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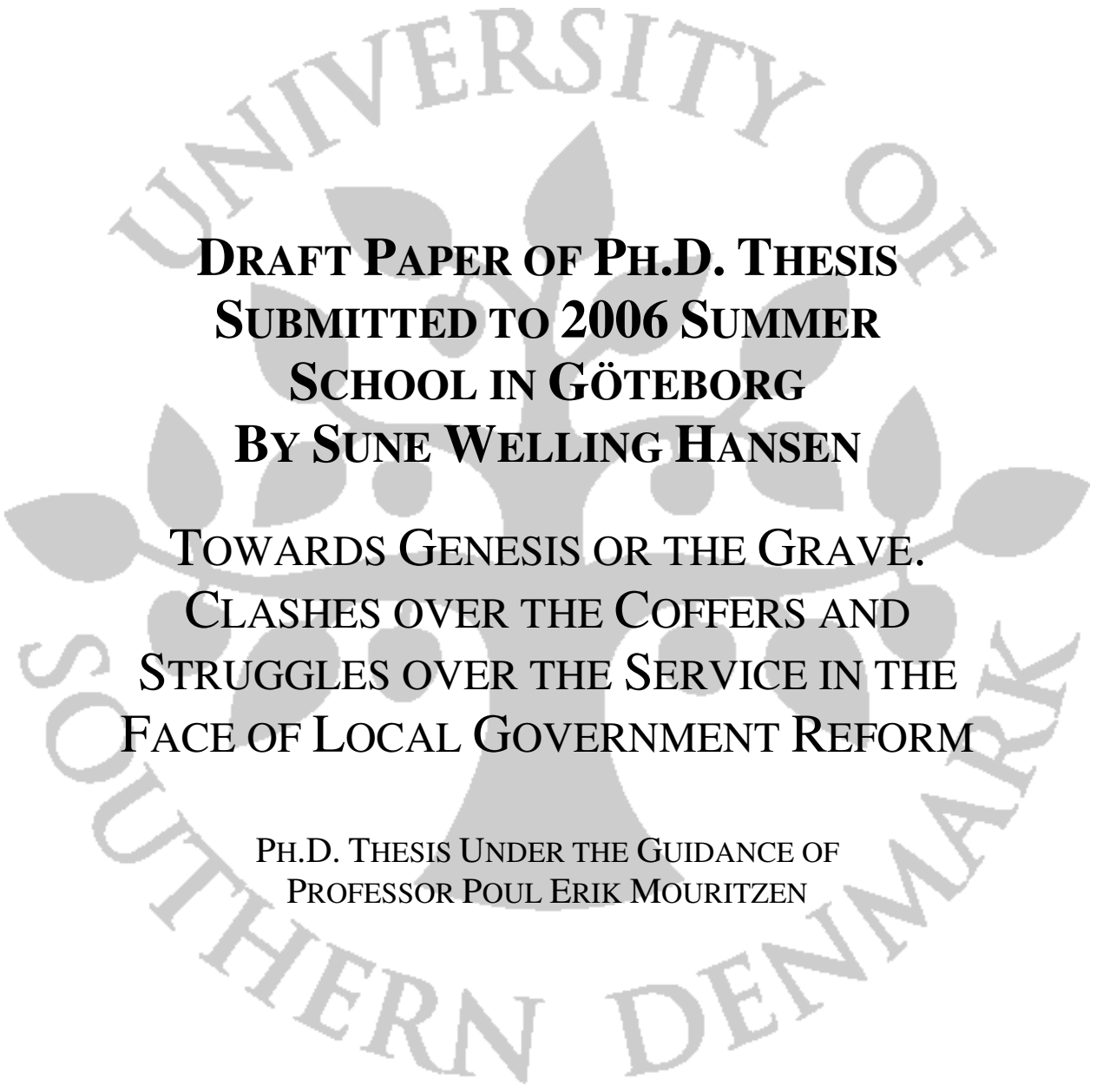
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**DRAFT PAPER OF PH.D. THESIS
SUBMITTED TO 2006 SUMMER
SCHOOL IN GÖTEBORG
BY SUNE WELLING HANSEN**

**TOWARDS GENESIS OR THE GRAVE.
CLASHES OVER THE COFFERS AND
STRUGGLES OVER THE SERVICE IN THE
FACE OF LOCAL GOVERNMENT REFORM**

**PH.D. THESIS UNDER THE GUIDANCE OF
PROFESSOR POUL ERIK MOURITZEN**

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PREFATORY REMARKS ON DRAFT PAPER

This the paper that I submit to the 2006 Summer School in Göteborg; and the following prefatory remarks are written as a reader's guide to what is more the point of departure for my Ph.D. thesis than an actual paper. This owes itself to the fact that I have only been a Ph.D. scholar since April 1st of this year.

I have included a number of chapters with no actual contents but instead a short description of what they will contain when written sometime in the future. This is done so as to give the reader an idea of the structure in the thesis and thus also the author's overall chain of reasoning.

The symbol '#' can be found on numerous pages of the paper and simply denotes a missing source or a point as of yet not completely written. I have tried to limit the presence of these flaws in the paper but plenty still remain, and you should disregard these.

Chapter 2.1 is of lesser importance compared to the remaining ones, but is included to provide the reasoning behind my research design as elaborated in Chapter 2.2.

On a final note, the paper almost exclusively deals with only one of the two problematiques that my thesis eventually will cover, i.e. *resource allocation* (the second being *service adaptation*).

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On Geppetto and the Pinocchios

”If politics is regarded as a conflict over whose preferences are to prevail in the determination of policy, then the budget records the outcome of this struggle”,

Wildavsky, 1986: 9.

#Use quote from Pinocchio

To quote Wildavsky, budgeting is the life blood of government and in his words, the budget provides us with the annals of the great battle for the pieces of the societal pie – or in Lasswell’s terms: the political struggle for who gets what, when and how (#). But much can be said for instead referring to both budget and government in plural, as citizens from all parts of the world daily are confronted with a bewildering array of public authorities that enjoy more or less autonomy from their respective Capitol Hills; talk of the budget in singular therefore seems ill guided, at best. This is surely true of the case under investigation here – Denmark, if not generally: Scandinavia – where local authorities account for the torso, arms as well as the legs of the welfare state, figuratively speaking – and that quite irrespective of how we may try to measure it. But without the head, the body is of little use, and this is where capitol hill enters the picture; in metaphorical terms, the structure of the Danish public sector is one of a plethora of more or less autonomous Pinocchios, until recent times 282 counties and municipalities but now 103, and one Geppetto, the state, with a lot of strings to keep track of – and disentangle if things should go awry. Expressed in different terms, a decentralized system presupposes the marriage of two very different logics often at odds with each other: that of centrally held macroeconomic responsibility, Geppetto’s unceasing worrying for his wooden son, with local autonomy and local accountability, the easy-living Pinocchio unceasingly

trying to break free from the strings that constrain him¹. This is potentially a recipe for trouble, and as we shall see, very much validates Allison's claim that where you stand depends on where you sit (Allison & Zelikow, 1999) – which in this case means either behind a desk on capitol hill or in a town or county council farther from the pinnacles of power. But perhaps this view is a bit too antagonistic: metaphorically speaking, the relationship between the aforementioned can probably better be understood as similar to the Confucian concept of yin and yang: as complementary opposites (Wikipedia, 2006); that is, a necessary and also beneficial antagonism. Furthermore (as also elaborated in later chapters), although each depends on the other, their interests, concerns and so forth are neither in perfect overlap nor mutually exclusive – but rather somewhere in between². The discrepancy between these two logics (or lack thereof) is the point that this thesis pivots around, which brings me to its subject matter.

The fundamental structure sketched out above seems a fair representation of both the past (at least post-1970), present and future Denmark, albeit she recently was subjected to strong winds of change – winds instigated by a slim parliamentary majority in the summer of 2004. After a long night of wheeling and dealing in the Ministry of # (#find newspaper article), Denmark woke up to the second complete remapping of her

¹ An example on the presence of the latter but absence of the former is that of the regional authorities in Brazil in the #late 1990s and the troubled waters that this course left for the then incumbent Government (#).

² Or expressed by way of familiar examples from the world of economics: this situation is not one of win-win, the example par excellence of one such being free trade as propagated by the writings of Adam Smith and David Ricardo (or put game-theoretically: a plus-sum situation. However, it is also not win-lose as in protectionist measures as propagated by List and his writings on infant industries (do.: a zero-sum situation).

communal landscape in the relatively short span of just four decades. What happens when a decentralized system like the Danish is subjected to fundamental reform? That is the subject matter of this thesis, more specifically the winds of change that the current local government reform will usher in for all concerned parties at both central and local levels. As Ejersbo has noticed, when it comes to reform efforts, large as small,

“[t]he typical picture is one of great uncertainty about what the result of a reform will be. And the larger the reform, the larger also the uncertainty... Reforms are rarely as rational and clear as the promoters of reform pretend them to be – on the contrary... Generally speaking, our knowledge and ability to comprehend reforms and their effects is far from as comprehensive as the impression given in connection with the launching of the reforms”.

(freely translated from Ejersbo, 2005).

Then, uncertainty seems to be the keyword as for the effects of the reform currently underway in Denmark, and lots of it given its size and scope! This is further compounded by our lack of knowledge about the previous local government reform, which received only scant attention scholarly back in the 1960s and 70s. This very much makes the thesis a journey into uncharted waters albeit navigation is eased well underway by the knowledge that *does* exist on the matter, theoretically and empirically. This leads us to the specific questions that the thesis will try to provide answers for.

1.1 MACROCHANGE AND MICROBEHAVIOR – OR: STRATEGIZING IN THE LARGE AND THE SMALL³

Although fundamentally different from its predecessor in a number of respects, this second local government reform has also had communal amalgamation at its centre which brings us to the first part of this thesis’ explanandum: *the municipalities’*

³ The terms used in this caption are similar to those of Schelling (#).

and counties' financial behaviour in the time leading up to the local government reform. Specifically, 234 of the current 268 municipalities will be amalgamated into 64 new ones, leaving 34 unaffected and giving a total of 98 new ones per 01.01.2007; furthermore, the 14 current counties will be amalgamated into 5 new regions⁴.

When the higher powers engage in the sport of heresthetics (Riker, 1986)⁵, tinkering with the rules of the game and limiting future admittance to the table (specially to a 103 local authorities plus the government), then the players denied access can be expected to behave very differently from those that aren't. Stated in different terms, heading for the dustbin of has-beens can lead to decidedly myopic and short-sighted behaviour in spite of its longer-term consequences. Conversely, those who retain their seat at the table should not experience such a displacement, because they can expect to see the morning sun for the many days to come. In contrast to its forty-year-old likewise bourgeois predecessor, the incumbent government has been all too aware of these 'perverse' incentives, and has instigated various countermeasures to circumscribe any such financial wholesale in 'the locals'. Regardless of the effects of these considerations, I forward the following problematique for theoretical deliberation and empirical investigation:

Problematique A: does the municipalities' and counties' financial behaviour stand out in the period leading up to the second local government reform – and if so then why?

As will be explicated in later chapters, the measuring rod for 'standing out' will be both temporal and spatial. The

⁴ Three local authorities are designated as both municipalities and counties, i.e. Copenhagen, Frederiksberg (which is encapsulated by the first-mentioned) and Bornholm.

⁵ Or 'strategizing in the large' if one will (Shepsle & Bonchek, 1997). The definition of heresthetics is # (#Riker).

problematique thus focuses on the new municipalities' and counties' financial standing at their moment of (re-)birth; and this thesis will try to answer how sound that foundation will be in addition to why.

This brings us to the second part of the explanandum: *the local government reform's implications for the service provision in the new 103 local authorities, both during its implementation as well as afterwards*. As likewise explicated in later chapters, there are several reasons why we should expect to see higher service provisions (and expenditures) in those new authorities that are formed on the basis of amalgamations; that is, a convergence towards the highest common denominator among the groups of amalgamating authorities. Conversely, the incumbent government and several of its predecessors have for a number of years preached as well as practiced fiscal restraint at all levels in the public sector – even more so in recent years; this speaks in favour of expecting a convergence towards the lowest common denominator among the amalgamating authorities. Disregarding the effects of these considerations, the second problematique thus focuses on the reform's implications for the new authorities' expenditure levels, be they intended, unintended or perhaps unforeseen:

Problematique B: will the second local government reform affect the levels of service provision and thus expenditures in the municipalities and counties – and if so then why?

Although distinct in their own right, the common denominator between these two problematiques is that they both concern financial issues in the new local authorities. Expressed in a single sentence (and admittedly, somewhat pessimistically), we might with good reasons fear that the new amalgamated authorities will be poorer *and* more expensive

compared to their predecessors; and that is the concern that this thesis will try to substantiate or put to rest⁶.

1.2 ON CHOICE OF THEORY

As the old saying goes for the bride to be, she should dress in something old, something blue, something borrowed, something new. Apart from the third accessory, this platitude is a fair representation of the author's theoretical standpoint which stresses eclecticism, although retaining a theoretical core as the common denominator: that of game theory. This stance is easily justified for although much can be said for staying within a single, well-defined theoretical framework, taking a more pluralistic stance arguably alleviates thinking 'outside the box' – and thus letting one's own imagination set the theoretical boundaries instead of having those prescribed to you via the imaginations of other scholars in the field. Returning to the core that will take on the role of theoretical common denominator, game theory (as utilized in *collective action theory*): this increasingly popular branch within positive political theory can be said to highlight factors not particular to a given subject matter, i.e. its contextual, sui generis properties; instead, it highlights the 'decontextualized' elements that often are quite endemic to human agency in general, i.e. "elemental conflicts" (Poundstone, 1992). This is where some people err (though quite understandably) when they think of game theory more as a formalizing tool than an actual theory; for that it is albeit analyzing something as general as the number of players or the order in which they choose, might very well seem atheoretical. Furthermore, this thesis is more outcome- than process-oriented, so to speak, focusing less on modelling and understanding the bargaining processes in the subject matter, and more on the resultants of those negotiations. However, one must, if not always then often, include aspects of the former to

⁶ or in the great tradition of the social sciences: perhaps a bit of both.

understand how the latter have come about – and this I therefore do.

1.3 THE BIRD'S EYE VIEW: EXAMINED CAUSALITIES

Future content: a verbal and graphical overview of the causalities examined in the thesis, along with the specific hypotheses forwarded for empirical investigation.

1.4 CONCLUSIONS

Future content: the conclusions of the thesis.

1.5 ON MATTERS OF FORM

Future content: various comments, for example that all citations from interviews have been translated *freely* by the author, and so forth. Also, I refer to all sections as chapters, i.e. Chapter 5, Chapter 5.1, Chapter 5.3.1 etc.

I. METHOD, DATA & THEORY

2 MATTERS OF METHOD AND DATA

This chapter takes its point of departure in outlining the ontological and epistemological weltanschauung of the thesis, and then proceeds to explicate its research design. Next follows an account of the subject matter: the Danish public sector from its past, over its present and (near-)future. Finally, the first part is concluded by an examination of the theoretical common denominator between the two problematiques, whereas their additional, unique aspects are treated separately in later chapters.

2.1 BALANCING ACT: FINDING COMMON GROUND BETWEEN PARSIMONY AND CONTEXTUAL NOISE

“Each [theory] begins [its] analysis from a particular assumption that determines the kind of question that they ask, and therefore the answer they find. They are like ... toy trains on separate tracks, travelling from different starting-points and ending at different (predetermined) destinations, and never crossing each other's path”,

(Strange, 1994).

Unlike most of her academic cousins, the social sciences concern themselves with relations among humans, and that regardless of the various disciplines' and schools' differing areas of interest (economics, politics...), levels of analysis (individuals, organizations, states...) and so forth. Furthermore, just as we all were told in kindergarten that each and everyone of us was something special, likewise has every man-made event its very own element of sui generis, its peculiar circumstances and idiosyncratic aspects. However, I venture the assertion that the social sciences generally is less concerned with this ever-present contextuality, on the contrary; expressed in the well-known terms of set theory, we are mostly interested

in an event's intersection with something else, whatever that may be (Morrow, 1994) – that is, those patterns and tendencies that can be registered across a range of select events along a temporal and/or spatial dimension. If we in this way view reality as black and white, then we can say that where the humanistic historian posits that everyone is a product of their own time ('time' interpreted rather broadly), the social scientist conversely tries to see the wood for the trees (1998; Kurrild-Klitgaard, 1996; Stoker, 1995). Despite how unreasonable this stereotypical world view might seem, it still reflects a classical weltanschauung in the social sciences – one that typically is accredited Friedman and his assertion, that

”[a] hypothesis is important if it “explains” much by little, that is, if it abstracts the common and crucial elements from the mass of complex and detailed circumstances surrounding the phenomena to be explained and permits valid predictions on the basis of them alone. To be important, therefore, a hypothesis must be descriptively false in its assumptions; it takes account of, and accounts for, none of the many other attendant circumstances, since its very success shows them to be irrelevant for the phenomena to be explained”,

(Friedman, 1953).

Focus this viewpoint is on the subject matter's intersection (or: common denominator) with something else, 'the common and crucial elements', rather than the historian's 'mass of complex and detailed circumstances surrounding the phenomena' (see also Morton, 1999). This parsimonious weltanschauung has over time gained a secure foothold in the social sciences and so has *ceteris paribus* assumptions, i.e. assuming that all other things are equal (Morton, 1999). But this should not blind us from the fact that this is true *any* theoretical stance! (Stoker, 1995)(# King et al, 1994: 49). Gone are the days where social scientists believed that they could (and should) capture the entirety of reality in a single theory from their ivory towers – although Marx, for instance, indeed gave it a good try (Strange,

1994). The point is that one's choice of 'toy train' in Strange's words, prescribes both how (epistemologically and methodologically), what and where we analyse (ontologically), in addition to informing us as to why; this renders theory a selective enterprise, choosing inter alia level(s), event(s) and actor(s) ex ante to analysis; or as one professor from the author's institute elegantly put it: "theory is the differences, that you think make a difference" (Nørgaard, 2006). Illustrating the point by way of example, King et al express it in the following manner:

"[C]onsider a six-inch toy model of an airplane made of plastic and glue. This model is a small fraction of the size of the real airplane, has no moving parts, cannot fly, and has no contents. None of us would confuse this model with the real thing... The key feature of a real airplane that this model abstracts is its shape. For some purposes, this is certainly one of the right features. Of course, this model misses myriad details about an airplane, including size, color, the feeling of being on the plane, strength of its various parts, number of seats on board, power of its engines, fabric of the seat cushions, and electrical, air, plumbing, and numerous other critical systems. If we wished to understand these aspects of the plane, we would need an entirely different set of models",

King et al (1994) pp 49.

What you choose to focus on obviously depends on your subject matter. This necessity for a toy train or plane to keep us en route was also emphasized gracefully by the aforementioned professor, for as he remarked, "everything affects everything, trust me!" (Nørgaard, 2006) Then, as noted earlier, no single theory can explain *everything* – or expressed in the oft-used terms of statistics: we can never expect our models to explain all of the variance in the dependent variable⁷; and even if we did achieve this, then it should give grounds for concern and

⁷ a point that critics of the parsimonious perspective often seem to overlook (for example, see #).

not jubilation on the part of the scientist. So there will (and ought) always be unexplained variance, or 'noise', in our models⁸. In continuance hereof lies the fact that theories should not simply be viewed as in competition with each other, but also as complementary (perhaps as complementary opposites like that of yin and yang, as mentioned in Chapter 0 on page 2). This point is elegantly captured in a well-known animal metaphor usually accredited Puchala:

“Several blind men approached an elephant and each touched the animal in an effort to discover what the beast looked like. Each blind man, however, touched a different part of the large animal, and each concluded that the elephant had the appearance of the part he had touched. Hence, the blind man who felt the animal's trunk concluded that an elephant must be tall and slender, while his fellow who touched the beast's ear concluded that an elephant must be oblong and flat. Others of course reached different conclusions. The total result was that no man arrived at a very accurate description of the elephant. Yet, each man had gained enough evidence from his own experience to disbelieve his fellows and to maintain a lively debate about the nature of the beast”,

(Puchala, 1972).

If anything, this fact is a standing invitation for inter alia eclecticism and also methodological pluralism, but for the present the point is a different one, namely that ones choice of theoretical lens necessarily to some extent predetermines ones findings (for example, see Rosamond, 2000). This innate element of tautology in any theory should not be slighted, for in Stoker's words, we do not only choose which trees to look at in

⁸Nothing condescending is intended by the term 'noise' which derives its meaning from a statistical perspective; it denotes unexplained variance that cannot be accounted for by the 'common and crucial elements', in Friedman's words (from page 10), but instead stems from the 'mass of complex and detailed circumstances surrounding the phenomena'.

the forest, our ontological worldview, but also how we look at them, our epistemological weltanschauung. Looking for and finding what we perhaps hope to find can make it hard to retain the baby while exposing of the bathwater. One must therefore also keep in mind what one *isn't* looking for; as the aforementioned professor similarly asserted, reality does not simply talk back but provides you only with answers for the questions that you choose to ask it (Nørgaard, 2006).

Everything is relative, as Einstein often is (wrongfully) quoted for having said, and this is likewise the consequence of theory's tautological nature – this because our findings come to depend heavily (if not exclusively) on our choice of measuring rod; for example, what we find to be large, bright or right very much depends on how we define small, dark and wrong. This touches on the cautioning words of Demsetz (1969) not to succumb to a nirvana assumption, which Rothstein elucidates in the following manner:

“Representatives of the one side compare the ideal picture of the market or state with its actually existing opposite; unsurprisingly, the result is given from the start”,

(Rothstein, 1998).

For example, the expanding use in recent years of benchmarking within the public sector provides authorities with a measuring rod on performance that is based on so-called ‘best practice’; rather than having central authorities lay down more or less well-informed or arbitrary goals, it can be argued that best practice provides authorities with ones that already have been achieved by others and thus, so the logic goes, are generally achievable (#)⁹.

⁹ For example, how well child-care is handled in one municipality thus becomes a question of its quality elsewhere, and not on the judgement of the Ministry of the Interior and Health; of these two, the former measuring rod surely seems the more reasonable one.

This raises the further issue of variation in our dependent variable(s), for as explicated above, what is large, dark or wrong derives its meaning from what is small, bright and right; and as the previously cited professor noted on this matter, variation is something that you actively *create* (Nørgaard, 2006); your choice of ‘opposite’ then becomes your measuring rod. #.

As previously noted, everything affects everything (at least potentially) and this also reveals the great distance that lies between the softer, more tendency-prone social sciences and the harder natural sciences, that work less in relatives and more in absolutes. Although one can easily be charmed by the thought of conducting social scientific inquiry as Pavlov did with dogs (and B. F. Skinner with infants), this would be to build castles in the air (#source on behaviourism); for as Strange adamantly warns us,

“[t]he ambition in the social sciences to imitate the natural sciences and to discover and elaborate ‘laws’..., is and always has been a wild goose chase”,

(Strange, 1994).

Then, endeavouring into the wheeling and dealings of (wo)man only rarely produces evidence that is either-or; instead, it is almost always a bit of both and will probably continue to be so until the squaring of the circle¹⁰. #

Enter the contextual ‘noise’. Viewing the world in terms of black and white as done so far is stretching it a bit – actually a lot – and does not give due credit to the social sciences; for the contextual cannot singularly be relegated to the realm of the

¹⁰But as the saying goes, no rule is without its exceptions, and there are some examples of near-laws in the social sciences: in the study of international politics, it is more or less an established fact that democracies do not wage war against other democracies (#); and in electoral research, ‘first past the post’ systems *do* tend to create stable two-party systems, as Duverger asserted (#; #).

historian, far from it! Relying on parsimony and *ceteris paribus* assumptions might be one of the great fads of our time, but as for example Mørch notes, it is only in the realm of economic theory that ‘all other things’ ever are equal (2004)¹¹. The point is that one should recognize the folly of painting too simple a picture of one’s subject matter, and instead try to incorporate some of the contextual ‘noise’ that is so readily assumed away in the name of parsimony. This brings us to the issue of method and one of the longest running quarrels with the social sciences: that of positivism against relativism; as Devine notes,

”The use of qualitative methods is tied to a specific epistemological position. Issues of method therefore raise the long-standing debate between positivists and relativists about the similarities and differences of methodology between the natural and social sciences... Quantitative methods, for example, are closely associated with a positivist epistemological position... [P]ositivists have been concerned

¹¹ My own favourite example on the importance of contextual ‘noise’ is also drawn from Mørch and his description of the late social democrat Hans Hedtoft, who was Prime Minister to Denmark in 1947-50 and again from 1953 until his sudden and unexpected death in 1955. In 1950, he effectively handed power over to the liberals on a plate following a relatively harmless inquiry on the removal of the butter rationing then in effect; it was said that he ‘slipped in the butter’. As Mørch notes, that such a peripheral issue was taken as a lack confidence in the government had a great deal to do with something very personal and idiosyncratic to Hedtoft himself: that of his wife, Ella, who was terminally ill; for on the morning of his last day in office, “[h]e sat alone in the Prime Minister’s Department with an untouched packed lunch in front of him – and wept. He had spent the last three nights beside Ella’s sickbed and did not have strength for any more” (2001). If anything, this example shows us the potential effect of the purely idiosyncratic and contextual on something as severe as the life and death of an entire government. Conversely, the fall of Hedtoft’s first term as Prime Minister is by # portrayed as the consequence of a #structural/general characteristic (#). It is left up to reader to make up his own mind whether the latter has flushed the baby out with the bathwater, or not.

with the precise operationalisation and measurement of theoretical concepts... [For relativists] the emphasis is not on making predictions about behaviour but rather on seeking to capture the uniqueness of human experiences...”,

(Devine, 1995).

However, despite that this stereotypical assertion is widely known within the social sciences, it seems to emphasize the competitiveness between different methods too vehemently over their complementarity (Dahler-Larsen, 2002; see also Hellevik, 2002); as for instance Maxwell notes:

”Qualitative and quantitative methods are not simply different ways of doing the same thing. Instead, they have different strengths and logics and are often used to address different questions and purposes. The strengths of qualitative research derive primarily from its inductive approach, its focus on specific situations or people, and its emphasis on words rather than numbers”,

(Maxwell, 1996).

The defence for methodological pluralism can easily be illustrated by way of example: in Maxwell’s words, *numbers* (read: quantitative data and techniques) can be utilized for, say, questions about what an assumed maximizer has achieved. Conversely, *words* (do. qualitative) can be used for questions about why it was achieved and thus provide a test of whether that person actually has acted as a maximizer in the first place. Pluralism allows us in this way to analyze not only whether our expectations hold up, but also the assumptions that those expectations were based on; the latter aspect thus makes analytically endogenous what would otherwise have been held exogenous. Or put in the familiar terms of statistics: causation is a matter of theory, not measurement (#). In sum, it thus seems more prudent to choose the happy medium of utilizing different data and techniques for different purposes – as opposed to following the stipulations of a particular paradigm and staying on its propagated narrow(er) path to righteousness.

This brings us to the research design of the thesis, to which I now turn.

2.2 RESEARCH DESIGN: IN SEARCH OF THE BABY AND THE BATHWATER

As accounted for in the preceding chapter, quantitative as well as qualitative data and techniques are utilized in the search for answers to the questions of what, where, when, how, and why. As likewise noted previously, variation in your dependent variable is something that you actively create, and *group (a)symmetry* (among the amalgamating authorities) is a potentially important issue in relation to both problematiques. Both the quantitative and qualitative analyses will therefore not confine themselves to the level of the individual authorities but also incorporate group characteristics.

Regarding the *quantitative data and techniques*, they are firstly performed at the level of the individual municipalities and counties on a number of select financial variables freely available for 2005-2008/2009¹². The first problematique (A) on resource allocation will contain data on the use of accumulated liquidity, near-liquid assets (sales of buildings, land and so forth), expenditures on buildings and similar, as well as borrowing. Secondly, various group measures on symmetry among the amalgamating authorities are introduced, i.e. measures of variation (range standard deviation, coefficient of variation etc.); these measures pertain to the aforementioned financial variables.

As for the second problematique (B) on service adaptation, I have not made my mind up at this point in time;

¹² These variables will primarily be drawn from the authorities' *budgets* and not their *accounts*. However, data from the latter should become available for 2005, 2006 and possibly 2007 within the deadline of the thesis (March 2009); these will of course be included, just as the discrepancies between the authorities' budgeted and actual behaviour will be analyzed.

however, the analyses will obviously include service levels and expenditures – or instead of the latter: generally on the running costs in the authorities. Again, both individual measures and group measures on symmetry are utilized.

As for the *qualitative data and techniques*, I have over the last two months conducted two exploratory interviews with three more planned in the late summer (and possibly a fourth at a later time); they have more been open-ended conversations than actual interviews and have served as a testing ground for my various ideas and thoughts on the problematiques. Come fall I will begin a series of more systematic, in-depth (!) interviews (circa of an hours duration each) that will be repeated in 2007, 2008 and possibly in the beginning of 2009. The size of the sample will be around 20-30 interviews (per annum) and case selection based on stratification along a number of factors: whether a municipality is amalgamated or not, political re-election and financial variables (low/high accumulated liquidity, service levels and so forth). So much for the horizontal scope of the sample. Vertically, I will try to interview both a high-ranking politician (mayor) and official (CEO) in each authority, so the number of represented municipalities will be around 10-15 (per annum).

3 THE PAST, PRESENT AND PROSPECTIVE PUBLIC SECTOR IN DENMARK

This chapter will start off by describing the structure of the Danish public sector its overall evolution from the past to the present and (near-)future. #.

3.1 WHERE YOU STAND, DEPENDS ON WHERE YOU SIT!

“The right of municipalities to manage their own affairs independently, under State supervision, shall be laid down by statute”,

§ 82 in the Danish Constitution of 1953
(Folketinget, 1999).

Future content: this chapter is only two pages long at the present but I have included those pages as they are a vital part in the theoretical chain of reasoning that follows in later chapters.

As the caption cites Allison for having said (as well as in Chapter 0 on page 2), it is not unreasonable to expect that one’s concerns, interests and so forth very much are shaped by whether you sit behind a desk on capitol hill, partaking in the life of Geppetto, or in one of the Pinocchios’ town or county councils farther from the pinnacles of central power¹³. If local authorities merely were a provincial extension of central government (as is the case in France; #), then it would arguably be more meaningful to examine the relationship between different levels of government as a principal-agent problem (#) – rather than as a situation of strategic interaction between independent parties. However, Danish local authorities *do* enjoy autonomy from their capitol hill, indeed it is (at least

¹³ The literature on this matter is quite extensive and does also not pertain to a single field. For example, see #Brunsson, CCI etc.

their *de jure existence*) constitutionally secured as cited above¹⁴. As Christensen et al notes on the matter:

“The municipalities [and counties, I might add] are a part of the public administration and as such subordinate to Parliament. At the same time, the town [and county] councils are elected and therefore accountable to the local voters”,

(freely translated from Christensen et al., 1999).

So although part of the same public administration, their tasks are not the same though each necessary for the other – or in the words of the Introduction (on page 2): they are complementary opposites as that of yin and yang. This touches on their accountability which likewise differs between the two – a point that for instance the Danish Economic Council have emphasized:

“The Government will by the voters be held responsible for the overall economic development while the local politicians normally are judged by other criteria, for example communal taxes or the service level”,

(freely translated from Økonomiske Råd, 2002).

This means that each has to cater for different concerns and interests in the electorate – indeed their respective electorates really aren't the same, the local authorities' being a subset of the Government's; and their performance is thus also measured on different matters Mr. and Mrs. John Q Taxpayer. Take the case of the local authorities: on the face of it, their overall expenditure levels (child-care, road maintenance and so forth) are of course the end result of a vast number of decisions made within numerous areas, as Pallesen sensibly notes (2003); in this sense, the life of the Pinocchios seems quite similar to that of Geppetto. But the former obviously only caters to its own electorate, and as one scholar notes:

¹⁴ The *de facto scope* of their independence, however, is another story and treated in the next chapter.

”What counts for the individual town [or county] council is not the economy in general. It is particularly considerations for the municipality [or county, in my opinion] and its economy. If you can get away with not paying then you do so gladly”,

(freely translated from Andersen, 2000b).

Actually, one might even say that local authorities are required by law only to consider the concerns of their respective local populations (read: electorate) – at least when no legal provisions exist that state otherwise; for as Andersen, writes:

”Whether the municipalities [or counties] can act without legal authority depends on the purpose of the task. The service must exclusively benefit the local community[, however]”,

(Andersen, 2000a; cursive omitted).

#.

3.2 BACK TO THE FUTURE? THE TEMPORAL TUG-OF-WAR BETWEEN GEPPETTO AND THE PINOCCHIOS

“Starting in 1970, Denmark completed the most comprehensive modification of the political-administrative system since the constitution [of 1953]”,

(freely translated from Bogason, 1997).

”Denmark is at the present engaged in the implementation of what has been called the largest reform ever of the [Danish] public sector”,

(freely translated from Ejersbo, 2005)¹⁵.

Future content: a descriptive chapter on the evolution of the Danish public sector, i.e. decentralization along a temporal dimension (taxes and expenditures) and comparatively (compared to a number of other OECD counties). The size of

¹⁵ See also #Mouritzen, 2004: 9.

the public sector over time will also be analyzed, possibly also comparatively. Additionally, the quantitative and qualitative aspects of the Danish local authorities will also be described, both over time as well as comparatively.

4 THE LOGIC OF COLLECTIVE ACTION AND 'COOPERATIVE MAN'

This chapter contains the theoretical common denominator that exists between the two problematques. However, it firstly delves into various theoretical issues related to the theoretical common denominator in the thesis, namely game theory.

4.1 ON THE STRAW MAN HOMO OECONOMICUS

Future content: reviews and provides a defence for a key assumption: rationality.

4.2 THE SCIENCE ON SCIENCE REVISITED: TENETS OF GAME THEORY

Future content: this chapter will expand on the earlier remarks from Chapter 2.1 by explicating the central tenets of game theory and what this means in terms of assumptions.

4.3 IN BETWEEN HOBBS AND ROUSSEAU: PRECONDITIONS FOR 'COOPERATIVE MAN'

“In such condition, there is no place for Industry; because the fruit thereof is uncertain; and consequently no Culture of the Earth; no Navigation, nor use of the commodities that may be imported by Sea; no commodious Building; no Instruments of moving, and removing such things as require much force; no Knowledge of the face of the Earth; no account of Time; no Arts; no Letters; no Society; and which is worst of all, continuall feare, and danger of violent death; And the life of man, solitary, poore, nasty, brutish, and short”,

(Hobbes, 2002).

Future content: this chapter will elaborate the necessary conditions for collective action, namely that cooperation by achievable (which is not the case in the Hobbesian state of nature qua the pure 'egoism') as well as fruitful (which is not the case in the Rosseauan state of nature qua the general will, i.e. the pure 'altruism').

II. CONFLICTS OVER THE COFFERS

5 GAME OVER? THE SHADOW OF THE FUTURE AND THE 2ND LOCAL GOVERNMENT REFORM

A brief, introductory note: this chapter has so far only been worded to account for one financial variable in relation to resource allocation, namely consumption of accumulated liquidity. However, as earlier noted (on page 17), there are additional variables that will be included at a later time; these are near-liquid assets (sales of buildings, land and so forth), expenditures on buildings and similar, and borrowing.

Also, the game-theoretic element is as of now very slim, which is reflected in the formulated hypotheses that pertain to the local authorities' (linearly calculated) *payoff functions* and not the collective *outcomes* of their actions.

Having reviewed the restrictions that have been imposed on the local authorities by the powers at be – and thereby also their financial liberty of action until 1st January 2007 – it is now time to ask what this leads us to expect of their behaviour. In what follows, the theoretical chain of reasoning proceeds stepwise as is the custom within positive political theory; for as Hovi notes:

”When constructing formal models in general, and especially within game theory, it is an established principle that one should start by studying a (perhaps strongly) simplified case, and then make stepwise expansions in the direction of more realistic models. In practice, this means that the researcher deliberately utilizes very stringent and unrealistic assumptions as point of departure”,

(freely translated from Hovi, 1992).

The latter remark is completely congruent with the thesis' *weltanschauung* as explicated in Chapter 2.1 (on page 10), and serves at least two purposes: firstly, proceeding step by step clarifies the chain of reasoning from the perspective of both the recipient and the sender, that is, the reader as well as the author.

Secondly, one is given the opportunity to examine different aspects of the problematique from various viewpoints and against varying measuring rods¹⁶, all theoretically founded. Developing your theoretical reasoning step by step and forwarding increasingly complex hypotheses thus also holds value from an empirical perspective. I will comment further on this in the course of the analysis.

5.1 THE SHADOW OF THE PAST: LEVIATHAN HARD AT WORK

As elaborated in Chapter 3.2 (on page#ff), the Danish local landscape stands today before its second major reshuffling in the short span of just four decades; and at the centre of both its predecessor and the current reform stands the amalgamation of local authorities. Also, there has in the years preceding each reform been a considerable amount of uneasiness about ‘uneconomical conduct’ on the part of the local authorities (#); so let us begin by turning back the clock to Thursday January 1st 1970: the time spent in preparation of that reform was considerably longer than the present one (commencing in 1956) just as the time span of the amalgamations also was considerably longer (starting in 1962)¹⁷. But the then (also bourgeois) government took few precautionary actions against any uneconomical conduct in the local authorities:

”By the first communal amalgamations there was not yet made sufficient financial safeguards in the conditions for the use of accumulated liquidity, which led to strange overconsumptions

¹⁶ or stated in the Puchala’s terms (from Chapter # page #): different parts of the same elephant.

¹⁷ Then, preparations and planning spanned fourteen years in the 1970 reform held up against two-and-a-half years in the present one (if the work of the Commission on Administrative Structure is omitted). Likewise, the amalgamation period spanned eight years in the former compared to a mere # years in the latter.

with the purpose of securing that the money benefited the original population”,

(freely translated from Asmussen, 2003).

Although there then were made to systematic, scholarly investigations into the scope of these ‘strange overconsumptions’, they seem to have been widespread, as several have noted (for example, see Olsen & Kommunernes Landsforening, 2004). One of the more wellknown and tragicomic examples was that of the 1962 amalgamation of Marstal rural parish with Marstal trade post (located on a small island in southern Denmark):

”Marstal trade post was... [geographically speaking] completely enclosed by Marstal rural parish... [and when] the annexation board had made their principal decision [to amalgamate the two] and set out the terms for the annexation, then the parish council decided to use all of its accumulated liquidity (around 100.000 kroner) on some quite superfluous street lighting that only lid up the parish – the urban areas of the municipality as well as the actual rural districts. The trade post lay still in darkness... Wayfarers from Ærøskøbing [, containing the island’s main sea port,] were thus met by a ‘neon sea’ in the middle of the country road which continued into the urban areas but which stopped by the old city boundary. From then on you drove into the dark streets of the city”,

Strøm, 1991a: 86, 87¹⁸.

Perhaps inspired by this hard-earned, historical lesson, the present Government was quick to introduce measures against any uneconomical conduct in the local authorities – actually introducing them already before the Commission on Administrative Structure publicised its report (on the necessity and feasibility of a local government reform in the first place).

¹⁸ #Check quote.

On December 22nd 2003 the Government and the National Association of Municipalities jointly requested that

”...the town councils throughout the country carefully considered the appropriateness of initiating construction projects. At the same time the municipalities were asked to report all construction appropriations over 1 mn kroner to the Ministry of the Interior and Health with a view to continually following developments in activity”,

#refman: Finansministeriet, 2004a: 12;
(see also Folketinget, 2004).

This *approval scheme* was thought as a direct precautionary measure in connection with a reform at a later time, for

”The Minister of the Interior and Health has between Christmas and New Year’s eve stated that the government is very eager to avoid, that considerations on amalgamations give rise to additional expenditures not provided for in the budgets, financed by drawing on accumulated liquidity. There were numerous examples of this in connection with the 1970 reform and thus should not be repeated in connection with any potential, new reform”,

(freely translated from Olsen & Kommunernes Landsforening, 2004).

The scheme was in effect for the fiscal years 2004 and 2005 (#; (Finansministeriet, 2004) and the subsequent countermeasures have been in direct continuation of this measure (Indenrigs- og Sundhedsministeriet, 2006b). It was for the fiscal year 2006 replaced by Law no. 540 (Folketinget, 2005a) and departmental orders 1462 and 1466, which limited the restrictions to local authorities that were to be amalgamated (Indenrigs- og Sundhedsministeriet, 2005b; Indenrigs- og Sundhedsministeriet, 2005a); however, it was at the same time expanded from covering only constructions to include all operations as well, expenditures as well as revenues (Indenrigs- og Sundhedsministeriet, 2006b). Furthermore, power of approval was with few exceptions decentralized from the

Ministry of the Interior and Health to integration and preparation committees (one for each group of amalgamating municipalities and counties, respectively), composed of the town and county councillors for the new amalgamated, authorities (as elected in the November 16th 2005 elections; #); but let us for the present renege this processual aspect as it will be dealt with in detail later in Chapter 5.5.

In addition to this was Law no. 549 (Folketinget, 2005b) which added several further restrictions for the fiscal year 2006, respectively on consumption of accumulated liquidity in addition to restrictions on taxation and tax bases, the latter both for income revenue, land tax and reimbursement duties (Folketinget, 2005b); apart from the first-mentioned these restrictions applied equally to both the municipalities and counties. Especially interesting for the present matter is the compulsory depositing of surplus liquidity, in effect from 01.10.2005 until 01.01.2007, whose purpose partially concerns the fiscal year 2005 but also is in place to "...support appropriate financial behaviour in the transitional period leading up to the local government reform (freely translated from Kommunernes Landsforening & Regeringen, 2005; see also the explanatory memorandum for Folketinget, 2005c).

The picture that heretofore emerges on the first and second local government reform is one of striking contrast as both municipalities and counties almost literally have been tied by hand and foot in the latter. This indubitably owes itself to centrally held fears of behaviour along the lines of *carpe diem* in the local authorities; that is, that they might choose to live for the present (read: today) and not the morrow.

But how are we to define uneconomical conduct? For now I offer quite a wide understanding of the concept as

"...arrangements made by the existing municipalities and counties that directly or indirectly can affect the possible arrangements of future municipalities and regions, and where

these arrangements would not have been made or would have had a different content, provided the new units had had power of authority”,

(freely translated from Indenrigs- og Sundhedsministeriet, 2006b).

Having answered this question, then the next is to ask whether these restrictions afford the municipalities and counties any leeway in their financial arrangements – and the answer is in the affirmative. However, I have yet to elaborate the actual extent of their scope and its specifics.

5.2 FIRST THINGS FIRST: THE EFFECTS OF AMALGAMATION

“When you surround an army, leave an outlet free. [This does not mean that the enemy is to be allowed to escape. The object, as Tu Mu puts it, is "to make him believe that there is a road to safety, and thus prevent his fighting with the courage of despair." Tu Mu adds pleasantly: "After that, you may crush him."],”

Sun Tzu’s Art of War, 6. årh. f.Kr.
(Tzu & Giles, 1910).

As Sun Tzu is cited for above, you should always give your enemy the impression of having an outlet (but nothing more) when surrounding him (or her, of course); otherwise, s/he will fight with the courage of despair. A lot of water has passed under the bridge since these words were uttered but Sun Tzu’s point finds renewed use in the present context. The point with the quote is not that Danish local authorities were laid under siege by the local government reform – there is little doubt of that in the minds of most knowledgeable people within the field. No, the point is instead well-captured in the old proverb that what the goodwife spares the cat eats, for this is the effect of the reform on a large subset of ‘the locals’. Stated in other terms, the municipalities and counties can with good reason

wish to provide against a rainy day, say, if one of the authority's larger, labour-intensive enterprises should choose to outsource production to more easterly skies. But how much is the cash in the coffer (read: accumulated liquidity) worth when you will cease to exist (per 01.01.2007)? Presumably not much! Clearly, there are strong incentives for financial drainage in the amalgamating authorities. The imminent demise of the great majority of municipalities and counties thus means that their shadow of the future, the longer-term consequences of their present actions, becomes a decidedly sunny affair – or in the words of Sun Tzu: they can be expected to fight with the courage of despair for there is no tomorrow for them. In the realm of game theory, such temporal effects on actor payoffs are called *discount factors*, δ_i , i denoting the local authorities numerical designation¹⁹; further, δ_i is assumed to lie in the interval $0 \leq \delta_i \leq 1$ ²⁰. Given a constant discount factor and

¹⁹ i.e. $i = (101, 147, \dots, 861) = (\text{Copenhagen, Frederiksberg, } \dots, \text{Aars})$ for the old municipalities and $i = (1013, 1014, \dots, 1080) = (\text{Copenhagen, Frederiksberg, } \dots, \text{North Jutland})$ for the old counties, designated 'regions' in the new division (Kort & Matrikelstyrelsen, 2004b; Kort & Matrikelstyrelsen, 2004a; Amtsrådsforeningen, 2001). As noted in footnote 4 (on page 4), Copenhagen, Frederiksberg and Bornholm have status as both municipalities and region, which is why they enter into both numerical denominations.

²⁰ The concept is thus based on the (admittedly somewhat pessimistic) assumption that time only can have a negative impact on actor payoffs – or at best: no effect (Morrow, 1994). The two logical extremes respectively indicate 'perfect' patience ($\delta_i = 1$) and 'perfect' impatience ($\delta_i = 0$), the former because the payoff remains unchanged over time, that is, no discounting takes place; in the latter case, the payoff is reduced to zero after just one stage which in, say, a bargaining situation amounts to uttering the ultimatum that 'it's now or never' (Hovi, 1998; Tarar, 2001).

The assumption that time only can have a negative, or no, effect on actors payoffs owes itself to a lot of the literature that occupies itself with discounting. An obvious scholar is Rubinstein and his assertion that

identical time intervals, then actor i 's payoff P_i in round n is calculated as $\delta_i^n P_i$ (Morrow, 1994; see also Osborne, 2004)²¹. It seems reasonable to assume that the amalgamating authorities are 'perfectly' impatient with a discount factor equal to zero, so that their accumulated liquidity only has value for them before 01.01.2007 and thereafter becomes worthless²². Conversely, the authorities that are not affected by amalgamation, *here our relative measuring rod*, are arguably 'perfectly' patient with a discount factor of 1, as there is no theoretical grounds for expecting otherwise; this amounts to assuming that the benefits of having a certain amount of accumulated liquidity is equally large after 01.01.2007 as before, which seems quite a sensible expectation.

This gives us a model with a bivariat, unidirectional and positive causal connection where consumption of liquidity is the dependent variable, C_i , and amalgamation the independent, dichotomously coded as $\delta_i = \{0, 1\} = \{\text{No}, \text{Yes}\}$; discount factors are thus simply aligned with whether the authorities are to be amalgamated or not; see Figure 1 below.



Figure 1: Consumption of Liquidity and Amalgamation

Given the restrictions that have been imposed on the local authorities cf. Chapter 5.4 (page 39ff), we have to understand the *expected* consumption of liquidity, C_i , relative to the *possible* consumption, P_i , which is calculated as total liquid

the negative impact of time owes itself to rising transaction costs; the sooner you reach an agreement, the cheaper it is for all involved parties.

²¹ #Demonstrate by way of example and show that discounting is calculated not unlike compound interests.

²² I am as of now unsure whether the analysis on resource allocation should be confined to the fiscal year of 2006 or also include 2004-05. Exploratory interview data suggest the former but I leave it an open question for now.

assets per 31.12.2005, A_i , subtracted the required deposition of surplus liquidity (cf. page #), D_i , that is,

$$P_i = A_i - D_i \quad (6.1).$$

The expected consumption of liquidity can then be calculated as

$$C_i = \delta_i P_i = \delta_i (A_i - D_i) \quad (6.2),$$

that is, status as amalgamating authority or not multiplied by the (highest) possible consumption of liquidity. The expectation is therefore simply that amalgamating authorities, $\delta_i = 1$, will consume as much of their liquidity as possible within the imposed restrictions, i.e. $C_i = 1 \cdot P_i = P_i$. Conversely, the authorities unaffected by amalgamation, $\delta_i = 0$, are expected to consume nil, i.e. $L_i = 0 \cdot M_i = 0$.

The reasoning so far has solely defined the variation in the dependent variable, consumption of liquidity, along a *spatial dimension*; that is, across the local authorities depending on whether they are amalgamated or not. However, one can just as easily understand the chain of reasoning in combination with a *temporal dimension*, which gives us quite a different measuring rod: instead of simply comparing the amalgamating authorities with those that are left unaffected, the consumption of liquidity in each type of authority can be compared at two points in time, before 01.01.2007, $C_{i,t-1}$, and after, $C_{i,t}$. From this viewpoint, we should expect consumption of liquidity to be higher at the latter point in time relative to the former, that is,

$$\delta_i C_i^t > \delta_i C_i^{t-1} \quad (6.3).$$

That amalgamation is included in the inequality owes itself to the fact that the argument only holds up for the amalgamating authorities, $\delta_i = 1$, so that the expectation is that $1 \cdot C_i^t > 1 \cdot C_i^{t-1} \Leftrightarrow C_i^t > C_i^{t-1}$. Conversely, there is no expectation as to any temporal difference in the liquidity consumption of

the remaining authorities, $\delta_i = 0$, which leads to the non-sensical expectation that $0 \cdot C_i^t > 0 \cdot C_i^{t+1} \Leftrightarrow 0 > 0$.

The next question that begs answering is how to define the two points in time, t and $t + 1$? As already discussed in footnote 22 (on page 33), the former is defined as the fiscal year of 2006. As for the latter, I have as of now not decided on how to define it; but I am thinking about using an average measure for the five preceding fiscal years prior to 2006, that is average consumption of liquidity from 2001 to 2005.

To sum it up, the behavioural expectations set out above can be expressed verbally as

Hypothesis 1 (H1): for the fiscal year of 2006, the consumption of liquidity in the amalgamating local authorities is firstly expected to be as high as possible within the frames of the centrally imposed restrictions on consumption. Conversely, the consumption in the remaining, unaffected authorities is expected to be nil. Secondly, it is also expected that the amalgamating authorities' consumption is higher in the fiscal year of 2006 compared to that of previous years.

Then, there is a double yardstick at work here, spatial as well as temporal. However, the question is whether we in Stoker's words are looking at the right two trees in the forest (two as the preceding model was bivariat)? Although providing theoretical grounds for empirically examining consumption of liquidity along the dividing line of amalgamation²³, it is nonetheless based on a too unrealistic depiction of the problematique; and albeit that can be a useful starting point, as Hovi was cited for previously (on page 26), it is no more than that: a point of departure. Also, despite Friedman's previously cited assertion, that a hypothesis must be descriptively false in its assumptions to be important (see page 10), the baby seems so far to be getting the same treatment as the bathwater.

²³ Recall the second purpose of proceeding step by step as mentioned on page 42.

5.3 OPENING UP THE BLACK BOX: THE EFFECT OF RE-ELECTION

The problem heretofore is that the chain of reasoning has been based on the fallacious assumption, that a municipality simply is a municipality, and a county simply a county. In other words, they have all been assumed out of the analysis as an undifferentiated and exogenously given size. Such unitary actor assumptions are very common in political science (for example, see Allison & Zelikow, 1999), but holds beyond actually a near universal prevalence – if for no other reason than to make an otherwise incomprehensibly complex world more tangible (Berger & Luckmann, 1983); the point is illustrated: just pick up a given newspaper on a given day and you will find a dozen examples of how a given school, municipality, county, enterprise or nation is said to have done this or that; however, it is people who make decisions, not faceless entities. The point in the present context is that it is not the local authorities per se that make decisions, but rather the duly elected town and county councillors of those entities that act on its behalf (with all the vices and virtues that collective action entails, of course). Then, it is councillor *re-election* and not authority amalgamation that should have an impact on the consumption of liquidity – as thus also function as our relative measuring rod. The literature on the subject of rent-seeking politics is quite extensive²⁴, and for the present the point is that re-elected local politicians from the amalgamating authorities can be expected to try to counteract any spendthrift emptying of their respective town or county coffer(s); the reason is quite simply to try to secure a sound financial standing for the new authority in which they are a part as a councillor. Conversely, not re-elected politicians (purposefully or not, it makes no difference) have no such longer-term incentives and should therefore take

²⁴ #review of literature.

on the role of spendthrifts²⁵. I forward that the consumption of liquidity can be expected as a function of re-election, R_i , in two ways: firstly, as a function of whether a given amalgamating authority's mayor is re-elected as mayor (not just councillor) in the new authority, or not; or secondly, as a function not of who takes home the mayoralty but of the share of local politicians re-elected in the new authority (i.e. mayors and councillors re-elected as either)²⁶. However, both are calculated in the same way, as the choice of the one or the other merely affects whether the structure of the independent variable is dichotomous (the mayoral measure) as $R_i = \{0, 1\} = \{\text{No},$

²⁵ Drawing on classic concepts from budgeting theory, we can say that re-elected politicians take on the role of budgetary guardians against expenditures, while the not re-elected ones are advocates for expenditures (for example, see Brunsson, 1989)

²⁶ Note that neither measure denotes a shift in the level of analysis from local authorities to individual councillors.

A third possible measure could draw on the extensive literature on coalitional theory (#Riker) which would have a decidedly less linear take on the consumption of liquidity than the second measure. This third possibility will be introduced in the course of the analysis as an alternative to the others.

It might be appropriate here for a moment to delve into why the mayoralty might have a significant impact on local authorities' financial behaviour: generally speaking, mayors (often referred to as 'city kings' by the political punditry) are in a formidable position in Danish local politics for several reasons: most importantly, mayors are near-impossible to remove from office in between elections (Christensen & Espersen, 1983) in all but the most exceptional circumstances cf. § 7, subsection 2, and § 66 of the Communal Administration Act. The problematic aspects of this near-political immunity became all too clear in the spring of 2002 with the case of one of the more controversial mayors in Denmark: Peter Brixtofte.

Also, the mayor is often the only local politician employed full time which in several ways gives him or her advantages over the remaining town or county councillors (#).

Yes}, or continuous (the councillor measure). The expected consumption of liquidity is calculated as

$$C_i = \delta_i R_i P_i = \delta_i R_i (A_i - D_i) \quad (6.4).$$

Again, amalgamation, δ_i , is included in the equation because the argument only applies to the amalgamating authorities, $\delta_i = 1$, i.e.

$$C_i = 1 \cdot R_i P_i = 1 \cdot R_i (A_i - D_i) \Leftrightarrow C_i = R_i P_i = R_i (A_i - D_i).$$

Conversely, the expected consumption of liquidity in the unaffected authorities, $\delta_i = 0$, is still zero:

$$C_i = 0 \cdot R_i P_i = 0 \cdot R_i (A_i - D_i) \Leftrightarrow C_i = 0.$$

Notice that the mayoral measure amounts to an expectation either of a liquidity consumption of nil (if the mayor has not been re-elected as mayor of the new authority) or as much as possible within the imposed restrictions (if s/he is re-elected). On the other hand, the councillor measure amounts to a linear (and assumed perfectly proportional) expectation reflecting the share of re-elected councillors; for example, if half of the councillors are re-elected to a new authority's council, then the expectation is that half of the liquidity in their old authority is consumed.

As previously, this model is bivariat with a unidirectional, positive causal connection between consumption of liquidity, the dependent variable, and re-election, the independent; see Figure 2.

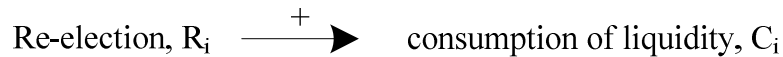


Figure 2: Consumption of Liquidity and Re-election

Expressed in words, the expectation is that

Hypothesis 2 (H2): for the fiscal year of 2006, the consumption of liquidity in the amalgamating local authorities is positively related to re-election in the new authorities' councils – either defined dichotomously as who takes home

the mayoralty or continuously as the share of re-elected councillors.

Notice that the variation in the dependent variable, our measuring rod, isn't between the amalgamating and unaffected authorities but instead between the authorities in the former group.

This leads us to consider effects other than those of individuals, namely *group effects*. The potential vices and virtues of collective action are well-known and –documented in political science, spanning a large array of otherwise widely differing fields, and I now turn to these kinds of effects.

5.4 THE CONUNDRUM OF RATIONAL MAN AND IRRATIONAL SOCIETY: ENTER GROUP EFFECTS

Future content: this chapter will draw on the literature on collective action theory, as formulated by Mancur Olson, and introduce group effects into the chain of reasoning. The collective action problem with regards to resource allocation is to secure the new authorities a sound financial standing at their moment of (re-)birth, i.e. from 01.01.2007. Olson's classical argument on *group size* is elaborated and defined as the number of amalgamating authorities in each new authority. This leads to an expectation of a positive causal connection between group size and consumption of liquidity. This is the first group effect.

However, *group asymmetry* is, according to Olson, a possible solution to the collective action problem – (a)symmetry measured as the dispersion among the amalgamating authorities' possible consumptions, P_i , calculated on page 34). This is the second group effect that leads to a more optimistic expectation about the liquidity consumption if the dispersion in possible consumptions is sufficiently large among the amalgamating authorities.

Another possible solution to the collective action problem is that of *institutional design* which is the subject of the next chapter.

This concludes the theoretical deliberations as for what can be expected of the Pinocchios' behaviour, both their deliberate, individual actions and the effects that collective action in itself can have. However, as noted in Chapter 5.1 (on page 30), the restrictions imposed in the local authorities in connection with the current local government reform, also entailed an institutional change. As we shall see in the following chapter, this processual change can be expected to have a significant impact on the *outcome* of the local authorities' behaviour, although their individual *actions* might for the better part remain the same²⁷.

5.5 BIG BROTHER IS WATCHING YOU, PINOCCHIO: COMMUNAL BICAMERALISM

"The Constitution of 1953 abolished the [Danish] bicameral system... In Germany, the bicameral system's double principle of representation is secured constitutionally. In Denmark, it was [de facto] reinstated with the local government reform in 1970",

(freely translated from Christensen, 1998).

Future content: I have included two pages on the processual changes that the government's restrictions entail. As elaborated here, a processual change occurs for the fiscal year of 2006 which introduces an element of bicameralism in each of the amalgamating, local authorities – and which hinges on the pivotal issue from Chapter 5.3, namely political re-election. As for the hypothesized behaviour of the local authorities, the introduction of this bicameral element leads to an expectation that a large subset of the amalgamating authorities might *try* to

²⁷ Also, the heretofore said can to a great extent also account for what we would expect of the local authorities' behaviour in connection with the first local government reform in 1970 – save the matters pertaining to restrictions on their behaviour, of course. However, this is not true of the considerations in the next chapter.

get away with uneconomical conduct, but that behaviour is countered by the respective integration and preparation committees. The point is that politicians not re-elected have *the incentive* for uneconomical conduct but not *the means* (i.e. the political power) – and vice versa for the politicians that are re-elected.

Family additions are typically joyous occasions which, on the face of it, should make the Pinocchios ecstatic about the second local government reform; for they have been blessed with a bigger brother, albeit only temporarily for the fiscal year of 2006. But perhaps there is, in Shakespeare's words, something rotten in the state of Denmark – or at least that might well be the local authorities' take on the arrival of their new sibling. As this chapter will elaborate, the central powers at be have for 2006 taken to the sport of heresthetics and tinkered not only with the scope of the Pinocchios' financial autonomy, as dealt with earlier in Chapter 5.1 (on page 27ff); no, Geppetto has also tinkered with the very institutional design that binds and confines the local authorities – this by decentralizing his paternalistic (though arguably well-founded) worrying for the wellbeing of his wooden son(s). The following is therefore an extension on the aforementioned chapter which elucidated the restrictions imposed on the local authorities; but nothing was here said on the processual side of Geppetto's precautionary measures – measures that now show their almost Orwellian proportions (#Orwell, 1984).

As Christensen and several others have noted, Denmark might formally have abandoned bicameralism in 1953 but it was de facto reinstated with the local government reform in 1970 (see Blom-Hansen, 2002; and Christiansen, 2000). This very much has to do with the tendency for minority governments in Denmark that, given the lack of clear parliamentary majorities, have bolstered themselves by involving the local authorities' organizations as a de facto first

chamber. The second local government reform has likewise introduced an additional bicameral system, now at municipal and county level, albeit only temporarily for the fiscal year of 2006. This means that the amalgamating (!) Pinocchios' traditional 'unicameralism', the town and county councils' local sovereignty, is circumscribed for 2006 by 'bigger brothers' in the form of municipal integration and county preparation committees – and in some cases also by the Ministry of the Interior and Health (henceforth abbreviated MIH). The former is thus reduced to a first chamber with the latter acting as powerful *de jure* second chambers. This 'strategizing in the large' by Geppetto was laid down in the agreement on the local government reform:

“In order to ensure proper preparation of the merger of municipalities, the district councils elected in the merged municipalities as a result of the local government election on 15 November 2005 will act as *integration committees* in 2006... The same principles apply to the new regions. Here, the newly elected regional councils will act as *preparation committees* in 2006 with the responsibility of preparing establishment of the new regions”,

(Indenrigs- og Sundhedsministeriet, 2006a; cursive added).

The bicameral system thus functions by pitting some of the Pinocchios up against the remaining ones, although the dividing line actually isn't found *between* authorities, but rather *within* each of them. We are here touching on the pivotal issue last spoken of in Chapter 5.3, namely *political re-election*.

Sorry for the abrupt ending of this chapter, but this is as far as I could get before the paper's deadline.

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