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Local Governance and Democracy

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*The amalgamation of municipalities in the Swiss context :
the leadership role of local government
in a direct democracy framework*

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ABSTRACT

When it comes to the ability of municipalities to face the numerous challenges of an increasingly changing world, their size appears to be a key parameter. In effect, increasing the size of small municipalities may improve their efficiency. Amalgamating two or more municipalities appears to be an attractive solution for reaching such an increase in size. In the Swiss institutional context and Swiss direct democracy, however, the success of an amalgamation project led by local authorities is not straightforward since most of cantons guarantee the institutional existence of their municipalities and require that such projects be decided at the polls by the local population. In this respect, a critical condition for the success of an amalgamation project at the polls consists in the agreement between the population's expectations and the project goals of the local government. Using data collected during a project in which we were involved, we show that a discrepancy between population's expectations and the government's goals regarding an amalgamation project may arise. Such a situation increases the risk of failure at the polls, which would result in a significant waste of time and resources for the community. However, we conclude by suggesting that by choosing a correct leadership strategy, local authorities may be able to reduce the gap and thus make the risk of failure decrease.

RÉSUMÉ

La taille des communes est un paramètre clé qui détermine la capacité d'une commune à faire face aux nombreux défis posés par un monde en constante mutation. En effet, l'accroissement de la taille de petites communes peut permettre d'améliorer leur efficacité. La fusion de deux ou plusieurs entités en une nouvelle entité plus grande constitue une solution intéressante dans l'optique d'accroître la taille des communes. Toutefois, dans le contexte institutionnel suisse, caractérisé notamment par un système de démocratie directe, le succès d'un projet de fusion piloté par l'exécutif communal n'est pas acquis *a priori* dans la mesure où de nombreux cantons garantissent l'existence institutionnelle de leur commune à travers la constitution cantonale mais également parce que dans la majorité des cas un tel projet doit être accepté en votation par la population communale. Ainsi, le succès d'un projet de fusion requiert impérativement l'adéquation des objectifs poursuivis par l'exécutif communal à

travers son projet avec les attentes de la population vis-à-vis d'une fusion. A l'aide de données collectées lors d'un projet de fusion dans lequel nous avons été impliqués, nous démontrons qu'un décalage entre les attentes de la population et les objectifs visés par l'exécutif dans le cadre du projet de fusion peut survenir. Une telle situation est susceptible d'accroître le risque de rejet du projet en votation et d'entraîner par conséquent d'importants gaspillages de temps et de ressources pour la collectivité. En conclusion, nous suggérons toutefois que l'exécutif peut diminuer un tel risque en réduisant le décalage d'objectifs par rapport à la population en adoptant une stratégie de leadership adéquate.

1. INTRODUCTION

In recent times, local governments have identified certain trends that have influence upon their activities: an increasing number of interwoven relations; a need to improve performance; and the growing consequences of globalization. With respect to these current challenges facing European local governments, the size of administrative areas in terms of number of citizens appears to be a critical parameter. A larger size, for example, creates economies of scale in the provision of public services, minimizes spillover effects, and professionalizes local authorities and office employees.

For historical and geographical reasons, the Swiss local state level is characterized by the small size of its municipalities compared to those in Europe. Among other European countries, only France, Slovakia, Iceland and the Czech Republic have as many small municipalities (Steiner, 2002, p.176). In a context of constant change, this situation makes it difficult for local governments to perform their tasks.

One way to address this problem is to increase the size of municipalities by amalgamating two or more of them. In the field of municipal amalgamation, two distinct approaches have emerged in Europe. On the one hand, the Germanic and Anglo-Saxon countries, such as the Scandinavian countries, England or Germany, chose a coercive solution by forcing municipalities to merge with each other. On the other hand, the countries with a Latin tradition, like Italy or Spain, viewed amalgamation as an option for their municipalities, encouraging them to choose amalgamation but never forcing it upon them (Dafflon, 2003, pp.4-5). In the last decade, amalgamation has been the solution that many Swiss cantons (i.e., the regional Swiss level) have chosen to handle the problem of their constitutive municipalities being too small. Since Switzerland is at the crossroads of the Germanic and Latin cultures of Europe, cantons have selected diverse amalgamation policies. While some implemented a coercive policy by forcing the municipalities to merge, like in the canton of Glarus, others like Bern, Fribourg or Neuchâtel chose instead a policy based on financial incentives to induce their municipalities to voluntarily merge (Robert-Progin and Gigandet, 2006). A consequence of the latter kind of policy combined with the constitutionally guaranteed existence of municipalities is that the leadership role in an amalgamation project rests with the local government. Furthermore, because Swiss direct democracy requires that such a project be approved by the population at the polls, success is not guaranteed for the

local authorities. More specifically, a serious risk of failure at the polls may arise if the project does not meet citizens' preferences. Hence, the purpose of our paper is to analyse whether there is a gap between citizens' expectations and the government's motivation pertaining to an amalgamation project. Depending on the results we will then draw conclusions in terms of leadership for local governments.

In the first part of this paper, the problem of amalgamations and citizens' preferences will be analysed using the agency (or principal-agent) theory framework and a testable hypothesis will be formulated. The second part will present the methods used based on data issued from an amalgamation project of two Swiss municipalities in the canton of Neuchâtel. The data and methods will allow us to test our assumption. Finally, we present the results obtained by means of three tables and present some consequences for local governments in terms of the leadership strategy to choose.

2. THE AMALGAMATION OF MUNICIPALITIES AS A PRINCIPAL-AGENT PROBLEM

Since most cantonal legislation guarantees the institutional existence of every municipality, most cantonal governments are unable to force their constitutive municipalities to merge with each other. In those cantons, the leadership role in amalgamation projects consequently rests with the local governments. Furthermore, Swiss direct democracy requires that a municipal amalgamation be decided at the polls by the concerned population. One might think that this institutional constraint is sufficient to guarantee that the submitted amalgamation project meets the will of the population, since it is tied to politicians' goals of re-election. In such cases, the probability of a project failing at the polls remains very low.

However the coherence between the will of the population and the motivation of the government is far from sure. Some failures of amalgamation projects in Switzerland can be explained by this lack of coherence. At the theoretical level, this idea is sustained by the principal-agent model. This theory asserts that an asymmetry of information may arise between the parties to a contract thereby creating inefficiencies. Let us take the example of when one party to the contract (the principal) mandates another party (the agent) and delegates the accomplishment of a precise task to it. An asymmetry of information arises if the agent has own preferences or goals that cannot be observed or known by the principal. In

this case, the risk exists that the way in which the agent achieves the task does not correspond to the way preferred by the principal and will correspond instead to the agent's preferences or goals (Mas-Colell et alii, 1995, pp. 447-489).

Transposing this theory to the functioning of a municipality, the population (the principal) delegates the fulfilment of several tasks to the local government (the agent). During an amalgamation project, a discrepancy may arise between the goals carried out by the politicians and the expectations the citizens have about the project thereby increasing the risk of a failure at the polls and postponing the realization of the project for many years. In this respect, an interesting question to ask is whether the preferences of the local government do indeed reflect those of the population or not. Consequently, we set the hypothesis to be tested in this paper as the following: "*The goals addressed by the municipal government in an amalgamation project do not reflect those of the municipal population*". Whether this hypothesis is confirmed or not has strong implications for the local government in terms of leadership. Should the hypothesis be rejected, the risk of failure at the polls would remain low. Consequently, the local government could simply work out a project according to its own preferences and submit it to the population which should accept it.

Should the assumption be confirmed, the risk of the project being rejected by the population would be quite high. In such a situation, and insofar as the government knows about the existence of a gap, the local authority may choose between two leadership strategies. On the one hand, the government may choose a so-called "weak" leadership. This requires the local government to adapt its project in order to produce one that better meets citizens' preferences at the expense of the government's own preferences, thus automatically increasing the probability of a success at the polls. On the other hand, the local government may choose a so-called "strong" leadership strategy. This means the government still produces an amalgamation project according to its own preferences, thus maintaining a high risk of failure at the polls. To decrease this risk, the government must commit itself to conducting a significant information campaign. The strong leadership strategy means that the government must sell its project to the citizens and persuade them that it is the best project for the future of the municipality.

To test the previously stated assumption and to infer conclusions in terms of local governments' leadership, we now turn to the presentation of some data collected during an amalgamation project of two Swiss municipalities.

3. DATA FROM THE AMALGAMATION OF TWO SWISS MUNICIPALITIES

Many cantons have enacted special laws to induce municipalities to amalgamate, hence many amalgamation projects have already been conducted in Switzerland. The canton of Neuchâtel implemented such a law and consequently faces the emergence of several projects among which we can study the one pertaining to the municipalities of Corcelles-Cormondrèche and Peseux¹. This project is particularly suitable for testing our hypothesis since we were involved in every step of the project. This allowed us to collect not only data about the goals of the members of the local government but also data about the population's fears and expectations towards the amalgamation project.

In the first step of the project, data pertaining to the population were obtained by means of a survey of the populations of both municipalities². The purpose of such a survey was to gauge the opinion of the respective populations in order to ascertain whether it was worth going ahead with the project. Two questions were asked about the main expectations and fears of the population towards the prospect of a closer collaboration or even an amalgamation. Each citizen was asked to mention her or his three main expectations and three main fears regarding the following items³ :

- prospects for development (improvement/deterioration)
- services supplied by the municipality (improvement/deterioration)
- production costs of services and taxes (increase/decrease)
- power of the municipality towards the canton or other municipalities (gain/loss)
- control of the authorities and administration by the citizens (gain/loss)
- identification of the citizen with her or his municipality (gain/loss)
- interest in municipal politics (increase/decrease)

¹ Between 2000 et 2006, we were involved in the following project of amalgamation : La Tour-de-Trême and Bulle (canton of Fribourg) ; Corcelles-Cormondrèche and Peseux (canton of Neuchâtel, NE) ; Le Locle and La-Chaux-de-Fonds (NE) ; Thielle-Wavre and Marin-Epagnier (NE) ; Bevaix, Boudry and Cortaillod (NE) ; La Heute, Orvin, Péry, Plagne, Romont and Vauffelin (canton of Bern), and finally Dardagny, Russin, Satigny (canton of Geneva).

² See Beutler & Soguel (2006) for the detailed results of the survey.

³ The items are coherent with those mentioned by Keating (1995).

For each of those items, four different situations may arise: the citizen has neither expectation nor fear, the citizen has only an expectation, the citizen has only a fear, or finally the citizen has an expectation as well as a fear simultaneously⁴. The proportion of citizens identifying an item as a source of expectation and/or fear provides information about the weight or relevance of this item for the population: the higher the percentage, the more relevant the item. Thus, the proportion of responses to each item provides us with a measure of the population's goals or preferences.

The data pertaining to the authorities were collected during the second step of the project. The purpose of this second step was to evaluate whether an amalgamation is really the suitable solution for the municipalities or whether another solution would be preferable. To perform this evaluation we developed a method based on five different analysis axes. These axes seek to cover every dimension at stake in an amalgamation project⁵. We first use a so-called "Development and Leadership" axis, which evaluates whether an amalgamation is able to improve the development prospects of the municipalities and to increase the leadership power towards others jurisdictions. The second axis pertains to the dimension of "Public Opinion and Local Identity" of an amalgamation, which measures the compatibility of the amalgamating municipalities in their political orientations and their feelings of self-identity. The third axis, "Finance", measures the financial compatibility of the amalgamating municipalities. The two last axes analyse whether an amalgamation could increase the efficiency of the provision of services by the municipalities. The fourth axis, "Decision about the Services", evaluates the room for improvement in the quality of the decision-making process relating to the services supplied. This evaluation should determine whether an amalgamation would improve the satisfaction of the citizens' needs. The last axis, "Production of the Services", analyses whether amalgamation can create economies of scale and hence offer different services more efficiently.

In order to perform the analysis as correctly as possible, the members of the local government were asked to weight the different axes according to their own priorities. The results of this weighting process provide us with a measure of the goals on which the authorities are focusing

⁴ For example the same citizen may expect or hope the amalgamation will make the tax rate decrease but may simultaneously fear the amalgamation will in fact make the tax rate increase.

⁵ See Soguel & Lécho (2006) for a detailed presentation of this method

through the amalgamation project⁶. We can then sum the weights to obtain a single measure for the local government as a whole.

Finally, the test of our assumption consists of comparing the data for the population with those obtained for the local government. If we observe some significant discrepancies, then the hypothesis will be verified. Conversely, if it appears that the population and authority place weight on the same goals, the hypothesis will be rejected. The next section presents the results obtained.

4. THE PRINCIPAL-AGENT GAP AND THE LEADERSHIP ROLE OF THE LOCAL GOVERNMENT

The results will be presented in three steps. We first give a presentation of the relative proportions obtained with respect to the expectations and fears of the citizens (table 1). Secondly, we present the data obtained from the local government through the weighting of the axes (table 2). Finally, we reformulate the data for the population according to the previously described axis method in order to make them comparable with those of the government (table 3). This final data comparison will allow us to properly test our assumption. We will then discuss the consequences of the results for the leadership role of local government.

Table 1 presents the proportion of the population that mentioned each item as an expectation, a fear, or an expectation and a fear simultaneously. The elements in the table represent an estimation of the relevance of each item for the population of both municipalities. The first interesting result is that both populations have very similar opinions. The most important discrepancy is Identification, with a difference of seven percentage points. For both populations the most relevant item is by far the item pertaining to the costs of services and taxes. Note that the last column mentions the analysis axis to which each item belongs. Three items are related to the Development and Leadership axis. In order to make the data comparable with those of the government we will then sum up those three features and calculate the mean.

⁶ The estimated weights by each member of the government were quantified by mean of the MACBETH (Measuring Attractivness by a Categorical-based Evaluation Technique) algorithm (Bana e Costa & Vanswick, 1999)

Table 1 – Data from the population's survey

Items relative to	Shares in %		Analysis axis
	Corcelles-C.	Peseux	
expectations and/or fears			corresponding to the items
Costs of services and taxes	94	94	Finance (FIN)
Services supplied by the municipality	73	72	Production of the Services (PROD-S)
Perspectives of development	65	66	Development and Leadership (D&L)
Power towards canton and oth.	54	48	Development and Leadership (D&L)
Identification with the municipality	54	47	Public Opinion and Local Identity
Interest for municipal politics	41	38	Development and Leadership (D&L)
Control on authorities and administration	41	39	Decision about the services (DEC-S)
Total	422	404	

Source : Beutler & Soguel (2006)

The data regarding the members of the local governments were collected during a special weighting session. Members were asked to weight the different analysis axes according to their own priorities and preferences. Table 2 shows the relative relevance of each axis for the government⁷. The results indicate that for the government an amalgamation project must clearly give priority to the development and leadership dimension as well as to the decision-making dimension relating to services.

Table 2 - Weighting of the axis by the government

Analysis axis	Weights, in %
Development and Leadership (D&L)	25
Decision about the services (DEC-S)	25
Finance (FIN)	18
Production of the Services (PROD-S)	18
Public Opinion and Local Identity (PO&LI)	14
Total	100

Source : Soguel & Lécho (2006)

The sum of the weight for the government is exactly 100, which is not the case for the population. To make the data comparable, we normalised the sum of the populations' proportions to 100 and calculate the relative weights. We can then compare the weights of the populations and the local government.

⁷ Note that although we handle with two municipalities, table 2 presents a single indicator. This is due to the fact that the axes were weighted simultaneously by both local governments. The composite indicator was obtained through a negotiation between the members of both governments.

Table 3 - Comparison between the populations' and the government's data

Analysis axis	Weights, in %		
	Population		Government
	Peseux	Corcelles-C.	
Finance (FIN)	31	30	18
Production of the services (PROD-S)	24	23	18
Development and Leadership (D&L)	17	17	25
Public Opinion and Local Identity (PO&LI)	16	17	14
Decision about the services (DEC-S)	13	13	25
Total	100	100	100

Sources : Soguel et Lécho (2006), Beutler et Soguel (2006)

Table 3 shows the priority axes for both populations as well as for the government. The axes are ordered according to the populations' priorities. The aspects related to finance and to the production of services appear to be the most important concern for the population. On the contrary, those aspects seem less relevant to the government. Indeed, it puts more weight on the previously mentioned leadership and development as well as decision making aspects, which clearly are not priorities for both populations. Consequently, the results of table 3 lead us to conclude that our previously set hypothesis is verified, at least partly. That means, according to the agency theory, that *we observe a gap* between the populations' and the government's preferences pertaining to an amalgamation project⁸. Hence the targeted goals of the amalgamation project worked out by the government could diverge from those of the population. One should be careful when interpreting these results in as far as they are more evenly distributed for the government (18% to 25%) than for the populations (13% to 31%).

Regardless, this case study still represents a good example of the emergence of a discrepancy between authorities and population regarding the implementation of a public policy, in this case an amalgamation project. Furthermore, in a direct democracy framework where the final decision often rests with the population, the existence of such a gap drastically increases the risk of failure at the polls. If the government knows about the existence of such a gap, it must make a decision about the leadership strategy to undertake to reduce the gap and decrease the risk of failure.

⁸ Note that some empirical studies suggest that such a gap can also be observed between the government and the population on one side and the administration on the other. In a 1998 survey, Steiner asked 2914 secretaries of Swiss municipalities about the advantages of an amalgamation. They mentioned as a first advantage the possibilities of professionalization. The less often mentioned advantage was the reduction of the tax burden (Steiner, 2002, p.348). Hence the preoccupations of the administration pertaining to amalgamations seem to be different than those of the population and government.

On one side, the government can commit to a "weak" leadership strategy, meaning the government renounces its own priorities or preferences and works out a project that meets those of the citizens. This reduction in gap would automatically make the risk of a failure decrease while simultaneously reducing the political cost a failure would imply for the members of the government. The other advantage of such a strategy is that the higher legitimacy of the project will make it easier to implement. Note that the weak leadership strategy implies that citizen's preferences are precisely known, which requires the investment of resources to collect this information. This cost has to be taken into account in the strategy choice.

On the other side, the government can commit to a "strong" leadership strategy. That means the government maintains its priorities and works out an amalgamation project that meets its own preferences. Consequently, to reduce the risk of a failure at the polls, the government must decrease the gap by altering citizens' preferences to reflect its own. To reach this goal, the authorities must develop a complete information campaign in which the government must present the advantages of the project to the citizens and persuade them it is the best project for the future of the municipality. This can induce change in citizens' preferences hence reducing the gap and persuading the citizens to vote for the government's project. The strong leadership strategy requires more time to be spent on the project and better communication skills from the authorities. These facts should also be taken into account in the strategy choice.

5. CONCLUSION

In this paper we sought to test whether or not the preoccupation of the authorities regarding an amalgamation project mirrors the population's preferences. According to the agency theory, a discrepancy may arise between the government and the population due to an asymmetry of information. In the Swiss direct democracy institutional framework, such a discrepancy may lead to a failure at the polls.

Using data obtained from an amalgamation project of two Swiss municipalities, we showed the relevance of the principal agent theory in the field of municipal amalgamation. Indeed, the data clearly verified the existence of the predicted gap and, in the Swiss context, of the risk of failure at the polls. To close this gap, we suggested two possible leadership strategies

for the government. It can choose a weak leadership strategy, which requires the government to change its project according to the preferences of the population. Alternatively, the government may choose a strong leadership strategy, which consists in persuading the citizens to change their preferences by convincing them of the advantages of the government's project .

Naturally, generalities cannot be formed based on the previous conclusions without taking several points into account. Firstly, one should note that data for the government and the population were obtained using two different methods. Hence we cannot guarantee that the same result would have been observed if the same method had been applied to both government and population. Secondly, our test relates only to one case of amalgamation and for one particular public policy, i.e. amalgamation. Consequently, this result doesn't automatically hold for other municipalities or other public policy in Switzerland. Thirdly, the risk that the project may fail at the polls is a typical Swiss constraint that is not necessarily relevant to other European municipalities.

This paper does suggest, however, that the agency theory analysis is relevant in the context of local public policy and that the possibility of observing a gap between authorities' and citizens' preferences shouldn't be neglected by the former. Even in European countries that do not have a direct democracy system, disregarding the will of the population may lead to a reprimand of the citizens in the shape of a non re-election. Furthermore, taking citizens' preoccupations into account may help authorities achieve one of their main task, i.e. satisfying citizens' needs.

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