios circundantes. Simultáneamente, los municipios están discutiendo, o directamente envueltos, en un proyecto de fusión. Por consiguiente, este trabajo tiene como propósito describir cómo se ha desarrollado la cooperación en los municipios suizos, con el fin de ilustrar también la tendencia hacia la fusión. Recientes investigaciones nos ayudan a estimar el crecimiento de la importancia de los acuerdos intermunicipales tendentes a la fusión. A la vez, tratamos de determinar si los incentivos financieros cantonales hacia la amalgama de municipios benefician esencialmente a la comunidad cantonal, siguiendo el principio de equivalencia fiscal. En realidad, la*

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*equivalencia no existe. No obstante, puede ser la condición para reducir la desigualdad entre las entidades fusionadas*

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JEL classification: H11, H77

## 1. INTRODUCTION

The federalist organisation of the Swiss government is experiencing several adjustments to cope with a changing environment. The challenge is not only to further promote an efficient provision of public services, but also to improve responsiveness and accountability of politicians and bureaucrats through a greater democratic and participatory organisation of governments. This issue has constantly remained on the contemporary Swiss political agenda, either at the central or local level. The fiscal crisis and the rapid growth of public debt since the 1990's was a powerful incentive to transform ideas into action. The Swiss Confederation initiated such a movement mutually with the cantons. Meanwhile, several cantons initiated programmes to adjust their relationships with municipalities. Within the existing context of fiscal difficulties, each government level has, to a certain extent, attempted to delegate tasks and costs to the lower fiscal tier while preserving its responsibility to decide if the service has to be provided and according to which standards. As a result, municipalities are subject to additional fiscal pressure. This pressure is reinforced by an increase in tax competition.

Indeed, delegating the provision of public services to a lower level of government is difficult for municipalities, since they are at the bottom of the institutional hierarchy. Therefore, inter-municipal cooperation became a favoured solution out of the fiscal challenge. The number of inter-municipal associations or agreements has surged over the previous years. More recently, a powerful trend towards the amalgamation of municipalities has also taken place, motivated partially by financial incentives allocated by certain cantons to improve the attractiveness of amalgamation.

Consequently, this paper aims to portray how cooperation has recently developed between Swiss municipalities, illustrating the present trend towards amalgamation. Two recent surveys of Swiss municipalities help us estimate the growing importance of inter-municipal arrangements mutually with the surge of amalgamation discussions and projects. An

additional objective is to investigate the possibility that cantonal financial incentives to municipal amalgamations benefit essentially the cantonal community, as the fiscal equivalence principle would convey, or rather benefit amalgamating municipalities. Referring to the later scenario, the equivalence between the payers of the incentives (the cantonal tax payer) and the beneficiaries (all cantonal citizens) would consequently not be assured. To tackle this issue, we analyse the written communication and press releases where three cantonal governments advocated for the introduction of financial incentives.

The position of municipalities in the overall Swiss federalist structure of government is first briefly depicted hereafter (section 2). We then give an overview of the ongoing reforms of the federalist structure (section 3). This overview begins with a presentation of several dimensions that must be adjusted when any change occurs in the structure. One of these dimensions is the inter-jurisdiction and territorial organisation. Disposable institutional settings to reorganise and reduce local fragmentation are presented accordingly, including inter-municipal arrangements and amalgamations. Certain relevant facts allow us to better appreciate the importance of these two phenomena. Finally, section 4 tests whether the fiscal equivalence principle is respected regarding financial incentives allocated for the promotion of municipal amalgamation.

## 2. THE MUNICIPALITIES IN THE SWISS FEDERALIST STRUCTURE

In Switzerland, as in many other countries, the public sector is organised according to three levels of government: Confederation (central government), 26 cantons (equivalent to regions or provinces in other countries) and 2740 municipalities<sup>1</sup>. Swiss municipalities are rather small by international standards, with the average number of inhabitants at roughly 2800. The median municipality accommodates approximately 900 inhabitants, with 20 inhabitants for the smallest compared to the largest at almost 370'000 inhabitants in Zurich.

Relationships between the fiscal tiers are characterised by a profound respect of the subsidiarity principle. This principle is embedded in the

<sup>1</sup> When the “modern” Swiss Confederation was founded in 1848, there were 3203 municipalities. The figure had increased by 25 between 1850 and 1860. It had then slightly fluctuated before a sharp fall between 1990 and 2006. 350 municipalities “disappeared” during this spell of time and, in 2006, 2740 municipalities remained.

federal constitution, proclaiming cantons as legally sovereign states. They exercise all rights that are not transferred to the federal level and are only limited if explicitly stated in the Federal constitution<sup>2</sup>. The principle also imbues the relationships between cantons and municipalities as stated in most cantonal constitutions<sup>3</sup>.

This does not exclusively apply to designating the level of government that has the power to decide and control over the provision of a specific public service, or more specifically to decide if the power of decision must be decentralised. It also applies to the choice of the level of government adequately responsible for essentially producing and delivering the service. The burden of producing and delivering a service, according to the standards set by the upper level, falls on the lower tier if that proves to offer a more efficient result. Consequently, the obligation to provide the service is either *de-concentrated* or *delegated*. This systematic de-concentration characterises the alleged federalism of implementation<sup>4</sup>. Progressively, the systematic decentralisation of the decision power, along with the systematic task de-concentration of provided services, has generated a huge legal, organisational, and financial interdependency between the three levels of government. Conjointly, the miniature size of certain municipalities has prevented the decentralisation of services or has prevented these municipalities from efficiently providing the decentralised services or from reaching the standards of provision specified by the upper level.

Furthermore, a rather rigorous implementation of the fiscal equivalence principle confers the constituencies at each level the power to raise revenues according to their needs and thus set their own tax rates<sup>5</sup>. As a result, even the existing equalisation scheme was not able to prevent an increase in fiscal inequalities, with the gap amplified between low tax-based/heavy tax-burdened and high tax-based/light tax-burdened municipalities.

Comprehensively, within a limited perspective, a semi-direct democratic system has also prevailed at the local level. The population benefits from a “law-making” or “law-breaking” power, notably with the right

<sup>2</sup> Article 3 of the Federal Constitution of the Swiss Confederation (April 18th, 1999)

<sup>3</sup> Refer to articles 137 and 138 of the Cantonal constitution of the Canton of Vaud (September 22nd, 2002), for an example.

<sup>4</sup> *Fédéralisme d'exécution* in French ou *Verwaltungsföderalismus* in German.

<sup>5</sup> For instance, income is a tax base that the Confederation, the canton, and the municipality can independently decide upon its tax rate (“piggyback” tax sharing).

to call for a referendum on regulation passed by the municipal legislative, or initiate a request for the introduction of a new regulation.

Identifying responsibilities through the study of government spending is not evident. In reality, the cooperation among constituencies and the decentralisation of responsibility to provide services, the de-concentration of the task to deliver services to cantons or municipalities have triggered a complex network of transfers (earmarked grants, unconditional grants, revenue-sharing transfers, etc.)<sup>6</sup>. However, both the Confederation's and the cantons' shares in overall public expenditures exceeds that of municipalities (11.2%, 15%, and 10% respectively of gross domestic product in 2006)<sup>7</sup>. More specifically, the overall budget of municipalities is more oriented toward education, health care, and social services.

### 3. ONGOING REFORMS OF THE SWISS FEDERALIST STRUCTURE

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#### 3.1. DIMENSIONS TO CONSIDER WHEN REFORMING RELATIONSHIPS BETWEEN AND WITHIN TIERS

Existing relationships between fiscal tiers, or within a given level of government, form a delicate structure and an intricate equilibrium that encompasses four broad dimensions or domains (Fig. 1). The modifications of one domain impact at least one of the three other dimensions, requiring adjustments to create a new equilibrium.

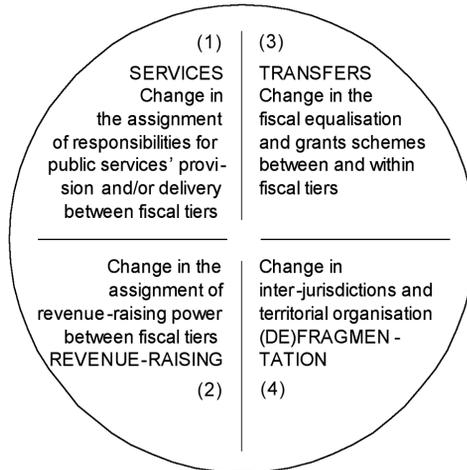
The current tendency in Switzerland concerns cantons withdrawing responsibilities for providing (and even the obligation to produce and deliver) public services at the municipal level (1), especially in areas like schools, police, or hospitals. Cantons must eventually adjust the tax-sharing arrangement with municipalities, since the cantons, contrary to the municipalities, must finance the additional spending (2). As a result, the cantonal tax rate increases, while simultaneously the liberty of municipalities to decide their tax rate tends to lower, either under the constraint of cantonal legislation or intermunicipal tax competition. A

<sup>6</sup> Refer to discussions concerning the network of transfers between the Swiss Confederation and the cantons (Dafflon, 1995), the canton of Bern and its municipalities (Jeanrenaud and Spillman, 1997), the canton of Vaud and its municipalities (Soguel and Tangerini, 2002), and finally the canton of Fribourg and its municipalities (Dafflon *et al.*, 2004).

<sup>7</sup> Département fédéral des finances / Federal department of finance (2006), without correcting for the double-counting of transfer payments.

substitute or complementary solution is to adjust the grant scheme (3). Several cantons have actually changed the extent to which they share the cost of services, such as schools or health and social services, with the municipal level through earmarked grants<sup>8</sup>. They have also sometimes required municipalities to pay a larger share of the cost. Within the domain of transfers, the current trend is also to reinforce a fiscal equalisation scheme to reduce inter-municipal imbalances. To obtain this objective, a horizontal component is introduced in the system next to the existing vertical component, mainly financed by wealthy municipalities in favour predominantly of disadvantaged ones. For certain municipalities, the shortage in tax revenue, due to the new tax-sharing arrangement conjointly with the increase in cost caused by the new cost-sharing arrangement, may not be fully compensated by possible new additional equalisation transfers. Consequently, their fiscal position tends to deteriorate. Increasing the tax rate is becoming increasingly difficult, since the population can oppose the measure through a referendum. Another solution is to change and reduce the fragmentation at the local level, in an attempt notably to benefit from economies of scale (4).

**Figure 1. The four dimensions of the equilibrium in relationships between fiscal tiers or within a given level of government**

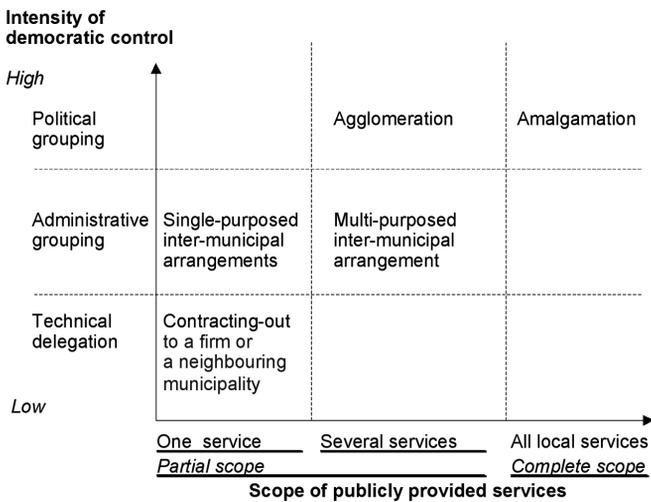


<sup>8</sup> These transfer payments are usually tailored to reflect the fiscal capacity of municipalities.

### 3.2. POSSIBLE INSTITUTIONAL SETTINGS TO REDUCE LOCAL FRAGMENTATION IN SWITZERLAND

When Swiss municipalities reflect upon the reduction of fragmentation at the local level, several legal settings are at their disposal (Della Santa 1996). As shown on the horizontal axis of Figure 2, they vary according to the scope of services covered. In addition, they also vary according to the intensity of the democratic control and the type of grouping they imply (displayed on the vertical axis).

**Figure 2. Possible institutional settings to reduce Swiss local fragmentation**



When *contracting-out*, the municipality usually outsources a single public service (ex. to a private firm or a neighbouring municipality). The contract obliges the appointee to provide the public service on behalf of the municipality. The purchaser/provider split (*technical delegation*) limits the possibility for the municipality to control in detail the organisation of the production<sup>9</sup>.

<sup>9</sup> Note that contracting-out and privatisation are often used synonymously, especially in the United States (refer to Domberger and Simon 1997 for an attempt to make a distinction).

When engaging in a *single-purposed inter-municipal agreement or association*, a municipality also delegates the task to provide a single service. However, the municipality retains at least partial control on how the service is produced. Its representatives are either members of the inter-municipal commission in the case of an agreement, or of the board of the inter-municipal association. Nevertheless, this kind of *administrative grouping* implies a loss of democratic control, since the municipality is merely one among several to have authority in either the commission or the board. As a result, citizens of the municipality are left with little influence on local public services and thus democratic accountability is lowered. The *multi-purposed inter-municipal agreement or association* presents the same characteristics as the single-purposed, while providing a larger scope of related services.

Municipal *amalgamation* (or merger) is the uniting of a number of small municipalities, or annexation by a large community or city of its neighbouring smaller townships, villages or towns (Mabuchi 2001). It guarantees a better democratic accountability than inter-municipal arrangements, since there is no separation between the jurisdiction purchasing and the one supplying the service. The newly-created municipality has its own elected legislative and executive bodies jointly with its own administration. They are accountable to a unique body of citizens for the provision of the overall scope of services a municipality is responsible for.

There is a tendency to introduce the possibility to create an intermediate tier between the municipal and the cantonal levels in cantonal legislation. The possibility to establish a supposed *agglomeration* already exists in some cantons (e. g. the canton of Vaud or the canton of Fribourg), although no agglomeration project has presently reached the implementation stage. As its name indicates, the agglomeration is dedicated to solving problems encountered in an urban area and is equivalent to an urban community in other countries. The agglomeration is basically created when municipalities belonging to the agglomeration agree to transfer their responsibility to decide over a bunch of given services in an effort towards centralisation. Therefore, the agglomeration becomes responsible for specific services that are legally delegated by the canton to the municipalities. It enjoys certain revenue-raising power with user charges. Like the amalgamated municipality, the agglomeration represents a political group, because of its respective elected legislative and executive bodies.

In theory and as far as *technical efficiency* is concerned, all these options lead to *economies of scale*. However, the expectation is possibly lower for the amalgamation, since returns to scale may decrease for various public services with particularly low fixed costs. On the contrary, other options can limit their scope to services produced under increased returns to scale. This concerns especially services with *indivisible supply*, because of the infrastructure needed to provide them. They also allow for larger *economies of scope* when cost-savings arise from by-products in the decision and the production process. An example would be the benefits of heating public premises with energy produced while incinerating wastes. At the same time, these options generate higher *transaction costs*, including administration costs in addition to incomplete contract costs, than the amalgamation. This is particularly the case of an agglomeration, since an additional level of government must be created.

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As for the *allocative efficiency*, political groupings, such as agglomerations and amalgamations, internalise *jurisdictional spillovers* of local public goods and “crowding” spillovers, since they promote a better superimposition between the three circles of budgetary policy: those who decide, those who benefit, and those who pay. Coincidentally, such groupings can lower the citizens’ satisfaction with local public services if their *preferences* for these services are comparatively heterogeneous. *Ad hoc* technical delegation or administrative groups, providing services for which preferences are notoriously homogeneous, joined with a municipal provision of services for which preferences are predominantly heterogeneous, represent a more efficient solution.

From a viewpoint of *equity*, political groupings allow the reduction of horizontal *fiscal imbalances* and *tax competition*, thus harmonising tax burdens beyond the achievement of any possible horizontal or vertical equalisation scheme. In turn, this reduces the risk of *under-provision of public services*, such as welfare benefits, that may emerge when jurisdictions providing better quality services attract residents from other jurisdictions. The possible risk may trigger a strategic game whereby a municipality sets the quality of services too low from a social perspective in order to reduce the expected threat of service-induced migration.

### 3.3. INTER-MUNICIPAL COOPERATION: RELEVANT FACTS

In Switzerland, the inter-municipal cooperation has a long history. Already in the mid-19<sup>th</sup> century, small-sized municipalities associated themselves to provide specific local services. The comparatively large auto-

nomy that municipalities have experienced by international standards explains the popularity of this form of organisation in an attempt to reduce local fragmentation.

The results of two mail-surveys aided us to formulate how municipalities tried to lessen local fragmentation (Steiner and Ladner, 2003, 2005). The first survey occurred in 1998, while the second took place in 2005. Among various questions, every Swiss municipality (*i.e.* the municipal clerk) was asked (a) whether its involvement is recently greater in inter-municipal arrangements than in the past, (b) whether the possibility of an amalgamation was a political issue, and (c) whether the municipality was concretely involved in an amalgamation project during the last five years.

Table 1 shows the results of both surveys. In 2005, 72% of the 2150 responding municipalities indicated a growing importance of inter-municipal arrangements for the provision of public services, an increase from 63% in 1998. In each considered size-category, more than half of the respondents mentioned that these arrangements have developed progressively. However, the increase appeared to be more evident in larger municipalities than in smaller ones. The rise was also predominant in services like fire protection, waste management, sewage, water provision, or health care.

Apart from these facts, the results of both surveys showed a severe increase in the number of respondents that claim their municipality either has discussed the issue of a possible amalgamation, or has been involved in an amalgamation project. Twice as many municipalities have considered this option in 2005 compared to 1998 (39% against 18%), whereas the number of municipalities involved in such a project during the five years before 2005 has tripled since 1998 (23% against 8%). The amalgamation is a long process that comprises several stages, as shown by Soguel & Beutler (2006). From the responses obtained, Steiner and Ladner made the distinction between several states of amalgamation projects. 5% were successfully implemented between 2001 and 2005. 1% were approved at the legislative level (including sometimes a referendum), but had not been implemented yet. 10% were at an earlier stage and had notably studied the pros and the cons of a possible amalgamation. Finally, 8% failed either at an early stage (technical stage) or at a later stage (political stage, including referendum). Eventually one out of three projects failed. This high rate of failure may indicate that amalgamations do not provide advantages in excess of the implied costs, but

also shows the difficulty to persuade local politicians and voters to accept an amalgamation, even though a technical assessment may highlight the generated net benefits for the population.

**Table 1. Change in the share of Swiss municipalities involved in inter-municipal arrangements or amalgamation processes between 1998 and 2005**

	1998			2005		
	n	%	N	n	%	N
Arrangement	1,540	63	2,445	1,548	72	2,150
Amalgamation						
Discussion	438	18	2,432	838	39	2,165
Project	193	8	2,412	462	23	2,008
Implemented amalgamations				100	5	
Approved amalgamations				20	1	
Amalgamations under assesement				203	10	
Failed projects				163	8	

Source : Steiner and Ladner (2003, 2005).

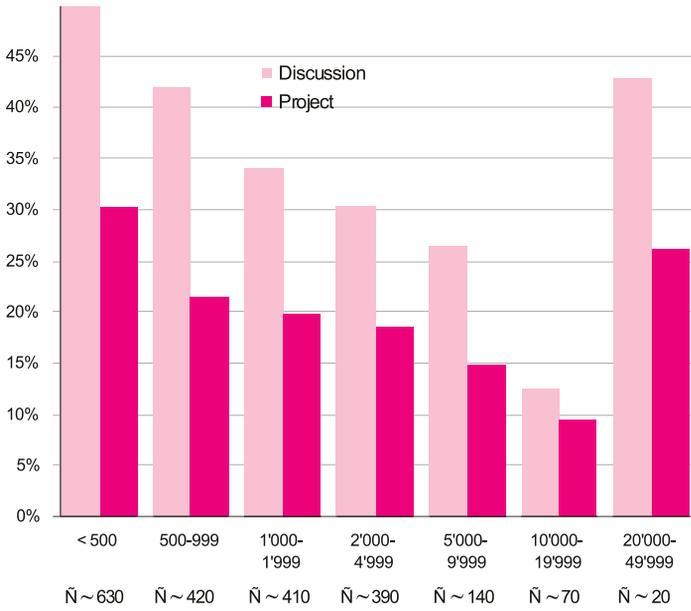
Note : N = number of municipalities that answered the question; n = number of municipalities than positively answered the question; % = 100n/N. 2899 municipalities were surveyed in 1998 and 2763 in 2005.

Figure 3 is particularly interesting for its demonstration, to a certain extent, of the practical validity of the economic canonical contentions in favour of amalgamation, or at least in favour of a defragmentation at the local level. Indeed, the results reveal, according to the size, the frequency of municipalities involved in a preliminary discussion, or in a project of amalgamation, between 2001 and 2005.

The frequency is higher in small-sized municipalities (on the left side of the figure) and in larger municipalities (on the right side). A theoretical interpretation of these relevant facts possibly reveals that smaller municipalities are most interested to amalgamate in an attempt to realise economies of scale together with economies of scope, while reducing transactions costs induced by inter-municipal arrangement. They also are interested in amalgamating to recover part of the political control lost while taking part in inter-municipal arrangements. Furthermore, they wish to reduce the professed “democratic shortage” that characterise administrative groupings.

In addition, larger municipalities and cities are more interested than medium-sized ones to merge with neighbouring municipalities in the aim to reduce jurisdictional spillovers, fiscal unbalance, and tax competition.

**Figure 3. Frequency of municipalities involved in a preliminary discussion or in a project of amalgamation, according to size, between 2001 and 2005**



Source : Steiner and Ladner (2003, 2005).

Note : Ñ = approximate average number of municipalities that answered to both questions (discussion and/or project of amalgamation)

#### 4. THE ROLE OF SWISS CANTONS IN TERRITORIAL REFORMS: AN ANALYSIS OF FINANCIAL INCENTIVES TO IMPROVE THE ATTRACTIVENESS OF AMALGAMATION

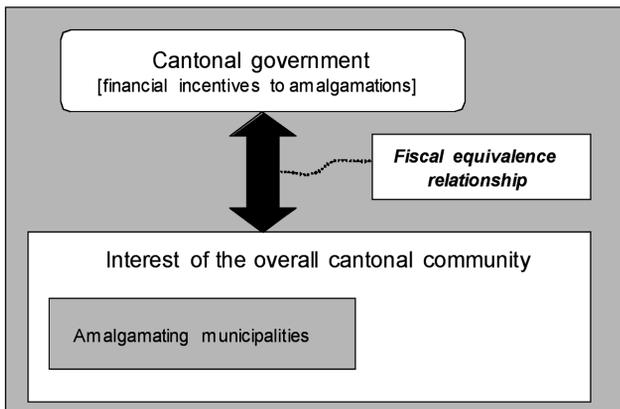
An increasing number of Swiss cantons offer financial contributions to municipalities that amalgamate<sup>10</sup>. The movement was initially initiated by the canton of Fribourg and presently about a fourth of the 26 Swiss

<sup>10</sup> In Finland, Japan, and Norway the higher government tier also often contributes financially to improve the attractiveness of amalgamation (Joumar and Kongsrud 2003, p.24).

cantons have introduced such a policy. The financial contribution usually accounts for about 250€ per inhabitant (400 CHF). The canton of Luzern even decided to guarantee that the new municipality would not have to impose a higher tax burden than the pre-existing municipality enforcing the lowest tax burden<sup>11</sup>.

What are the motivations of these cantons in allocating budget resources to such a policy? Following the fiscal equivalence principle and according to Lindhal (1919), the tax burden should be shared among individuals in accordance with the utility of the policy to individuals. In addition, the group of payers should match the group of beneficiaries, or the alleged users. In other words, the formers' contribution to the government's budget corresponds supposedly to the benefit provided by the State's policy. Concerning the incentives related to amalgamation, the fiscal equivalence conveys that the cantonal government allocates funds only if the benefit for the cantonal community (citizens at the cantonal level wherever they live) matches the incurred costs (taxes paid by cantonal tax-payers, notably through cantonal income tax), as shown in Figure 4.

**Figure 4. The fiscal equivalence principle applied to the financial incentives allocated to amalgamating municipalities by the cantonal government**



Source: Soguel and Chatagny (2006).

<sup>11</sup> Refer to Robert-Progin and Gigandet (2006) for a survey of existing incentive mechanisms in the cantons of Bern, Luzern, Fribourg, Vaud, Neuchâtel, and Jura.

In order to test the hypothesis that fiscal equivalence is truly respected, we analysed laws, messages, programmes, and press releases of the government's explanation and rationale in introducing incentives promoting amalgamations. Bern, Fribourg, and Neuchâtel were the cantons retained, because of our opportunity to participate as consultants on concrete amalgamation projects. Incorporating three cantons allowed us to list a large array of contentions justifying existing policies. For each contention, the analysis established the plausible relationship to the overall cantonal community or, on the contrary, its exclusive and direct lineage to amalgamating municipalities. Additionally, we note that certain contentions may concern simultaneously the cantonal community and amalgamating municipalities.

Table 2 illustrates the results in five groups that correspond to various axes representing the means of strategical assessment of an amalgamation project (Soguel and Léchet 2006). Three axes focus on global impacts: (a) the *development and leadership* of the municipality as a result of the amalgamation; (b) the overall *fiscal position*; (c) the *citizens' identification*<sup>12</sup> and *opinion*. Two other axes exemplify the effect concerning the provision of any single public service: (d) the *allocative efficiency* (capacity to take utility-maximising decision), (e) the *productive efficiency* (capacity to minimise to use of productive resources).

Regarding the development and leadership of a municipality, the analysed texts expose four contentions justifying a financial incentive. In one canton (BE-Bern), amalgamation is expected to favour sustainable development to the benefit of the cantonal community (C). In addition, a greater facility to recruit militia politicians, staff executive, and legislative bodies (to the benefit of the sole amalgamating municipality-AM) is anticipated. The capacity of the municipality to negotiate with the canton, or with neighbouring municipalities, is equally envisioned to increase, due to an augmentation in its economic and demographic weight, which benefits both the canton and the amalgamating municipality. At the same time, municipal competitiveness could be increased, assisting the municipality to take advantage of opportunities, or avoid risks associated with the evolution of the environment (municipality's benefit).

Five contentions belong to the axis of the fiscal position: (a) improvement of the municipal overall fiscal position; (b) enlargement of the

<sup>12</sup> Or the "sense of attachment to community" (Kushner & Siegel 2003, p.55).

tax base, due to a reduction in tax competition; (c) reduction of the tax burden; (d) higher cash-flow generation allowing to self-finance investment projects; (e) strengthening the equalisation scheme if the municipality becomes more wealthy due to the amalgamation, therefore triggering a lower cash-drain on the system.

The last contention represents a benefit of the overall cantonal community, while the other four along this axis contrarily favour amalgamating municipalities.

Concerning the citizens' identification, the cantonal government of Bern acknowledges that an amalgamation may cause an individual to lose its personal sense of attachment to community. However, the cantonal unity is simultaneously reinforced, because of the reduction of fragmentation at the local level.

**Table 2. Cantonal governments' contentions in favour of a financial support for amalgamating municipalities**

Axes	Contention	BE		FR		NE	
		C	AM	C	AM	C	AM
<b>Development &amp; leadership</b>							
	Sustainable development	+	•				
	Recruitment of militia politicians		•		•		
	Capacity of negotiation		•	+		+	•
	Competitiveness		•				
<b>Fiscal position</b>							
	Overall fiscal position		•			+	•
	Tax base				•		
	Tax burden				•		•
	Cash flow generation				•		
	Equalisation scheme	+		+			

**Table 2** **(cont.)**

Axes	Contention	BE		FR		NE	
		C	AM	C	AM	C	AM
<b>Citizens' identification</b>							
	Local identity	+					
<b>Allocative efficiency</b>							
	Autonomy		•		•		•
	Consulting and controlling	+					
	Democratic control		•		•		
	Coordination		•		•		
	Fiscal responsibility		•		•		•
<b>Productive efficiency</b>							
	Global economies of scale	+	•		•		•
	Economies of scale in HR				•		
	Supervision		•				
	Economies of scope				•		
	Delegation of tasks	+	•	+	•		
<b>Total</b>		6	12	3	12	2	6

Source: Soguel and Chatagny (2006).

Note: C = contention in favour of the cantonal community; AM = contention in favour of amalgamating municipalities; BE = canton of Bern; FR = canton of Fribourg; NE = canton of Neuchâtel; HR = human resources; + = contention in favour of the canton; • = contention in favour of amalgamating municipality.

In allocative efficiency, contentions are relatively those provided by the theory of fiscal federalism. The contention of autonomy refers to the ability of the municipality to prepare and take decisions without the obligation to use external advice (*e.g.* from a consultant). The need for the canton to act as an advisor is also lessened mutually with the need to exert control over municipal decisions. The perspectives for democratic control, fiscal responsibility, and better coordination of the decision with neighbouring municipalities are expected to be reinfor-

ced. However, apart from a reduction of cantonal consulting and control, all of these contentions benefit essentially the amalgamating municipality.

Contentions for productive efficiency also correspond to those of fiscal federalism. Economies of scale (especially concerning human resources), economies of scope, an increased capacity to supervise the production and delivery of public services are generally mentioned as benefiting amalgamating municipalities. However, in the canton of Bern, the fact that an amalgamation allows economies of scale is considered an advantage for the cantonal community as well, due to the benefits, through the grant system, of lower costs of delegated public services at the municipal level. Furthermore, this increased efficiency allows the canton to delegate the task of providing additional public services to municipalities.

To summarise, the contentions that amalgamating municipalities profit from are often cited by several cantonal governments: autonomy, fiscal responsibility, economies of scale (all 3 cantons), recruitment of militia politicians, capacity of negotiation, overall fiscal position, tax burden, democratic control, coordination, and delegation of tasks (2 cantons). On the contrary, for contentions that benefit the cantonal community, only the equalisation scheme and the delegation of tasks are mentioned in two cantons.

The bottom of the table calculates the number of occurrences of the various contentions in each column. The weight of every single contention is therefore implicitly equal. An imbalance appears towards the advantages of amalgamating municipalities. The contentions are two to four times more numerous for municipalities than for the cantonal community<sup>13</sup>. These results highlight that the policy of the cantonal government is less motivated by benefits for the cantonal community than by the advantages for amalgamating municipalities, at least in the short-term and regarding direct benefits. We can consequently conclude that payers of cantonal taxes finance a policy that they do not profit from substantially, but rather the citizens of amalgamating municipalities. Therefore, if a person resides in a municipality that will never amalgamate (e.g. a wealthy municipality), she will marginally, or rather indirectly, benefit from the policy.

<sup>13</sup> There are 6 to 12 contentions for the canton of Bern and 3 to 12 for the canton of Fribourg.

## 5. CONCLUSION

In Switzerland, the ongoing reforms of fiscal federalism are inclined to put municipalities under increased fiscal stress. A majority of the municipalities respond to this situation by increasing the cooperation with neighbouring municipalities. In 2005, more than 72% of Swiss municipalities indicated a growing importance of inter-municipal arrangements for the provision of public services compared to the situation five years before. Simultaneously almost 40% discussed the issue of a possible amalgamation and 23% have been involved in such a project. This has respectively doubled and tripled in the number of municipalities compared to 1998 (18% and 8%). Roughly, about a fifth of the projects have already been successful, half are still ongoing and a third failed. Small-sized and larger municipalities tend to be more frequently involved in such project than medium-sized ones. The smaller municipality is possibly more interested in realising economies of scale together with economies of scope, while reducing transactions costs induced by inter-municipal arrangement, whereas the larger one may principally expect a reduction in jurisdictional spillovers, fiscal unbalance, and tax competition.

Conversely, this trend towards amalgamation has undoubtedly been triggered by the financial contribution, allocated by several cantonal governments, to amalgamating municipalities. The governments' contentions in favour of such a policy prove to be rather biased toward the interest of amalgamating municipalities. As a result, according to the governments' perspective, the cantonal community benefits to a lower degree. One of the few contentions clearly noted as an advantage for the cantonal community is that the existing equalisation scheme would be strengthened if an amalgamating municipality became wealthy and triggered consequently a lower cash-drain on the system. Another contention is that amalgamation increases efficiency, possibly allowing the canton to delegate the provision of additional public services to municipalities. These results demonstrate that the policy of the cantonal government is less motivated by benefits for the cantonal community than those of amalgamating municipalities with regards to short-term direct benefits. One can thus conclude that the payers of cantonal taxes pay the benefits of the citizens of amalgamated municipalities rather than themselves. This discrepancy is a potential source of inequity between the payers of cantonal taxes living in municipalities that will never amalgamate (e.g. wealthy municipalities), yet indirectly benefiting from the policy, and

those living in amalgamating municipalities directly profiting from the policy.

Indeed, a certain form of inequality between these two groups of taxpayers may be necessary to reduce the possible inequality between municipalities that amalgamate with each other.

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