

# THE FINNISH MUNICIPAL REFORM

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**Summary** The article aims at evaluating the municipal amalgamation process as a way of reforming local government, by two criteria – efficiency in service provision and level of democracy. Those issues are applied onto a Finnish case study, as amalgamation is more common in Northern Europe. The author gives a review of amalgamation studies in the world and of the extensive evaluation reports of amalgamation reform in Finland. The paper examines amalgamation policy from two perspectives – from the instrumental or goal-oriented view and from the process aspect. The findings on the relatively high number of instances of amalgamation in Finland are the following: the main process-driving factors were political parties that mostly supported the reform and the underlying urge to construct larger entities which made municipalities take part in the process. The level of efficiency in the new, amalgamated municipalities is not necessarily higher, as efficient service provision can be found both in small and large municipalities. Efficiency is more determined by the dynamics of a municipal economy while the size of a municipality alone does not make a difference. As amalgamations change the nature of local political life they affect democracy both positively and negatively.

**Keywords** municipal amalgamation, municipality size, efficiency, level of democracy

## Introduction

Municipal amalgamations belong to the toolbox of national governments both globally and in Europe. Municipal amalgamations are a means to make stronger municipalities, achieve economies of scale and rationalise the territorial structure. Whether amalgamation is a good way to reach these targets is open for discussion. Besides the instrumental view it is important to look at the process as well. Hence, the following questions are important to ask: what do typical amalgamation reform processes look

like? What similarities and differences are there between countries? What do amalgamation reforms say about democracy? The following article discusses amalgamations in general, and through a case study of Finland in particular.

Finnish municipalities have broad duties and are in charge of the wellbeing of their citizens and provide a number of services (Pesonen and Riihinen, 2002). Finnish municipalities traditionally differed in size. However, they had similar obligations in principle. The number of small municipalities (less than 5000 in-

habitants) was high and the small municipalities had two ways to cope with their size. First, they cooperated with other municipalities. Typically schools, health centres and hospitals were maintained in concert. Secondly, small municipalities simply did not offer as broad a selection of services as the large municipalities (Kettunen, 1999). This strategy was also supported by the expectations of the citizens: they did not expect to find similar services in small and in large municipalities.

During the past decades a number of amalgamations took place, which mostly concerned small municipalities. These were voluntary and only in exceptional cases did the government make a decision to amalgamate without the consent of all the municipalities involved. In recent years, however, the situation changed. In 2006, the national government launched a municipal reform campaign (Government Proposal, 155/2006) and proposed to parliament to increase the size of municipalities. The argument used in the debate and in the bill strongly emphasised the scale issue: small municipalities were said to suffer from a number of deficiencies. They were seen as economically vulnerable, and when small size and remoteness were combined, their ability to take care of the wellbeing of the inhabitants was argued to be limited. Since the passing of the government bill, the pace of amalgamation accelerated and the number of municipalities decreased by one-fourth in less than ten years (Kettunen, 2008). Finnish municipal reform aims to create stronger municipalities. Strength, as such, can refer to a number of capabilities including efficiency in service provision. Democracy is also one of the goals of the reform. Hence, there is a good reason to ask whether large municipali-

ties are indeed more efficient and more democratic than small ones.

This paper proceeds in the following manner: The second section presents some theoretical perspectives into amalgamation research. Thereafter, I will investigate Finnish municipalities and the background of amalgamations. Finnish municipalities are in charge of a wide scope of tasks and have a high degree of autonomy. Then will follow an in-depth analysis of the recent reform, which aims to diminish the number of municipalities. Next, I will investigate how successful the reform was. Prior to that there will follow a look at the reform process. Thereafter questions such as “Do amalgamations result in cost savings?” or “Are larger municipalities more or less democratic?” will be asked. In each case, both sides of the issue will be considered. Finally, I will discuss the reform from the viewpoint of relevance, that is, if larger municipalities are a solution to the problems diagnosed or the solutions lie somewhere else.

### **How to analyse municipal amalgamations**

Municipal amalgamation is a process which both the national governments and local governments can initiate. The two options are usually referred to as voluntary and compulsory amalgamations. In both cases the reasons to amalgamate have to do with scale (more effective in providing services), cost savings (by cutting overlapping levels of administration) and achieving a higher level of service quality (through increased resources) (Dahl and Tufte, 1973). There is a clear distinction in terms of geography: amalgamations are more common in the north of Europe and used less in the south of Europe. In the

North, municipalities tend to have more tasks and, hence, in case of top-down amalgamations the state has more interest in creating a territorial structure where municipalities have sufficient capabilities (Kuhlmann and Wollmann, 2014). Furthermore, they (*ibid.*, 169-171) argue that in Northern European countries parliaments have constitutional and political power to enforce the territorial structure of local governments envisaged through binding legislation. This parliamentary decision-making power harks back to the institutional history and the political culture of the multi-level system of these countries. In these countries the local government was assigned a crucial role in the local realization of the national welfare and intervention state. In contrast, the continuity and persistence of the territorial structure of local governments in Southern European countries can be largely accounted for by the path-dependent constitutional, political and political-cultural assumption that territorial changes by way of amalgamating existing municipalities can be achieved only with the consent of the affected local governmental units and their population.

Whether amalgamations result in improved democracy or increased efficiency has been the main focus of municipal amalgamation studies (Blom-Hansen *et al.*, 2012; Byrnes and Dollery, 2002; Christoffersen and Larsen, 2007; Drechsler, 2013). Amalgamation reforms are most often analysed using an instrumental or goal-oriented approach, asking if amalgamation is a good way to reach such goals as scale benefits or better service quality. Overall, the results are mixed. Aulich *et al.* (2011) state that it is clear that there is insufficient robust research to provide a sound basis for the assertion that economies of scale will

generally accompany amalgamation. Dutch scholars conclude that “we find no evidence that amalgamations enable municipalities to better exploit economies of scale. Based on our results, we cannot recommend amalgamating municipalities as an instrument to curb local government spending” (Allers and Geertsema, 2012: 1).

The political decision-making processes leading or not leading to amalgamations have been in focus much less often. This question concerns, in particular, the reforms initiated by national governments. When looking at the process, the key questions concern the actors, their motivations and the strategies they apply. We assume that the political parties are key actors in municipal amalgamations, however, empirical data concerning their behaviour is lacking in the literature. Additionally, actors such as bureaucrats, the business elite and interest groups can play a role too. Municipal reforms can be analysed as political processes. The issue is similar to the successful implementation of any reform. The potential explanation of the implementation process deals with a host of factors. First, constitutions can simply allow the national government to modify the territorial structure. Secondly, in most of the national systems there are several political parties and their divergent interests. Governments are political institutions and decisions usually concern the interests of more than one party. Political parties are also represented at both the national and regional/local level of government. Thirdly, there are a number of additional key-actors – such as bureaucrats, interest groups and experts – that may directly or indirectly affect the process. It is important to ask what kind of interplay between these actors explains whether an amalgamation reform gets implemented or not.

Amalgamation processes are seldom straight-forward. They usually create tension between the national and local level and divide the political parties. Political parties can, for example, estimate how specific reforms affect their supporters and, thus, the election results in the future. Various interest groups, including representatives of the local inhabitants, may try to influence the outcome of the process. Local inhabitants may resist an amalgamation but in some cases amalgamation is welcomed as it increases the size and visibility of a municipality. The above mentioned actors are probably the key factors in determining whether an amalgamation takes place or not.

### **The basic characteristics of municipalities in Finland**

Finnish municipalities have, like their Scandinavian counterparts, strong autonomy. This has been true especially since 1993-1995 when the municipalities were granted even more autonomy. According to the Constitution of 1999 (Section 121) "Finland is divided into municipalities, the administration of which shall be based on self-government by their inhabitants." The same section also guarantees the right of municipalities to levy taxes, but all further jurisdictions concerning administration and the tasks of municipalities are stipulated at the level of ordinary legislation and not in the constitution (Pesonen and Riihinen, 2002: 191). Municipalities are autonomous, and they both decide policies of their own choosing and carry out the duties which national legislation prescribes for them. The Municipal Administration Act of 1995 does not list any more specific municipal tasks, it only states very generally that "the muni-

pality strives to advance the wellbeing of its inhabitants and sustainable development within its area." Further state legislation makes local governments responsible for schools, hospitals, health centres and social welfare, and gives them responsibility for technical infrastructure and local planning (Pesonen and Riihinen, 2002: 192).

Municipal tasks are indeed comprehensive. According to the division of labour, the state is in charge of national safety, taxation, pensions and labour policy. There are some shared tasks within the police force but municipalities more or less take care of the welfare of their citizens. The Finnish politico-administrative system is twofold, that is, there are only two levels of government: the national and the local. There are regional actors too but these belong either to the state administration or are a part of the municipal organisation (Kettunen, 2014). This differs from other Scandinavian countries where regions (*landsting* in Sweden, *fylke* in Norway) form separate levels of government and they are independent actors chosen in elections (Kettunen, 2008).

Municipalities provide a wide range of services for their inhabitants. Usually the services or tasks are divided into obligatory and voluntary tasks. Obligatory tasks are determined by legislation and municipalities are responsible for providing these services, for example, primary care, specialist care, dental care, childcare, welfare for the aged and the disabled and a wide range of other social services ([www.kunnat.net](http://www.kunnat.net)). Although local governments vary in size, they all are responsible for arranging certain compulsory services for their inhabitants. Often the legal obligation is expressed in vague, goal-oriented language, leaving the municipality the freedom to find

their own specific way to meet the obligation (Kettunen, 1999: 334). In some rare cases the inhabitants have a subjective right to demand certain services, such as childcare, afterschool care programmes and assistance for disabled persons.

Additionally to the obligatory and most costly operations and services, municipalities provide a wide range of voluntary activities. Here the cultural activities of municipalities deserve special mention. Municipalities maintain libraries and museums, several have permanent symphony orchestras on their payroll and many support permanent theatres. Almost all municipalities provide sports facilities and other opportunities for recreation. Municipal services such as business premises and leasing services, water supply and sewage services and energy supply actually yield some revenue above their operating costs (Pesonen and Riihinen, 2002: 195).

The local income tax paid by residents, the real estate tax and a share of the corporate tax account for almost half of all municipal revenues. Each local authority decides independently on its income tax rate. The average local tax rate is 19.17 per cent of taxable income (in 2010). Fees and charges account for about a quarter of municipal revenues. Most of the customer charges are collected for services such as water supply, waste disposal, power supply and public transport. Just under one-tenth of social welfare and health expenditure is covered through customer and patient charges, while basic education is free.

The central government grants local authorities financial assistance in exchange for a wide range of statutory services. The central government transfer system evens out financial inequalities between local authorities and en-

sures equal access to services throughout the country. Central government transfers account for less than one-fifth of all municipal revenues. In line with developments in other Nordic countries, there has been a shift towards block grants in Finland also. Some claim that the differences between the level and quality of services in municipalities increased and that block grants appear to have failed to guide the municipalities to take account of national targets or local spill-over effects (Oulasvirta, 2003: 346).

The municipalities have various ways of providing services. The principal modes of providing services at the level of the local government are either in-house or purchased from another local government, joint municipal authority, association or from private companies (Kettunen, 1999: 335). One challenge of municipal services is to achieve functional cooperation between services provided by the municipality and those bought on the private market or from the third sector. The private service providers' market share is expected to increase, especially in services provided for the elderly and children and families, such as day-care (child protection, foster care and professional treatment foster homes are private) (Niiranen, 2003: 328).

Many responsibilities of a local government exceed the capacity of single municipalities (Pesonen and Riihinen, 2002: 192) and local authorities can provide services to residents in different ways. As local authorities cannot manage everything on their own, it often makes the most sense to provide services jointly with other local authorities, communities and enterprises. Inter-municipal cooperation is a common and traditional way of dealing with tasks which require a broad basis. Local authorities often set up a joint municipal authority

**Table 1.** The number of municipalities and the average number of inhabitants (years 1945-2011)

| Year | Nr of municipalities | Average nr of inhabitants |
|------|----------------------|---------------------------|
| 1945 | 558                  | 6772                      |
| 1965 | 546                  | 8370                      |
| 1975 | 477                  | 9896                      |
| 1989 | 460                  | 10814                     |
| 2001 | 448                  | 11596                     |
| 2010 | 342                  | 15716                     |
| 2014 | 317                  | 17035                     |

Source: Statistics Finland and Population Register Centre ([www.kunnat.net](http://www.kunnat.net))

to establish cooperation on a more permanent basis. Joint authorities typically provide education, social and health-care services. Several local authorities can cooperate to establish a joint health centre or vocational schools. Joint authorities include regional councils, which define regional policy, and hospital districts, which are responsible for specialised medical care.

To sum up, municipalities have broad obligations especially in the areas of education, social and health services. At the same time, municipalities are encouraged to find the best ways to provide services independently and to be flexible. This is also supported by the model of financing which relies mainly on tax income and does not earmark state subsidies for particular purposes. The decisions concerning the ways in which the legal service obligations are met are made by local politicians, municipal staff and their representatives. These decisions are also affected by realities. If there are no private producers in the area, a rural municipality may only have a theoretical option of an alternative way of providing a service (Kettunen, 1999: 339).

The way the state guides municipalities changed. In the 1980s the guidance was strict but since the mid-1990s the opposite has been true. In other words, besides legislation, which is seldom binding in detail, the state authorities primarily distribute information and in that way aim to guide the municipalities. Since the late 1990s and the first decade of 2000, there have also been a number of government programs implemented in the areas of social and health policy. Thus it can be argued that the guidance is closer now when compared to the 1990s (Kettunen, 2012).

### **Amalgamation policy**

Starting from its national independence in 1917, the size of municipalities was always an issue on the political agenda throughout Finland's history. Despite political efforts to set a minimum size for local governments, only very few changes took place. A more radical wave of amalgamations, however, took place in the early 1970s as a reaction to a government committee's proposal to cut the number of local governments. As Table 1 reveals, similar radical

changes have happened recently as well. In the last ten years about one-fourth of municipalities amalgamated with others. Table 1 shows the changes in the number of municipalities.

In the last five years, half of the small municipalities which had less than 5000 inhabitants amalgamated with others. The Finnish municipal structure is characterised by small municipalities. This has long been considered a problem and several committees have proposed cuts in the number of municipalities (Kettunen, 2008). The amalgamations realised so far occurred on a case-by-case basis and the decisions whether to amalgamate or not were made by the municipalities themselves, not by the national government.

However, in 2005 the national government came out with a new, much more radical proposal than before. The principal goal of the reform was to strengthen the municipal economy and improve the capacity of municipalities to provide services (Government Proposal, 155/2006). Additionally, the aspect of equality was also included: larger municipalities mean improved services for all inhabitants by diminishing the boundaries between affluent and poor municipalities. It was also maintained that municipal expenses would rise in the future due to the expanding elderly population and surging health costs. The key to solving these problems was seen in reducing the number of small and hence weak municipalities. As voluntary amalgamations had only marginally affected the number of municipalities before 2005, the reform programme was launched to hasten the process (Kettunen, 2008: 70-71; Government proposal, 155/2006).

According to the 2005 reform programme the municipalities were told to

reorganise their social and health services if necessary so that they could serve a population of 20 000 or more. Municipalities were also obligated to rearrange vocational education too, but in this case the size of the population to be served was set at a minimum of 50 000. Amalgamations were not the only way to rearrange services; municipal cooperation was encouraged as well. This was a compromise compared to the original reform plans of the government (Sandberg, 2010). Amalgamations were favoured by the government, as it can be seen from the fact that state subsidies were paid to the amalgamation partners. Although municipal amalgamations were not compulsory, the implicit value of economies of scale was strengthened by binding state subsidies to a diminishing payment rate, that is, the faster municipalities joined together, the higher the subsidies. The grant was 1.8-fold if the merger became effective at the start of 2008 or 2009 and 1.4-fold if the merger was carried out at the start of 2010 or 2011. The law stated that 2013 would be the final year when compensations could be paid, which encouraged local governments to act quickly (Kettunen, 2008: 73). The state subsidy system clearly played a role as the sums were considerable. Additionally, to make it easier for the municipalities to accept amalgamations, staff working for the municipalities was given a five-year immunity from redundancies.

The newly-enacted law started a process whereby municipalities were required to submit plans to the Ministry of the Interior regarding how they planned to rearrange services by the end of August 2007. This order resulted in a wave of negotiations between municipalities. The state did not guide the process so the negotiations often had twists and

turns. Negotiations did not always end in amalgamation and occasionally had to be restarted with a different group of municipalities. According to the legislation, the municipal inhabitants could be asked their opinion but this was only consultative, not binding. All participating municipalities (councils) had to agree on the details and sign an amalgamation plan. Thereafter began the lengthy process of integrating practices. The differences could be trivial but they also reflected the deeper cultural differences of the municipalities. Finnish amalgamations generally included two to ten municipalities. Regarding joint organisation, the main issue was how the services were going to be reorganised. In the original formulation of the reform law, health services and social services closely related to health were to be provided jointly. Several municipalities, however, found ways to continue as before and have the joint level only formally. Thus in 2011, the law was amended and according to the new formulation all social services had to be structured so as to serve 20 000 or more inhabitants (Virkki *et al.*, 2011).

In February 2012, the government presented a further reform plan (Kuntaudistus, 2012). The aim was to continue the reform and further diminish the number of municipalities. Although the number of municipalities declined, the increasing use of inter-municipal networks was criticized. These were considered to be undemocratic and organisationally unclear (Kuntaudistus, 2012). Undemocratic because the decisions were made by an inter-municipal organ, the members of which were usually nominated by the municipal assembly and not directly elected by the inhabitants. In other words, seen from the viewpoint of the local inhabitants the decision-makers were further away. Joint authori-

ties were also argued to be organisationally unclear because inter-municipal organisations can have very different organisational designs which are not necessarily transparent to local inhabitants (Kettunen and Teles, 2015). By March 2015, at the advent of the parliamentary elections the amalgamation reform seemed to have paused for a moment.

Although the reform clearly had some drawbacks, its level of success needs to be investigated. At the beginning of 2012, which was supposed to be the final year of the reform, the results of the re-structuring were mixed (Kettunen and Sandberg, 2011). On the one hand, there were a record number of amalgamations with the year 2009 witnessing an all-time high. At the beginning of the reform, only a fourth of all municipal health centres met the population criteria (20 000), whereas after the reform this was the minimum population a health centre ought to be able to serve. However, larger cities were often unable to amalgamate with the surrounding municipalities and thus, from the viewpoint of increasing the coordination capacity of municipalities, the changes are insufficient. Additionally, the high number of municipalities preferring cooperation instead of amalgamation was not welcomed by the reformers.

The reform did not involve all Finnish municipalities. Firstly, the bigger ones (having already more than 20 000 inhabitants) were not obliged to take action unless smaller neighbouring municipalities joined them. Secondly, the law allowed remote archipelago municipalities and those having a considerable Swedish speaking minority to remain outside the reform. Finally, a number of municipalities simply refused to join the reform. By early 2015, the number of



municipalities declined to 317 from 448 in 2001.

Next, the analysis will focus on the amalgamated municipalities and the subsequent rise of the average size of a municipality. Afterwards, the paper will deal with the consequences of the municipal reform. A particular emphasis is put on the issues of democracy and efficiency.

## Discussion

When summarising the analysis of the Finnish local government reform, one can put emphasis either on the process or on the results of the reform. In the following the paper will deal with both aspects, beginning with process.

### *Process*

The Finnish amalgamation reform was a largely top-down process. There were no compulsory amalgamations but the campaign was run by the Ministry of Finance and municipalities in general were unhappy with the process. We can clearly delineate the advocates and opponents of the reform. Table 2 presents the groups.

Political parties are an interesting actor group. The Local Government Reform Act was widely supported in the parliament. In the 2011-2015 government six, later four, government parties were strongly in favour of amalgamations. Of the four in opposition, only two – the Centre, and the True Finns – were clearly against forcing the municipalities to merge. National level bureaucrats were clearly for amalgamations. Their main argument was usually services and the problems caused by differences in local government economy, size and viability.

Local governments were divided. The 2006 reform was a sort of green light for a number of municipalities, mainly cities, to achieve their wish to grow. The number of inhabitants in a Finnish municipality seems to signify higher status. For most of the municipalities it was not understandable why, for example, a well-working little health centre should be replaced by a complicated inter-municipal cooperation. The scientific community was divided as well. For some scholars, an optimal size of municipality exists. For others, there is no such thing, the suitable size of a municipality is a contingent issue. Citizens preferred or

**Table 2.** Advocates and opponents of the amalgamation reform

| Actors                                      | Advocates                    | Opponents                     |
|---|------------------------------|-------------------------------|
| <b>Political parties:</b><br>national level | Government parties           | Opposition parties            |
| <b>Political parties:</b><br>local level    | Mostly parties in cities     | Mostly parties in urban areas |
| <b>Bureaucrats:</b><br>national level       | Ministries                   | Urban vs. rural               |
| <b>Local governments</b>                    | Most cities                  | Majority of municipalities    |
| <b>Researchers</b>                          | Economists, local scientists | Political scientists          |
| <b>Citizens</b>                             | Urban                        | Rural                         |

rejected amalgamations based on their location.

The national government persuaded municipalities to amalgamate without using force. Sandberg (2013) compared the Danish and Finnish amalgamation reform and argues that there are some differences between them. In Denmark, the process was managed in a more top-down fashion. The municipalities could choose the partner but not whether to join or not. Additionally, the municipalities were given new tasks, which did not happen in Finland. Sandberg (2010) explains that in Finland the relatively high number of amalgamations can be explained by a number of factors. Firstly, the political parties which traditionally resisted anything suggesting obligatory amalgamations were silent and accepted the reform. Secondly, although inhabitants, especially of small municipalities, generally resist amalgamations, amalgamations also provide benefits for local decision-makers and bureaucrats. Larger municipalities offer more lucrative positions for both of these groups. Thirdly, in many cases small, rural municipalities motivated by economic reasons simply searched for relief in the form of an amalgamation. Finally, Finnish municipalities are constitutionally protected. Hence, a brief explanation of the reform is that local governments had the right of making the final decision. In other words, the high number of amalgamations reflected an underlying urge to construct larger entities and the merging municipalities gladly used the opportunity. If such an urge was missing, the municipalities chose to cooperate with others or rejected the reform altogether.

#### *Instrumental view*

The second analytic question was if the municipal reform achieved its goals. Firstly, there were many goals and it

would have been impossible to achieve all of them. The primary goal of the reform was to create stronger municipalities which are able to provide high-quality services to citizens. Bigger does not necessarily mean stronger. Being a large-scale reform it is not surprising that it was evaluated comprehensively. The main evaluation, entitled Arttu ([www.kunnat.net](http://www.kunnat.net)), has so far produced more than ten volumes of evaluation reports. Another piece of evaluation focused on social services (Virkki *et al.*, 2011). Together these evaluations tried to shed a light on the consequences of the reform. As a programme, the municipal reform poses some challenges to a would-be evaluator. Firstly, the goals of the reform are broad and they are not always followed by measures. Secondly, the reform is characterised by a complicated structure since the goals were set at the state level, while it was implemented at the local level. In other words, the question is if the aim of the program was to push the municipalities toward certain measures or rather to suggest a selection of measures. According to Kettunen and Sandberg (2011) the reform should be interpreted more as a dialogue rather than a centrally enforced reform process.

In the following part of the paper the municipal reform is analysed from three different perspectives: economies of scale, democracy and other consequences. The last perspective includes such consequences as quality of services, visibility of municipality and transaction costs, which all can play a role when evaluating the overall success of a particular reform. The main goal of the reform was to strengthen the municipalities. The motivation of the reform was to guarantee that municipalities can provide the wide range of services they are legally obliged to provide. That is why it was required

that social and health services, a major responsibility of the local governments, should be made available for at least for 20 000 inhabitants. To fulfil this obligation many municipalities joined inter-municipal networks.

Is size, however, the only factor in viability? To what extent is there evidence for the scale argument? If scale is a decisive factor, we should be able to show that the larger a municipality, the better it functions in economic terms. First, it is important to clarify what municipal economics is about. Municipalities produce and provide a large number of services and this, more precisely the staff costs associated with the services, is the main expenditure in the municipal budget. Therefore, we could compare the efficiency of service provision in small and large municipalities and draw conclusions from our findings. This perspective would, however, be misleading as it is more focused on the services than on the municipality as such. In other words, both small and large municipalities can provide services efficiently, if the provision of these services is well organized. Larger municipalities with a large territory often face the challenge of providing services to all inhabitants equally. On the other hand, large municipalities may be more successful in finding an optimal relationship between costs and services (school, health centre, etc.) compared to a small one. To sum up, we could probably find efficient service provision both in small and large municipalities.

The second point to discuss within the topic of economies of scale requires an analysis of the municipal economy. Vakkuri *et al.* (2010) argue that local governments are economic entities. Viewed from the perspective of local economic conditions, large cities in the

centre of the economic zone and the surrounding densely populated, urban municipalities are in the best position. Their population is growing and it is younger than the country's average. Additionally, when compared to the municipality's total population, the share of employed workforce is greater than the average. These municipalities have potentially good prospects for local economy. In contrast, the prospects for local economy in a rural municipality are clearly less favourable (Vakkuri *et al.*, 2010: 16). There are research findings which suggest that both small and very large municipalities can be ineffective. The small ones are inefficient because they have to provide services for a small number of inhabitants. The very large ones can also be inefficient because of a number of issues, such as social problems typically concentrated in cities. In other words, a healthy economy is not directly dependent on size.

Reviewing the economic prosperity of Finnish municipalities we can clearly see that both larger and smaller municipalities can be prosperous. Local authorities with a weak economy (Vakkuri *et al.*, 2010: 16-17) typically have a negative annual income. Other problems include a high tax rate, accumulated budget deficit and an increase in the amount of loans, which often makes it necessary to resort to discretionary government transfers. It seems, however, that mergers between financially weak local authorities do not automatically result in a strong local authority with a balanced economy.

Finally, if large local governments are economically more successful, we should be able to observe this in the existing municipal structure, meaning that size and efficiency go hand in hand. This question was studied by Eero Laesterä

(2010) who researched municipal economies using the concept of risk. Numerous municipalities were characterised by a low tolerance of risk and large dynamic risks. These municipalities appear to be those which are losing population, whose population is ageing and whose future expectations are otherwise low. To conclude, municipal size and efficiency do not go hand in hand; efficiency is determined more by the dynamics of the municipal economy. Small municipalities may benefit from an amalgamation but amalgamating weak municipalities does not create a strong one, instead it gives temporary relief. Kallio *et al.*, (2011) point out that during the first few years municipal mergers give rise to additional expenses, while the benefits are realised gradually after a few years if the new municipality can take advantage of the productive potential associated with the merger. All in all, the studies on municipal economies have by and large concluded that it is not size alone that makes a difference.

Another goal of the reform was to improve democracy. But how can a top-down amalgamation reform improve democracy? The question of democracy and size of the municipality is a broad one. Most often the concept of local democracy refers to the relationship between the inhabitants and the local decision-makers (Burns *et al.*, 1994). In this context, issues such as legitimacy, trust and participation are being discussed. Additionally, the question can be approached from the viewpoint of decision-makers. Are larger municipalities more difficult to manage, and is the power in these municipalities moving towards the bureaucrats and/or upwards to the state? Both of these aspects shall be discussed in the following discussion.

Starting with the question of participation and local inhabitants we can ask whether large municipalities are less democratic than small ones. There is no straightforward answer to the question. Small and large municipalities are somewhat different from each other. In small, rural municipalities it is easier for the inhabitants to contact politicians personally and be involved in the decision-making process. In larger, urban municipalities, however, the relationship between the politicians and the inhabitants is more distant and measures such as demonstrations and writing in newspapers are more common ways of contacting politicians than being in personal contact. The inhabitants in small municipalities generally feel that they have more influence on and trust in local politics than the inhabitants of large municipalities (Pekola-Sjöblom, 2011). At the same time, small, rural municipalities can be less open to various opinions than large ones. Sandberg (2010) points out that in about one hundred Finnish municipalities there is only one political party holding the majority of the seats in the council. Similarly, while there are on average 2-3 political groups present in small municipalities the number is 5-7 in large ones.

Another important topic to consider is the one of local decision-makers. In large municipalities the councillors spend more time on political tasks than in small ones, there are more candidates in local elections and there are more political groups. On the other hand, the councillors in small municipalities are perceived to have more power (Pekola-Sjöblom, 2011). All in all, small, rural and large, urban municipalities differ in their political set-up, and both types have their strengths and weaknesses. In other words, it cannot be easily proven that

amalgamations and the consequential growth of the size of municipalities endangers or worsens democracy. Amalgamations change the nature of local political life and there are risks that the formerly independent municipalities, now suburbs of the new municipality, and their inhabitants feel less powerful after the change. At the same time, new, larger municipalities may offer a different, more open basis for political life, and can thus improve democracy.

The final topic in our discussion on democracy concerns the reform process. The question is whether this sort of centrally directed process that restricts the choices of local governments corresponds to the autonomous position of municipalities. The evaluations of the municipal reform so far have not provided evidence on a change of democracy in the amalgamation process. Instead, they provide tools and criteria to assess the changes. A plausible assumption is that amalgamations affect democracy both positively and negatively. The positive effects have to do with the diversification of the political values in the larger municipalities. The negative effects have to do with the diminishing of the number of councillors and the losses having to do with the disappearing of municipalities as a basis of identity.

Thirdly it is important to ask whether amalgamation was a relevant way of tackling the underlying problem of the vulnerability of municipalities. The above delineation suggests that it was not. The economy of a local government rests on sufficient incomes and reasonable expenditures. This is not a question of size. Reforms usually have both positive and negative side-effects as well (Vedung, 2000). Amalgamations de facto mean that the average size of municipalities increases. This means that the

practices of large municipalities are replacing the practices of small municipalities. The new larger municipalities are not simply agglomerations of the former small municipalities but in many ways qualitatively different. Instead of a small staff and informal relationships the larger municipalities rely more on formal procedures, electronic monitoring systems and more specialised approach to services (Virkki *et al.*, 2011). The practical result of amalgamations is that civil servants of small municipalities are forced to adapt to the culture of large municipalities.

## Conclusions

The municipal reform in its current phase is strongly based on the idea of economies of scale. Larger municipalities are usually held to be more vibrant than small ones and it is presumed that they are able to coordinate services better. These assumptions are only partially true. It is true that a large unit has a better coordination capacity than a small unit. Larger units are also economically less vulnerable than smaller ones. The basic question, I would argue, is the economic strength. This is where amalgamations provide poor results. In order to discuss this more in detail it is important to look at the dynamics of local government costs and revenues.

Municipal revenues are based on taxes, subsidies and fees. Out of these the latter two are relatively fixed. The state subsidies are based on a number of indicators which the municipalities cannot affect. Fees as a source of revenue have limits as well. This leaves taxes which, after all, are the most important source of revenue for the municipalities. Taxes are paid by both inhabitants and enterprises. There are possibilities to

shape these sources by economic policy, housing and by various services which could attract well-to-do people to the municipality. Larger municipalities can be more attractive to enterprises and taxpayers. They are more visible and large municipalities offer more public and private services. On the other hand, there are certain limits as well. Enterprises, in particular, are mainly influenced by domestic and international markets and these cannot be manipulated very much by the municipalities. Municipalities can also do relatively little to decrease costs. Municipal tasks are mainly affected by legislation and compulsory tasks, and the comprehensive welfare services are often seen as something municipalities are not willing to cut. Health care is one of the tasks that significantly increases costs and it is not an easy area to find savings in. If the markets and demographic changes do not enable municipalities to collect a sufficient level of income, the only solution seems to be to introduce some form of regional policy and a state-led policy of guaranteeing equal opportunities in the different parts of the country.

When it comes to democracy the conclusions are uncertain. Democracy was not a central goal of the reform except for the aim of simplifying local structures and diminishing the role of joint authorities. There is, in this case too, an alternative way of looking at the question of democracy. The discussion needs to start at the Local Government

Act of 1995, according to which municipalities are responsible for the wellbeing of their citizens. This does not only mean a responsibility for providing services but also a strategic approach to the wellbeing of the inhabitants. This entails decisions concerning the way social and health services are provided, the goals and emphases of welfare policy and other choices concerning the use of resources. Strategic thinking requires local discretion which the current reform does not emphasise. The current municipal reform has brought insecurity and turbulence to the municipalities with the decisions on how to develop services coming from above.

Following Drechsler's (2013) line of thinking, we can say that coercive municipal amalgamations are not democratic, especially if the constitution speaks of autonomy. In the Finnish case the national government pointed out the weakness of small municipalities. This is, on the one hand, correct, on the other hand, smallness can be counter-balanced by the means of inter-municipal cooperation or by the help of private providers. Finnish amalgamation reform is centred on the question of compulsion. So far with very few exceptions amalgamations have been voluntary. Even with the precise demands for social and health care, amalgamation is not the only option available for the municipalities. If this border-line is surpassed, the rules of the game change totally, which may seriously erode local responsibility.

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## Reforma lokalne samouprave u Finskoj

SAŽETAK Članak za cilj ima evaluaciju procesa spajanja lokalnih jedinica, jednog od načina reformiranja lokalne vlasti, putem dva kriterija – prema efikasnosti u proizvodnji usluga i prema unaprjeđenju demokratičnosti. Navedeno se primjenjuje kroz studiju slučaja Finske, s obzirom da je spajanje lokalnih jedinica mnogo češće u Sjevernoj Europi. Autor donosi pregled studija spajanja lokalnih jedinica u svijetu i opsežnih evaluacijskih izvještaja reforme u Finskoj. Rad politiku spajanja lokalnih jedinica razmatra iz dvije perspektive – instrumentalne, one orijentirane na ciljeve reforme te iz procesnog aspekta. Nalazi o velikom broju slučajeva spajanja lokalnih jedinica u Finskoj su sljedeći. Glavne faktore u procesnom aspektu čine političke stranke koje su većinom podržavale reformu te ishodišna potreba za stvaranjem većih entiteta zbog koje su lokalne jedinice iskoristile priliku. Efikasnost nije nesumnjivo unaprijeđena, s obzirom da se efikasna proizvodnja usluga može pronaći i kod malih i kod velikih lokalnih jedinica. Efikasnost je više određena dinamikom lokalne ekonomije, nego što isključivo veličina lokalne jedinice čini razliku. Također, spajanja lokalnih jedinica mijenjaju prirodu lokalnog političkog života, što ima i pozitivne i negativne efekte na razinu njihove demokratičnosti.

KLJUČNE RIJEČI spajanje (amalgamiranje) lokalnih jedinica, veličina lokalnih jedinica, efikasnost, demokratičnost