

# Is there an optimal size for a municipality?

Between a dozen and one-third of a million inhabitants live in Switzerland's municipalities. What the ideal size of such a municipality should be depends on a wide range of criteria.

Simone Hofer



The Swiss sociodemographic landscape is characterized by a large number of small and very small communities. Half of all locations have fewer than 880 inhabitants, while almost fifty percent of the population lives in towns with a population of more than 10,000. Only eight of the total of 2,865 Swiss municipalities contain over 50,000 inhabitants. Social and economic change has increased the complexity and diversity of the tasks that municipal councils are required to perform, while financial resources have increasingly stagnated. This raises the question of how large a municipality has to be to ensure that public services such as schools, administration and waste disposal can be provided in a professional and cost-effective manner that also does not neglect the needs of the inhabitants.

## Number of municipalities little changed

Within Europe, only France, Iceland and Greece have smaller municipalities than Switzerland. In Scandinavia and in most western European countries, far-reaching regional reforms in the 60s and 70s led to a reduction in

the number of municipalities. The guidelines used by the central authorities for these regional reforms varied between 3,000 and 8,000 inhabitants. The number of municipalities in Austria fell as a result by 42 percent, and the figure for Germany was reduced by more than a half.

Switzerland with its pronounced federal structure, did not undertake any such reforms. The municipality was not made a political and administrative entity until the beginning of the 19th century; previous to this the social structure consisted of burgher communities and other groups formed for economic advantage, both based on personal membership. From then on the political community proved to be extremely stable. Since 1848, the number of Swiss municipalities has fallen by a relatively small degree from 3203 to 2865 as individual communities swallowed up or merged with others.

Today, the smallest Swiss community is Corippo in the Verzasca valley, with a current total of 12 inhabitants, while at the other extreme is the City of Zurich with its 340,000 residents. This discrepancy reflects above all the dramatic changes in employment and education that have unfolded during the last century. Suburban municipalities and those close to town centres in particular have attracted new inhabitants, while the peripheral agricultural regions have experienced a decline in population.

## Real estate prices as an indicator of locational quality

The attractiveness of a municipality as a residential and/or working area

results from the interplay of a wide range of factors. Location, population structure, residential opportunities, transport network, real estate prices, efficient approval procedures, employment and earnings opportunities or a quiet and unspoiled character are just as important as an attractive tax rate.

The development of real estate prices reflects particularly clearly the attractiveness of a community, albeit usually with some time lag. Real estate prices depend on non-influenceable variables such as proximity to the centre, but also on public transport connections and regional developments. When it comes to the value potential of residential and commercial property, it is more the future development of the community than the current situation that plays a deciding role. If the locational attractiveness increases as a result of new shopping facilities or improved transport facilities, for example, real estate prices rise accordingly. The opposite case can currently be observed with the problem of new aircraft landing and takeoff paths. The relationship between real estate prices and tax rates is generally an inverse one: the lower the tax rate, the higher the price per square metre (assuming all other locational factors are the same).

## Capacity limits reached in some places

Swiss municipalities are extensively autonomous, and have responsibility for a large number of duties. Around 27% of all public expenditure runs through their budgets. They are correspondingly also responsible for setting the income tax rate for their own municipality.



In recent years, financial pressure on municipal councils has increased considerably. In matters such as asylum and social assistance in particular, expenditure has become more complex and diverse. Communally shared responsibilities such as water supply and education require cooperation and coordination with neighbouring municipalities, and place high demands on municipal authorities. In view of such challenges, which are exacerbated by a more demanding and critical attitude on the part of the local population, many municipal councils are reaching the limits of their capacity. Smaller communities are reporting increasing difficulties finding qualified applicants for their political offices.

Municipalities in financial difficulties find themselves in a vicious circle, from which they often cannot break free under their own steam. If the tax rate has to be increased, good taxpayers go elsewhere. Tax revenue drops, meaning that it must be hiked up again next time round, and so the spiral continues. In such cases, it is imperative to search for more efficient methods of providing community services. A better way, however, is for municipalities to take more time when the situation is easier to consider ways of optimizing how they perform the tasks allotted to them.

### Reform project options

Overall, municipalities have the choice between three types of reform with varying scopes. In the case of internal reforms the allocation of tasks within the local municipality is restructured, such as in the case of “new public management”. This approach, based on a stronger customer orientation and the (partial) privatization of administrative duties was pursued in the 90s by many Zurich municipalities, for example.

With inter-municipal reforms, there are two possibilities. In one case, the

sovereignty of the municipality as such remains unaffected. In order to make better use of resources and competencies, however, certain tasks are shared as part of an inter-municipal cooperation effort, in which case the various joint responsibilities can also overlap. This kind of collaboration most often occurs in school-related issues and in connection with medical services.

In the most far-reaching cases, regional structures are reorganized by means of municipality amalgamations. Such merger projects have previously often failed in the face of resistance from the population. In the cantons of Fribourg, Ticino and Thurgau in particular, however, many such plans have already been implemented successfully. In most cases, municipality mergers have led to an expansion in the services available, and also an improvement in the quality of these services. Apart from administrative expense, however, costs have only rarely been reduced. This makes it all the more important to ensure that such far-reaching reforms are also never tackled one-dimensionally, but always in combination with the methods described above.

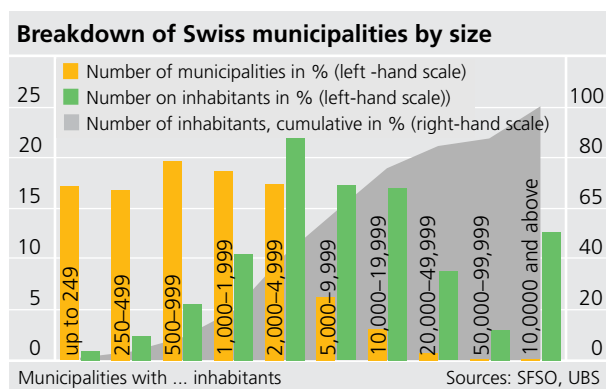
### “Voting with one’s feet” brings locational competition

It is impossible to decide on an ideal municipality size which would apply in all cases, as there is a specific optimal size for every municipal task. In

a city, for example, certain functions such as the resident’s registration office must be split up into accessible local offices, while a waste incineration plant can only keep its capacities fully utilized on an inter-regional basis. What is more, the preferences of individual citizens vary greatly, and soft factors such as tradition and attachment to place of birth cannot be reflected in figures. It is not enough in most cases, therefore, to look solely at the number of inhabitants as a criterion for the optimal size of a community. Equally important for measuring the productive capacity of a municipality are the geographic location and the population structure.

In addition to having the right to vote on community issues, every citizen can also “vote with his feet”, seeking out a community that offers an optimal package of public services and taxes. Because needs vary depending on the geographic location or population structure, communities offer different service packages: peace and unspoiled nature for mountain residents, for example, opera and theatre for city dwellers, childcare facilities for young families, and shopping facilities for pensioners. The prerequisite for this theoretical approach is the mobility of each person in his choice of community, and in Switzerland this point is not always fulfilled. Despite major differences in services and tax rates, cantonal and language borders as well as distance continue to repre-

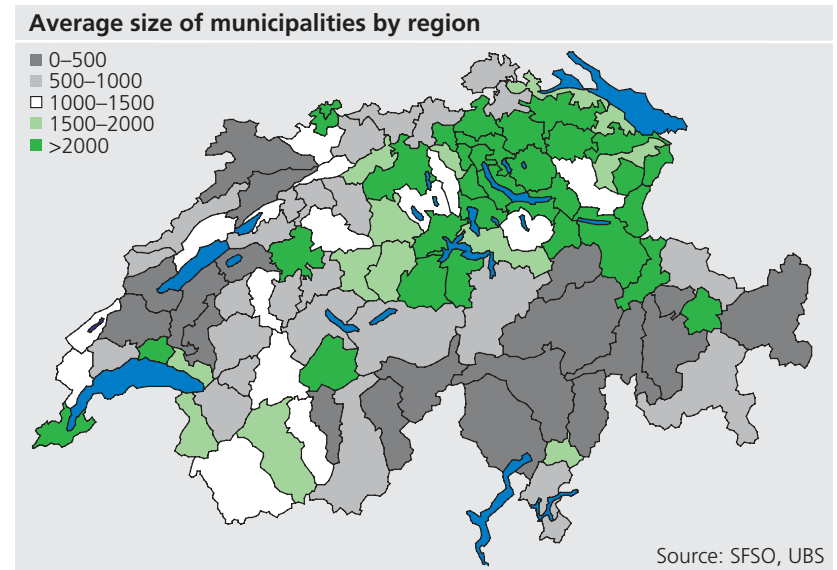
Half of all municipalities in Switzerland have fewer than 880 inhabitants (median). However, 50% of the national population lives in municipalities with over 2,000 inhabitants.



sent real barriers. Competition, however, has brought the various service offerings and tax rates closer together between neighbouring municipalities with similar locational functions.

### Compensation for supra-municipal services

Inhabitants of outlying conurbations benefit just as much from the cultural offering and infrastructure of their urban centre as do the town dwellers themselves. The example of a town theatre subsidized by the public sector demonstrates clearly the issue of the burden carried by urban centres. When the benefit (visit to the theatre) and the cost (deficit financing of the theatre) accrue to different people, this inequitable situation is described as external effects or referred to as the “free-loader problem”. In our example, inhabitants of suburban agglomerations are naturally also free to attend the theatre. Similarly, town dwellers can



also profit from the idyllic environment of the rural municipalities.

If the financial burden is not shared equitably between the urban centre and its surrounding conurbation, taxpayers would have to bear the cost of such

additional services themselves. If these financial transfers are insufficient, town budgets increasingly risk getting into trouble, especially in times of economic stagnation. At the cantonal level, the redistribution of the costs of services provided by the urban centres functions only to a certain extent, as urban agglomerations do not automatically stop at cantonal borders. The aim of restructuring the system of financial offsets and the division of responsibilities between the state and the cantons (NFA) is to redress the imbalance of responsibilities and the overall burden at the national level (see box).

### There is no optimal size

There is no empirical or scientific evidence which enables us to determine a standardized ideal size for a municipality. Depending on the task concerned, various territorial limitations are involved, and the number of inhabitants is just one criterion among many. The future therefore most likely lies in a network of numerous models of cooperation. Even municipality mergers only promise an improvement in locational quality if combined with other reform measures. ■

### NFA: new system of financial offsets

Because the tasks to be performed and the tax revenues differ considerably from one municipality or canton to another it is necessary to redress these disparities to some extent through a system of financial offsets at both the municipal and cantonal level. With the NFA project, the state and the cantons aim to create a new basis for this. What is often referred to in abbreviated form as the “new financial offset scheme” actually goes much further, involving as it does the “reorganization of financial offsets and responsibilities between the state and the cantons”. The distribution of powers and responsibilities is to be regulated more clearly than is currently the case. Restructuring the system is designed to minimize the differences between financially strong and financially weak cantons. The current federalist system which has emerged over the course of history is being adapted in order to ensure its ability to continue functioning properly in the future.

The NFA draft is currently going through parliament, and will come into effect in 2006 at the earliest. Its core elements are

- the separation of responsibilities and financing: responsibilities lie either with

the state or with the cantons (reduction in parallel administrative systems and duplication of tasks).

- new forms of financing and cooperation between federal government and the cantons: strategic management for joint tasks will lie with the federal government, operative responsibility with the cantons.
- distributing the economic burden of inter-cantonal cooperation: cooperation between cantons will be expanded and strengthened. This demonstrates a deliberate emphasis on a federalist rather than centralist approach.
- resources are offset between the cantons, thus securing the productive capacity of financially weaker cantons.
- reimbursement of special costs incurred by certain cantons: mountain and urban cantons will receive compensation for their special costs from the federal government, and the disproportionately high burdens carried by individual cantons will be compensated. The new system thus seeks a sociodemographic redistribution of the financial burden between the urban cantons and the suburban conurbations. ■

simone.hofer@ubs.com

☎ 01-234 48 73