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Managing the crises – How do Swiss municipalities react to the crisis and what explains the differences?

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Abstract

Swiss municipalities are to an important extent responsible for their own resources. Since these resources primarily depend on income and property tax from individuals and enterprises, their budgets are likely to be directly affected by the actual crisis of the financial sector and the economy. This paper investigates how the municipalities perceive this threat and how they reacted to it or plan to do so. In a nationwide survey conducted at the end of 2009 in all 2596 Swiss municipalities, we asked the local secretaries which measures they launch in order to cope with expected losses in tax income and a possible increase of welfare spending. Do the municipalities rather rely on Keynesian measures increasing public spending and accepting greater deficits, or do they try to avoid further deficits by austerity measures and a withdrawal of planned investments? The paper shows that only a few municipalities – mainly the bigger ones – expect to be strongly hit by the crisis. Their reactions, however, do not reveal the clear patterns theory lets to expect. Preferences for austerity measures and deficit spending become visible but many municipalities take measures from both theories. The strongest explaining factor whether municipalities react is the affectedness by the crisis followed by the fact that the municipality belongs to the French speaking part of the country. Size also has an effect whereas the strength of the Social Democrats is negligible. More difficult is it, to explain what kind of measures municipalities are likely to take.

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INTRODUCTION

Switzerland, like almost all countries, was hit by the financial and economic crisis which started with the collapse of the housing bubble in the US in 2007. In the second part of 2008, it became apparent that the crisis was also going to have an impact on the Swiss economy. As a country being dependent to a quite important part on the financial sector with its large international banks and insurances, and given the dependence of the domestic industry on exports, it became quickly obvious that economic growth would turn negative, firms and companies would be confronted with losses,¹ and that unemployment was going to increase. For the state sector this meant less tax income on the one side, and a demand for state intervention on the other side, in order to back the bank sector under pressure and to fight economic recession and unemployment.

However, not all parts of the country are equally touched and given the federalist and decentralized structure, state activities to fight the crisis are not only concentrated on the national government. Both, cantons and municipalities, are forced to and have room for manoeuvre to cope with the losses of tax money and increasing welfare costs. Depending on the structural and economic situation as well as on political preferences, it is likely that their reactions differ: The more a municipality depends on tax payers which work in the industrial and service sector, and the worse its financial situation is, the more likely is it to become active. Municipalities dominated by centre and left parties, are supposed to invest and allow for a growing deficit, whereas municipalities dominated by the right rather abstain from further investments and/or reduce their services.

The paper starts with presenting a few crucial characteristics of Swiss municipalities. It then shows which municipalities are particularly affected by the crisis, which municipalities reacted and which measures they have taken. In a last section, it tries to explain their reactions on the basis of a number of hypotheses.

¹ It is expected that these losses are going to trouble some municipalities for quite some time since banks, for example, are allowed to reduce their losses from their taxable benefits during seven years.

SOME CHARACTERISTICS OF SWISS MUNICIPALITIES

Probably the most outstanding structural characteristic of local governments in Switzerland is the *small size of many of the municipalities*. More than half of the 2596 (1.1.2010) municipalities have less than 1,000 inhabitants. However, only very few people live in such small municipalities. About 90 percent of the population lives in municipalities with more than 1,000 inhabitants (Office, Swiss Federal Statistical 2000). The largest municipality, the City of Zurich, has about 380,000 inhabitants, but there are also some municipalities with less than fifty inhabitants. Formally, all municipalities are regarded as equal. In reality, however, their resources, the range of their services and the problems they face vary considerably. These differences together with the small size have to be kept in mind when we talk about their reaction to the crisis.

Characteristic for Swiss cooperative federalism is a relatively weak central state. The share of central government's expenditures amounts to a little more than 30 percent (31.7 percent in 2004), leaving about 68 per cent to the cantons and the municipalities. The bigger part with a little more than 40 percent is spent by the cantons and just over 25 percent by the municipalities (Bochsler et al. 2004: 140, Ladner 2009. 340).

In the realm of their activities municipalities have the possibility to support the economy by investing in local projects. It is therefore useful to have a short look at their tasks and functions, since they define their possibilities to become more active or to reduce their activities. First of all, a distinction has to be made between tasks which are allocated to the municipalities by legislation of higher political levels and those which fall into the competences of the municipalities themselves. For the latter, at least, they have a general residual competence, and the range of their activities depends largely on their resources and the demands of the citizens. All activities which are not explicitly allocated to the higher political levels belong to this category.

The responsibilities of the different state levels are best reflected by their public expenditures (Ladner 2009: 341 f). The federal government is – not surprisingly – responsible for foreign relations, national defence and the national economy. These three functional areas together cover about 15 percent of the total public spending. More important in terms of expenditures are social security and traffic, where federal government is also responsible for the biggest

part of the expenditures. “Social security” is also the area with the biggest increase in the last fifteen years.

Looking at the areas of the local level it becomes obvious that, unlike unitary states where quite important areas fall in the competence of local government, these areas fall into the jurisdiction of the cantons. The cantons are responsible for more than half of the expenditures in the two important areas of “health” and “education”. The municipalities are the most important actors in the areas of “environment and planning” and “culture and leisure”. The most important expenditures of the municipalities are very similar to those of the cantons: education, public health and social security with 22 %, 21 % and 16 % of the municipal expenditures. In these areas, there is very often a clear division of competences like for example the cantons are responsible for the universities or additional payment to the health insurance and the municipalities are responsible for the homes for elderly people. Sometimes there are also overlapping services when hospitals are run by the cantons or by the municipalities, and sometimes planning or instruction is on the side of the cantons and the municipalities have executive functions, for example when it comes to the organisation of primary school teaching and the setting up of the curricula which is in the hand of the canton and the schools are run by the municipalities.

Due to the *vertical interweavement of tasks and competences* (“Politikverflechtung”) an important part of the municipalities’ budgets is given through the fulfilment of tasks which are allocated to them from higher level and through long lasting commitments. However, there are also services and policy domains like for example integration policy, sports and culture, or such as development, construction and maintenance of infrastructure, buildings and local streets where the municipalities decide freely on their activities. It is here, where cuts as well as increased investments are possible in order to keep the budget balanced or to strengthen the local economy.

The possibility to decide upon their activities goes in hand with another important characteristic which makes the following analysis especially salient. It is a *far reaching autonomy, especially in terms of finance and tax*, which on the one side increases their possibilities to react, but which on the other side, makes them responsible to heed their budget and to generate their resources.

In general, municipalities *finance their activities themselves* - at least those which fall into their own competence and are not subsidized by higher levels - through tax, fees and charges. They have to establish a local financial management system which has to abide by cantonal prescriptions. They also have to prepare a budget, which they have to submit to the local parliament, the assembly or sometimes directly to the citizens. Swiss municipalities are allowed to accumulate surpluses or might be in debt. They also have the power to issue bonds or to borrow money from banks. This gives them additional possibilities in times of financial problems. The financial control is exercised first by municipal committees and secondly by the cantonal administration, which supervises the financial administration. If the municipalities abuse their liberties, the canton steps in. This, however, rarely happens.

On the income side, *direct taxes on income and property provide the biggest part of the revenue of the municipalities* (see Ladner 2009:347). Hence, they are directly hit by citizens losing their salaries or business and enterprises with losses. On all levels, the taxation of income yields about 10 times as much as taxation of property. The second most important source of revenues for municipalities is fees and charges with almost 30 percent followed by transfers from the canton (17 %) or other municipalities (4 %). Transfers without any specific purposes are relatively low (4 %).

The municipalities are *able to set the rate of the local tax on personal income and property within a quite broad margin* usually fixed by the canton. A result of their far-reaching fiscal autonomy is the huge differences in terms of tax an individual has to pay depending on the municipality and on the canton he or she lives in. A father of three children earning 200,000 Swiss francs a year and living in the City of Zurich has to pay 12,000 francs to the municipalities whereas in the neighbouring municipality of Zollikon he would only have to pay 7,200 francs. And, living in the canton of Zurich, he additionally has to pay 10,000 francs income tax to the canton. If he were to move to the canton of Jura, he would have to pay 20,000 francs whereas in the canton of Schwyz it would only be 6,500 francs.² Swiss citizens pay tax on income at all three levels of state.³

² For calculations see <http://www.estv.admin.ch/data/sd/d/index.htm?berechnungen/inhalt.htm>

The structural differences between the municipalities – and more specifically the lacking possibilities of some municipalities to generate sufficient tax income – make sophisticated systems to balance inequalities necessary. On the one hand there are transfers from richer to poorer municipalities, on the other hand the cantons allot more money to the less affluent municipalities. The functioning of these systems, which were often based on the financial situation of the municipalities and directly linked to special activities, has been heavily criticized in recent years, and most of the cantons are about to reform them (see Ladner 2010).

Nevertheless, the possibilities to set the tax rate for an important part of the tax money going to the state fosters the competition between municipalities to lower the tax rate in order to attract good tax payers. A tax increase, even if such a measure might be necessary to cope with the losses due to the crisis, always bears the danger of losing tax payers.

Taken all together, Swiss municipalities are directly hit by the crisis if business and enterprises make fewer benefits or go bankrupt and their citizens earn less or are made redundant and starting to depend on public welfare in a long term perspective. The municipalities have, however, various possibilities to react, either on the income side or on they side on their expenses. This makes the study of their reactions and the determinants of them, like it is done for other states (Schmidt 1993, Mulas-Granados 2003, Mierau 2007) or subnational units (see Wagschal/Wenzelburger 2008, 2009) especially salient.

MUNICIPALITIES AFFECTED BY THE CRISIS

According to our survey,⁴ Swiss municipalities taken all together, are not too strongly hit by the crisis. Only something like 6 per cent of the municipalities (N=1372) state that they are “strongly” affected. About 80 per cent are, according to their municipal secretaries, “a little affected”, and 10 per cent are not affected at all (4 % don’t know). Looking at the size of the

³ Local taxes amount to a little more than one third of the total individual taxation and are paid directly to the municipality; a little more than one third is paid directly to the canton and a little less than 30 percent goes to the federal state. The exact amounts an individual has to pay to the three levels depend on his or her income, because the progression of the federal tax rate differs from the ones in the municipalities and the cantons.

⁴ The data in this paper stem from the 2009 5th nationwide local secretary survey conducted in 2009/2010 by the Swiss Graduate School of Public Administration (IDHEAP) in Lausanne and the Center of Competence for Public Management (CCPM) at the University of Bern. The response rate was about 50 percent.

municipalities and the language area, it is the municipalities above 10'000 inhabitants which consider themselves much stronger affected (more than 20 per cent strongly affected) and the municipalities in the Italian speaking canton Ticino with almost 20 per cent compared to 6 and 5 per cent in the German and French parts of the country.

Nearly 10 per cent of the municipalities (N=1370) expect strong losses in tax income. For about 70 the expected losses are going to be moderate and about 20 per cent do not expect any losses in tax income. Here again, the expected strong losses are higher in the Italian speaking part of the country and in the bigger municipalities. Among the municipalities with more than 10'000 inhabitants about one third expects heavy losses in tax income, and among the Italian speaking municipalities about 14 per cent of the municipalities expect strong losses compared to 9 per cent in the French and German speaking municipalities.

In a nutshell, only a small group of the Swiss municipalities is strongly affected by the crisis and confronted with a severe loss of tax income. This concerns mainly the biggest municipalities with more than 10,000 inhabitants and those in the Italian speaking part of the country. There is no difference between the French and German speaking municipalities to be found.

DO THE MUNICIPALITIES REACT?

To be affected by the crisis and to expect a loss in tax income is one thing, another question is, whether the municipalities react and take actions to cope with the crisis? We shall first have a look at the number of municipalities which reacted and took measures as well as at the characteristics of these municipalities, and then we shall ask to what extent their reaction depended on the degree of affection.

According to our results, Swiss municipalities did not become very active to cope with the crisis. Taken all together only about 15 per cent of the municipalities (N=1373) did take any specific action or plan to do so in the near future.

If we compare the language areas, it is now the French speaking municipalities which became most active, followed by the Italian and the German speaking municipalities (see figure 1). As far as the size of the municipalities is concerned, there is a strong increase with the increasing

size of a municipality. In a city with more than 10'000 inhabitants at least every other municipalities has taken or is about to take actions against the crisis (figure 2).

Figure 1: Action taken and the language area of the municipality

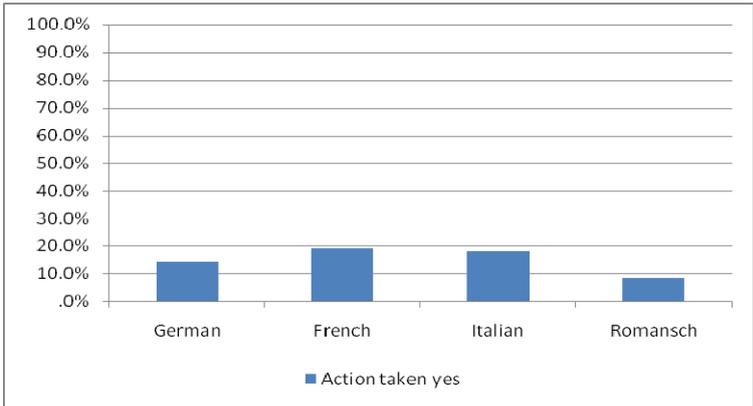
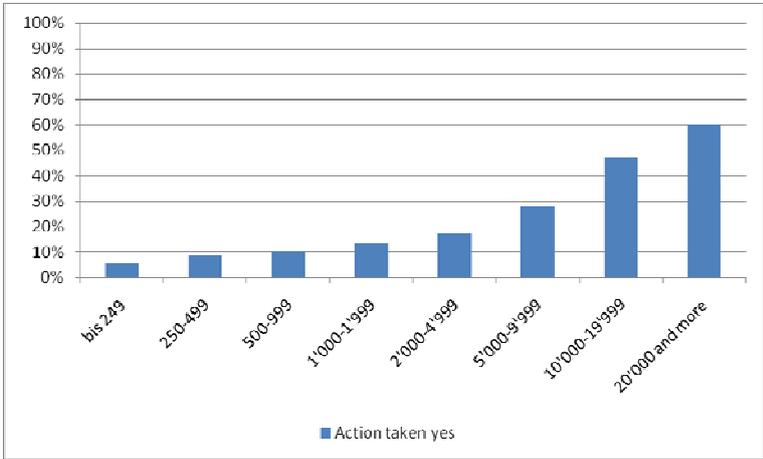


Figure 2: Action taken and the size of the municipality



To take an action taken against the crisis goes strongly hand in hand with the affectedness. About half of the municipalities which claim that they are strongly affected by the crisis and which suffer a severe loss in tax income also state that they have taken action to cope with the crisis. This result is not astonishing at first. However, it might strike, that half of them did not take any action despite the fact that they were suffering from the crisis.

If we compare the degree of affectedness with the question whether the municipalities took measures to cope with the crisis for the different language areas, a somehow distinct pattern appears. In the German speaking part of the country a bit more than 50 per cent of those municipalities which consider themselves strongly affected, took also measures against the crisis compared to 45 per cent in the French speaking party. In the French speaking part, on the contrary, there are comparatively more municipalities which reacted even if they were only weakly or not affected.

Table 1: Degree of affectedness and taking measures against the crisis in the different language areas (percentages)

	Strongly affected	Weakly affected	Not affected
German	53.8	11.2	5.2
French	45.2	19.4	11.4
Italian	50	18.2	0
Romansch	50	7.7	0
N=	62	121	16

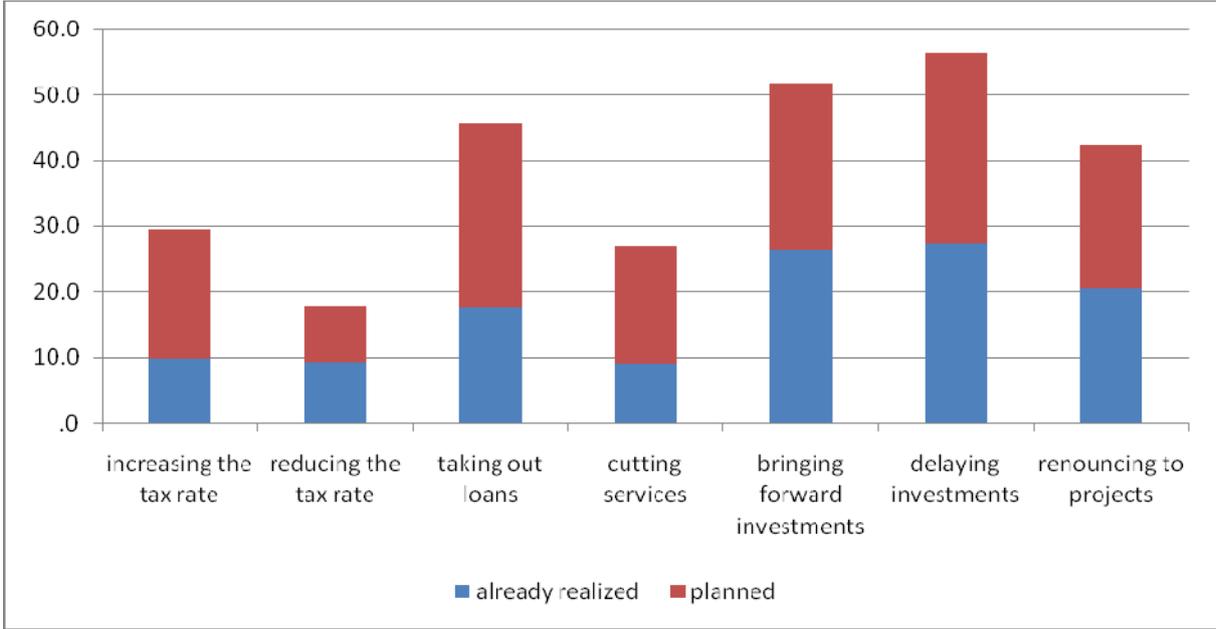
MEASURES TAKEN

There is a wide range of measures a municipality can take you to fight the crisis. The crucial decision for a municipality is, whether it should try to keep its budget as balanced as possible through cuts or the delay of planned investments and expenditures or whether it first of all keeps local business and trade going through investments and taking up loans even if there is going to be a deficit in the short turn. Given the municipalities’ considerably leverage on their tax income, they can also balance their budgets through an increase of the tax rate or lower the tax rate to relieve the burden for business and enterprises and to foster consumption.

Figure 3 shows the measures taken by the municipalities. The most popular reactions are an advancement of planned investments and a delay of investments. Obviously, the two strategies – austerity policy and deficit spending – are equally popular. Nearly 60 per cent of the municipalities taking measures against the crisis delay investments and a bit more than 50 per cent advance investment already planned. In the direction of austerity policy points a re-

nouncement to new projects and cuts as far as special services are concerned, whereas loans can first of all be seen as measures to balance the budget without curbing the economy. An increase of the tax rate is for about 30 per cent of the municipalities a necessary option to keep the budget balanced whereas a bit less than 20 per cent reduce the tax rate to stimulate production and/or consumption, or to become more attractive for citizens and investors.

Figure 3: Measures taken by the municipalities (only municipalities taking actions)



N=230 - 255

It might be expected that there are basically two groups of municipalities: Those, which favor an austerity policy and those which are in favor of deficit spending. Reality however seems to be more complex. Table 2 shows that there is likely to be a multitude of different measures taken at the same time.

- Among those 73 municipalities which increased their tax rate or plan to do so, a quite important part also delayed investments (55) or renounced to planned projects (41). To a lesser extent there have also been cuts in services (28) and loans have been taken out (33), and to a smaller extent there have been advancements of investments (19).
- Among those who reduced their tax rate or plan to do so, an advancement of investments seems to be the most popular measure, but in some of these municipalities there

have also been austerity measures, like cuts and the delaying of investments and projects.

- Among those municipalities which took out or plan to take out loans, the delay of investments and the increase of the tax rate are more popular than the advancement of investments and the decrease of the tax rate. This points into the direction that a balanced budget is more important than the fostering of economic growth. Nevertheless, the number of municipalities which favor deficit spending (advancement of investments, lowering of the tax rate) is not negligible.
- Among those municipalities which made cuts in their services, a delay of investments is the most frequent measure, but there are also municipalities which advance investments at the same time and a few municipalities reduce even their tax rate.
- More than a third of the municipalities which advanced or plan to advance investments take out loans, and the number of municipalities which reduce the tax rate outweighs the number of municipalities which increase it. However, some of these municipalities also delay investments and renounce to projects at the same time.
- And finally among those municipalities which tried to cut their spending – or plan to do so – by delaying investments or dropping projects a budget oriented tax increase is quite frequent but there are also municipalities which advance investments at the same time.

Table 2: The different combinations of measures taken or planned (absolute numbers)

	increasing the tax rate	reducing the tax rate	taking out loans	cutting services	advancing investments	delaying investments	renouncing to projects
increasing the tax rate	73	0	33	28	19	55	41
reducing the tax rate	0	41	10	6	23	9	8
taking out loans	33	10	106	35	47	61	48
cutting services	28	6	35	63	25	50	39
advancing investments	19	23	47	25	130	40	39
delaying investments	55	9	61	50	40	142	87
renouncing to projects	41	8	48	39	39	87	108

One of the reasons why the overall pattern in table 2 is less clear than theory might let to expect is probably the varying role of some of the measures discussed together with a restricted “marge de manoeuvre”. A municipality with a comparatively high tax rate will find it more difficult to increase it further, even if it considers it as necessary. Or, to take out a loan can be done to keep down the debt rate or to advance investments. And finally, some municipalities invest and delay projects at the same time, because some of the investments are more beneficial for the local economy whereas others have a lower priority.

For the following analyses, we suggest to reduce the complexity empirically. The following factor analyses on the seven measures discussed produces two factors which nevertheless reveal the two strategies (see table 3). The variables loading on the first factor are “delaying investments”, “renouncing to projects” and “increasing the tax rate”. We therefore name this factor “austerity policy”. The variables loading on the second factor are “advancing investments” and “take out a loan”. This second factor can be called “deficit spending”. The two factors explain about 50 per cent of the variance contained in the seven variables. In the next section we shall use the factor scores to test our hypotheses.

Table 3: Factor analysis on the measures taken by the municipalities

	"Austerity policy"	"Deficit spending"
Increase tax rate competed/planned	.661	-.048
Reduction tax rate competed/planned	-.402	-.119
Take out a loan competed/planned	.270	.646
Cut services competed/planned	.506	.435
Bring forward investments competed/planned	-.340	.735
Delay investments competed/planned	.822	-.104
Renouce to projects competed/planned	.731	.117

N=197, Rotated Factor Matrix (Varimax).

WHAT EXPLAINS THE DIFFERENT REACTIONS?

There are obviously differences in the way municipalities reacted to the crisis as far as size and to a lesser extent as culture are concerned. In this section we shall ask for the causal relationship or in other words, which variables are likely to influence the reactions of the municipalities? In addition to size and culture there is the affectedness by the crisis and the political orientation of the municipality which might influence the municipalities’ reaction. Since some of the variables correlate with each other, multivariate and stepwise procedures are needed to test the independent impact of each variable. The following effects can be expected:

Size matters!

As we have seen, bigger municipalities are more affected by the crisis and more likely to act. The reason why these municipalities are more likely to do something, however, might not only depend on their affection but also on their system capacity. Especially when it comes to an increase in investments they dispose of more possibilities, and it is less likely that their efforts are in vain and the profit goes to other municipalities (spill-overs).

Affectedness matters!

Not all municipalities are affected by the crisis to the same extent. The structure of the economy is likely to have a strong influence as well. To what extent do the municipality and its tax

income depend on the banking sector? Since we do not dispose of this data for all municipalities we shall use the subjectively felt affectedness taken from the survey as a proxy.

Culture matters!

In the French speaking part of Switzerland citizens are more interventionist and generally feel that the state should play a stronger role. We might therefore expect a positive correlation with the percentage of French speaking inhabitants and state measures to fight the crisis. What kind of actions they take depends on the dominant political preferences of the municipalities.

Politics matter!

Left wing parties like the Social Democrats generally favour a Keynesian model to manage the crisis. Oriented towards the demand side of the market they want the state sector to create jobs and to invest. The stronger the Social Democrats are, the more likely are municipalities to take measures and more especially to invest and to take out loans.

The results of the binary logistic regression partly meet the expectations. The chances that a municipality which considers itself as affected by the crisis takes a measure is 4.7 times higher than a municipality which does not consider itself as affected. If a municipality is in the French speaking part of Switzerland, the chances that it reacts to the crisis are 1.9 times higher. Size also has an influence whereas there is no influence as far as the strength of the Social Democrats is concerned.

Table 4: Binary logistic regression: Dependant variable: Measures taken

Variable	(1)	(2)	(3)	(4)
constant	-6.034 (.000)*** .002	-6.605 (.000)*** .001	-6.727 (.000)*** .001	-9.233 (.000)*** .000
Size (log.)	.581 (.000)*** 1.788	.630 (.000)*** 1.877	.614 (.000)*** 1.848	.526 (.000)*** 1.692
Language area (1=French,0=others)		.727 (.000)*** 2.069	.623 (.000)*** 1.864	.639 (.001)*** 1.894
Social Democrats (percentage of the votes last national elections)			.015 (.124) 1.015	.015 (.165) 1.015
Affectedness (1=not affected; 2=weakly affected; 3=strongly affected)				1.545 (.000)*** 4.687
Nagelkerkes R- Quadrat	.111	.129	.131	.190
N=	1373	1321	1313	1245

Comments:

The dependant variable is binary (0 =no measures taken; 1 = measures taken).

The first value shows the regression coefficient, the second value in brackets the significance; * = significant on the 10 %-level, ** = significant on the 5 %-level, *** = significant on the 1 %-level (two tailed), and the third value gives the coefficient of the effect (Exp(B)).

In a next step we shall repeat the same analyzes for the measures taken by the municipalities. It is here, where we should find differences as far as the strength of the Social Democrats is concerned. The two dependent variables now are the factor scores from the previous factor analysis, i.e. “austerity policy” and “deficit spending”.

The regression models in the case deficit spending at least partially show the expected influence of the strength of the left wing social democrats (see table 5). If we follow the regression models we note first of all, that size alone, cannot explain whether a municipality relays on investment or not. The electoral strength of the Social Democrats, as it is shown in model 2a has in fact a slight positive influence on deficit spending. This influence however disappears when we add the language variable to our model (model 3). This is not astonishing since the Social Democrats are stronger in the French speaking part of the country. Whether a municipality opts for deficit spending or an austerity policy, finally, does not depend on the affec-

tedness (model 4). The final model contains the two variables size and language area. The explanatory of the model, however, remains relatively weak.

Table 5: Linear regression: Dependant variable: “Deficit spending” (factorscores)

Variable	(1)	(2a)	(2b)	(3)	(4)
constant	-.604 (.121)	-.977 (.016)**	-1.002 (.011)**	-1.130 (.000)***	-1.183 (.017)**
Size (log.)	.079 (.114) .113	.075 (.128) .108	.104 (.033)** .149	.097 (.049)** .139	.099 (.057)* .142
Language area (1=French,0=others)			.668 (.000)*** .310	.583 (.000)*** .270	.652 (.000)*** .298
Social Democrats (percentage of the votes last national elections)		.022 (.005)*** .199		.011 (.179) .102	.008 (.353) .074
Affectedness (1=not affected; 2=weakly affected; 3=strongly affected)					.045 (.810) .018
F =	2.515	5.406***	11.129***	8.070***	6.100***
Adj. R-Square	.008	.043	.096	.101	.102
N=	196	194	190	189	180

Comments:

The first value shows the regression coefficient B, the second value in brackets the significance; * = significant on the 10 %-level, ** = significant on the 5 %-level, *** = significant on the 1 %-level (two tailed), and the third value shows the standardized coefficient Beta

If we repeat the analyses for the other factor – austerity policy – we find first of all no influence of the strength of the Social Democrats (see table 6). Here we expected a negative influence. Again, being in the French speaking part has a positive influence and the degree of affectedness also leads to measures to keep the budget balanced. Relying on austerity measures, however, seems to be a more general pattern which does not depend on the size of a municipality.

Table 6: Linear regression: Dependant variable: “Austerity policy” (factorscores)

Variable	(1)	(2a)	(2b)	(3)	(4)
constant	-.311 (.426)	-.485 (.263)	-.598 (.134)	-.606 (.141)	-1.423 (.004)**
Size (log.)	.041 (.418)	.035 (.480)	.056 (.265)	.056 (.268)	.007 (.899)
Language area (1=French,0=others)			.540 (.001)*** .251	.526 (.002)*** .270	.533 (.002)*** .247
Social Democrats (percentage of the votes last national elections)		.011 (.148) .104		.001 (.920) .102	-.004 (.654) -.036
Affectedness (1=not affected; 2=weakly affected; 3=strongly affected)					.609 (.001)*** .246
F =	0.659	1.360	6.405***	4.147***	5.342***
Adj. R-Square	-.002	.004	.054	.048	.088
N=	196	194	190	189	180

Comments:

The first value shows the regression coefficient B, the second value in brackets the significance; * = significant on the 10 %-level, ** = significant on the 5 %-level, *** = significant on the 1 %-level (two tailed), and the third value shows the standardized coefficient Beta

CONCLUSION

How do the Swiss municipalities manage the crisis? First of all, it can be noted, that only a small minorities of the municipalities consider themselves as severely hit by the financial and economic crisis of the late 2010s. It is primarily the bigger municipalities which are hit and which fear losses in tax income.

Whether municipalities react or not, depends on their affectedness. It can also be shown, that municipalities in the French speaking part are more likely to react and so are the bigger ones. Especially the last result can be seen as an argument for bigger municipalities which do have sufficient room for manoeuvre and do not risk that their efforts are mainly beneficial for other municipalities.

The kinds of reactions municipalities take, however, do not reveal the clear pattern theory lets to expect. Preferences for austerity measures and deficit spending become visible but many municipalities take measures from both theories.

There is a slight tendency that the strength of the left goes hand in hand with deficit spending. The data, however, do not allow to tell, whether it is the Social Democrats themselves, which are suggesting such a policy or whether it is mainly the fact, that in the French speaking part of the country citizens tend to define the role of the state differently, which is also a reason for the stronger position of the Social Democrats. Bigger municipalities seem to support deficit spending whereas austerity measures are equally “popular” in smaller and bigger municipalities.

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