

# Fiscal easing in local governments facing potential merger: Visible in budgets or hidden in overruns?

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## Abstract

Mergers incentivize local governments to ease their fiscal policies before the merger is implemented. This incentive is powerful: it is known that local governments start easing fiscal policies even before they know for sure that a merger will occur and even if merging is what they want. Based on a study of Norwegian municipalities, this article shows that irrespective of whether local governments face certain or potential mergers, their fiscal easing is manifested primarily in budget overruns rather than candidly documented in budgets. Among local governments facing a potential merger, unwilling governments ease their fiscal policies more than willing ones do and to a larger extent apply a concealment strategy.

## 1 | INTRODUCTION

The structural reform of local government systems through voluntary or enforced mergers has been a recurring item on many countries' policy agendas for several decades (Baldersheim & Rose, 2010; Paddison, 2004; Sancton, 2000). Merging local governments has been propagated as a cost-saving measure, although empirical evidence is mixed (Blom-Hansen et al., 2016; Swianiewicz & Łukomska, 2019; Tavares & Rodrigues, 2015). A mechanism that counteracts cost-saving is easing of local fiscal policies just before a merger is implemented, a behavior closely related to a phenomenon known as freeriding (Hinnerich, 2009). A merger creates a common-pool problem—"a future common pool which the amalgamating entities can try to exploit prior to amalgamation" (Hansen, 2019; see also Ostrom, 1990). The prospect of a merger incentivizes local governments to increase spending on local welfare goods and accrue localized benefits while they still have the authority to do so. Premerger fiscal easing entails last-minute

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changes in economic policy aimed at maximizing benefits for the present citizenry before “shutdown”—a behavior incentivized by the expectation that the merging local government can maintain benefits for its present citizenry while sharing costs with others in the merged entity.

Although accounting and auditing regulations limit the extent of fiscal easing and its damaging fiscal effects, premerger fiscal easing is a real-world problem. At stake are the legitimacy and effectiveness of important public sector reforms. Seen from the perspective of the new merged entity, premerger fiscal easing reduces the economic potential for future services and priorities. At the aggregate level, it undermines the legitimacy and effectiveness of consolidation reforms—that is, nationwide reforms aiming to merge local governments (Reingewertz & Serritzlew, 2019). Reformers try to suppress fiscal easing by, for example, limiting local governments' spending and lending autonomy during the reform period. Because the understanding of premerger fiscal easing is incomplete, however, such countermeasures do not always work.

Although most common-pool-oriented research on local government mergers has focused on situations where mergers are all but certain, recent research has demonstrated that fiscal easing occurs not only among those certain of merging with others but also among those who believe merging is a potential outcome of an amalgamation reform (Askim et al., 2020). This article continues efforts to expand the reach of common-pool research on mergers by asking whether premerger fiscal easing predominantly occurs in the open, documented in budgets, or more covertly, as budget overruns. We hypothesize that covertness is the strategy of choice. The second, more explorative research question is whether the tendency to be open or covert about premerger fiscal easing varies depending on a local government's willingness to merge.

Our research setting is Local Government Reform in Norway. We apply a difference-in-difference (DiD) logic and—uniquely in common-pool studies of local government consolidation reforms—compare budgeted and actual spending before and after the reform started among municipalities grouped by their levels of territorial uncertainty.

## 2 | ANALYTICAL FRAMEWORK

### 2.1 | Mergers and the common-pool problem

The common-pool problem arises when the cost of an activity that benefits a small group is shared among a larger group (Hardin, 1968; Ostrom, 1990). The common-pool problem is sometimes formalized as the so-called law of  $1/n$ , whereby a district receives all benefits from projects in its area but pays only  $1/n$ 'th of the costs (Baqir, 2002; Burnett & Kogan, 2014). Representatives have an incentive to maximize projects in their own jurisdictions and thus deplete the common pool. The costs of doing so are shared by all, while the benefits are enjoyed only by the owner of each project.

Like the scenario captured by the strategic game “the tragedy of the commons” (Hardin, 1968), common-pool theory predicts that the aggregate outcome of project decisions will be suboptimal from the joint political assembly's perspective. The immediate “tragedy” is collective excessive spending: implementation of a volume of projects that, in sum, is incompatible with sound fiscal management and long-term financial capacity. Furthermore, because benefit-maximizing jurisdictions prioritize projects according to expected utility, fiscal easing would logically lead to the implementation of projects with steadily decreasing net utility. In other words, if the common pool pays for a large portion of the bill, each party is incentivized to choose projects that they would otherwise reject. Because fiscal easing reduces the joint assembly's future room for maneuver, upcoming projects with a higher expected utility will be rejected because funds are tied down by projects with a lower expected utility. Finally, the joint assembly incurs a loss of utility if its utility function is different from the aggregate of the involved jurisdictions' utility functions. Projects with high utility—seen from the collective point of view of the new merged unit—are therefore crowded out by less useful projects. Losses incurred due to premerger fiscal easing may reduce or balance out net savings from realizing economies of scale in the new merged units—not least because savings from mergers may be limited or nonexistent (Blom-Hansen et al., 2016).

Assumptions about freeriding have found broad support in studies of local government consolidation reforms. As Hansen (2014, p. 4) argues, “The merger process links the present policies of the merging entities to the future policies of the newly merged entity.” Until the merger is implemented and a new council has been elected, the councils of the “old” local governments assumedly care mostly about their current citizenry and territory (Blom-Hansen, 2010; Saarimaa & Tukiainen, 2015). Local governments facing mergers are thus incentivized to exploit the future common pool.

## 2.2 | Certain and possible mergers

Several studies have indicated that such exploitative behavior is triggered by increasing certainty about mergers. In a study of Sweden's 1952 amalgamation reform, Jordahl and Liang (2010, p. 171) found that local governments facing mergers increased their debt in 1948–1952, when a merger could be anticipated “with a high degree of certainty.” Similarly, in Sweden's 1969–1974 reform, fiscal easing was triggered by a governmental decision in 1969 to legally impose a structure of 282 local government blocks that had been constructed 4 years in advance (Hinnerich, 2009). Consequently, local government that eased fiscal policies did so knowing if they would come out of the reform with their territorial integrity intact. In Denmark's 2007 reform, fiscal easing was triggered by a governmental decision stipulating a minimum threshold of 20,000 inhabitants for each local government (Blom-Hansen, 2010; Blom-Hansen et al., 2014). Because this threshold decision was made in 2004, less populous local governments could be certain about their own terminations.

A related point is that consolidation reforms are different and thus not always marked by full certainty about the eventual outcome. In many countries, local governments can impede or deter centralized reform attempts due to legal–constitutional constraints or political controversy (Baldersheim & Rose, 2010; Meligrana, 2004). Because one or several partners to a proposed merger may decide to jump ship, or because the government may decide not to carry out the threat of an imposed merger, local governments cannot be sure that a common pool will materialize. Consequently, “free-riders” risk having to shoulder the full costs of current fiscal easing themselves to the detriment of their own future fiscal wellbeing. If the merger proposal is successful, however, a local government that ends up as the only non-“free-riding” partner will pay its share of the other partners' fiscal easing without enjoying any extraordinary benefits for its own constituency. Thus, territorial uncertainty—that is, uncertainty about whether one will become merged or emerge from the consolidation reform with one's jurisdictional integrity intact—introduces an interesting twist into the strategic commons game and a complex incentive structure. While local governments that face a certain merger have strong incentives to ease fiscal policies, the proclivity for fiscal easing among local governments that experience territorial uncertainty will be tempered by the prospective costs associated with failed merger proposals. Still, in a study of Norway's local government reform, Askim et al. (2020, p. 335) found that termination need not be a certainty for government agencies to begin spending resources beyond what they would do absent an existential threat. However, the level of such opportunistic behavior increases as the perceived likelihood of extinction increases. From Askim et al. (2020), we for instance know that local governments facing territorial uncertainty ease fiscal policies by lowering the actual operating surplus in their final accounts.

Next, we continue this effort to extend the reach of common-pool theory by looking into an important dichotomy of instruments used to ease fiscal policies—namely, openly planned increase in spending relative to revenue versus unplanned, covert increase in spending relative to revenue—and by connecting this to variations in certainty about merging and in attitudes to merging.

## 2.3 | Hiding fiscal easing as budget overruns

From a game-theoretical perspective (Fudenberg & Tirole, 1991), the least desirable outcome is to emerge as the only non-“free-riding” partner once the dust of the merger has settled; conversely, the most desirable outcome is to

emerge as the only “freerider.” It is therefore in the interest of local governments to monitor the premerger economic policies of their prospective merger partners. Monitoring costs vary among different types of economic decisions, however. Fiscal easing visible in the annual budget is more transparent and easier to monitor than is fiscal easing occurring in the form of decisions made during the fiscal year. Increasing monitoring costs raises the threshold for prospective merger partners to become cognizant of what the “freerider” is doing, thus increasing the chances of realizing the most desirable outcome—emerging as the only partner that eased fiscal policies prior to the merger. This extension of game theory should hold regardless of whether a local government faces a certain merger or experiences territorial uncertainty. In both situations, budget overruns should be a likelier outlet for fiscal easing than budgeted fiscal easing (Blom-Hansen, 2010). We deduce the following hypotheses:

**H1.** Among local governments facing a certain merger, fiscal easing occurs predominantly as budget overruns, not as planned behavior visible in budgets.

**H2.** Among local governments facing a potential merger, fiscal easing occurs predominantly as budget overruns, not as planned behavior visible in budgets.

In the hypotheses, we use “budgeting” as shorthand for fiscal easing occurring as planned behavior visible in budgets. Overrunning budgets, or budget breaking, has been the subject of some attention in public administration scholarship, and its negative consequences include making planning more complicated and harming the credibility of policy decisions vis-à-vis the citizenry. Prior research suggests that triggers of budget breaking may be found in policy problems (e.g., that solutions to intractable problems are surprisingly expensive to implement), in institutional rules (e.g., access to carrying appropriations forward and to borrowing), in economic conditions (e.g., affluence or stress), and in the political domain (e.g., electoral cycles, political orientations, and coalitions) (Anessi-Pessina & Sicilia, 2015; Benito et al., 2015; Blom-Hansen, 2002; Serritzlew, 2005; Soguel & Ecabert, 2015). Overall, the results are mixed, and the triggers of fiscal easing are therefore not well understood.

Our coupling of fiscal easing to structural reform and territorial uncertainty thus represents an extension of extant scholarship into the causes of fiscal easing, one that connects dots between budget breaking and the organization's wider reform environment. Serritzlew (2005, p. 419) suggests that fiscal easing is affected by norms and rules about “when, how, and to whom information is provided.” His interest is in whether actors other than spending advocates have access to decision-makers inside the organization. Our interest is related; it is in the availability of information to actors *outside* the organization. The incentive is to limit such outside access, not because outsiders may advocate frugality in an annoying way or because they have the regulatory power to stop an organization from easing its fiscal policies but because the outsiders are prospective merger partners. As an entity wants to emerge as the only overspender, it wants to keep prospective partners in the dark about its budget breaking. As Ostrom emphasizes, decision-making about using the common pool (in our case, resources the merged organization can spend in the future) is affected by anticipation of what others with access to the common pool are doing. In Ostrom's (2000, p. 142) words, decision-makers are “conditional cooperators” who are “willing to initiate cooperative action when they estimate others will reciprocate and to repeat these actions as long as a sufficient proportion of the others involved reciprocate.”

Finally, recurring in the literature on local government reform is the distinction between voluntary and forced mergers (Baldersheim & Rose, 2010; Reingewertz & Serritzlew, 2019; Swianiewicz, 2010). Extant studies indicate that forced mergers tend to be more conducive to premerger fiscal easing than voluntary ones (Fritz & Feld, 2015; Saarimaa & Tukiainen, 2015). However, common-pool theory does not support specific assumptions about differences in the level of fiscal easing between those facing a potential forced merger and those facing a potential voluntary merger. Nor does common-pool theory or prior research give reason to expect that those willing to merge tend to be more open or covert about fiscal easing compared with those unwilling to merge. We will still explore whether such a difference exists in the instruments used to overspend, thus contributing to the voluntary/forced theme in the literature on mergers.

### 3 | RESEARCH SETTING

The empirical test bed is Norwegian municipalities. These are multipurpose jurisdictions with a high level of local autonomy (Ladner et al., 2016). Norway is a highly decentralized welfare state; its local governments are in charge of a broad range of legally mandated tasks and services. The local government sector is funded partially by local taxation and user fees and partially by central government grants, mainly in the form of block grants. Because all local governments charge the maximum legally allowed income tax rate, they are able to increase their own revenues to only a very limited extent (Jacobsen, 2020). Municipalities are mandated to decide on current spending and capital investments and may freely allocate resources across policy areas. Fiscal autonomy is bounded by the requirement that the budget be balanced, realistic, complete, and transparent (Local Government Act §14). Within these limits, however, fiscal autonomy is comparatively high (Ladner et al., 2016), and councils may transfer surplus funds or budgetary overlays to the following year (Jacobsen, 2020).

In 2014, Norway had 428 municipalities, a number virtually unchanged since a broad-scale structural reform in the mid-1960s (Hansen, 1991). According to the Territorial Division Act, voluntary mergers are decided by the government, but all merger proposals in which at least one municipality disagrees must be decided by Parliament. The general election in September 2013 brought to power a minority coalition government that had local government reform high on its agenda. The government presented the reform to Parliament in April 2014 (Ministry of Local Government and Modernisation, 2014). Parliament decided that mergers, as a rule, should be voluntary. Still, municipalities might be forced to merge in “a few” cases to prevent “individual municipalities [...] from blocking changes that are necessary in light of regional considerations” (Norwegian Parliament, 2014, pp. 41–42). Alongside the threat of forced mergers, voluntary mergers were encouraged by ministerial exhortations, direct merger subsidies, and an adjustment to the allocation scheme for governmental grants designed to incentivize mergers (Klausen et al., 2021). The government proposed a bill to curtail municipalities’ freedom to take out loans and enter into long-term rental agreements during the reform period, citing fears that “debts may increase because the present municipal council can invest and roll the costs onto the new, larger municipality” (Ministry of Local Government and Modernisation, 2014, p. 50). The government thus clearly perceived a risk of premerger fiscal easing; still, it shelved the proposal because of heavy political opposition.

Municipalities were instructed to evaluate the prospects of merging with neighbors of their choice, to enter into intent-to-merge agreements with others, to consult citizens, and (by July 2016) to state by council decision whether the municipality was willing to merge. Over 300 municipalities signed 153 intent-to-merge agreements, and advisory referendums took place in 219 municipalities (Folkestad et al., 2021). In total, 155 councils voted in favor of merging, and most, but not all, specified their prospective merging partners.

In October 2016, following consultations with municipal representatives, Norway’s 18 county governors submitted recommendations to the government about the future local government structure in their respective counties.<sup>1</sup> In 62 cases, the county governors recommended enforced amalgamation, that is, to merge municipalities despite their councils having decided against merging. In 211 cases, the county governors recommended upholding council decisions against merging. It was widely assumed that the government would abstain from enforced mergers, absent clear recommendations from the county governors. Therefore, for these 211 municipalities, any lingering territorial uncertainty disappeared once the county governors submitted their recommendations. The remaining municipalities were kept in suspense about their fate in the reform. It was hard to predict whether the government would eventually follow the county governors’ recommendations and carry out enforced mergers in the 62 cases mentioned above. Furthermore, among the 155 municipalities that had voted in favor of merging, many were far from certain that their prospective partners had accepted or would accept a merger proposal. For many municipalities, then, a degree of territorial uncertainty—the theoretically relevant condition for this study—lasted from 2014 to April 2017, when the government submitted the reform bill to Parliament (Ministry of Local Government and Modernisation, 2017).<sup>2</sup>

## 4 | DESIGN, DATA, AND METHODS

The research design uses the analytical opportunities offered by the reform just described. To measure the treatment variable, exposure to merger, we used a unique data set based on document analysis of intent-to-merge agreements, county governors' recommendations, and the "Yes" or "No" decisions to merge by municipal councils. Based on this data set, we categorized Norway's (as of 2016) 428 municipalities into four groups (see Table 1 for details).

Municipalities in Group 1 faced certain mergers. For municipalities in Groups 2 and 3, there was a credible possibility that a merger would occur—either a potential *voluntary* merger, because they had voted *for* merging (Group 2), or a potential *forced* merger, because they had voted *against* merging (Group 3). Group 4 comprises municipalities that could be confident that they would not be merged (nonmerger).

We applied a DiD logic to compare fiscal policies across the four groups before and after the reform was launched, testing whether municipalities that anticipated a certain or potential merger changed fiscal policy compared with the nonmerging ones. Because nonmerging municipalities experienced *some* territorial uncertainty, they were not, strictly speaking, a no-treatment reference group.

We analyzed the expenditures listed in the local governments' operating budgets. Major posts in the operating budgets include personnel wages, service production costs, benefit payments, and maintenance costs for municipal

**TABLE 1** Municipalities categorized by exposure to merger

Group	Characteristics	N (all)	N (final-accounts data)	Share actually merged 2017–2020 (%)	N (budget data)
(1) Certain merger	Volunteered to merge at the start of the reform process with specific and willing partners. Mergers approved by the national government in 2016. Implemented in 2017 and 2018.	11	11	100	11
(2) Potential voluntary merger	Volunteered to merge without having specific and/or willing partners and/or too late to be approved by the national government in 2016. Voluntary merger perceived as a possible outcome.	144	141	68.8	118
(3) Potential forced merger	Decided not to merge but the county governor proposed a merger. Being forced to merge perceived as a possible outcome.	62	62	12.9	57
(4) Certain no merger	Decided not to merge and the county governor proposed no merger. Merger perceived as a wholly unlikely outcome.	211	202	1.0	152
Total number of municipalities		428	416	416	338

*Note:* Group 3 includes six governments for which the county governors did not make a recommendation to the national government but strongly encouraged governments to find a merger partner before the end of 2016.

buildings, roads, and other infrastructure. Costs associated with new or upgraded infrastructure belong to the investment portion of the budget. Our key indicator of fiscal policy was the operating *surplus*. This indicator measures current revenues minus current expenditures and interest. To be able to repay loans and finance new investments, current revenues must exceed current expenditures and interest. That is, over time, an operating surplus needs to be the output of fiscal policies. The operating surplus will consequently decrease the more aggressively a municipality spends on current services relative to its income. Fiscal easing in our merger scenario would imply that current spending is increased relative to current revenue after treatment by exposure to merger. If, as hypothesized, a municipality facing a certain or potential merger eases fiscal policies, it will show up in the shape of a decreasing operating surplus compared with that of nonmerging municipalities.

To capture whether fiscal easing occurred openly in budgets or was hidden in budget overruns, we applied three dependent variables measuring three aspects of the operating surplus:

- Actual operating surplus: the operating surplus in municipal final accounts.
- Budgeted operating surplus: the operating surplus in municipal budgets approved by the municipal council prior to the start of the budget year.
- Budget variance operating surplus: the difference between the budgeted and the actual operating surplus. A positive value reflects that the actual operating surplus ended up smaller than budgeted. In running text, we use the term budget overruns or underestimation of surplus for the sake of simplicity. Practically all variances we comment on are negative, which means that local governments overestimated the surpluses in their budgets.

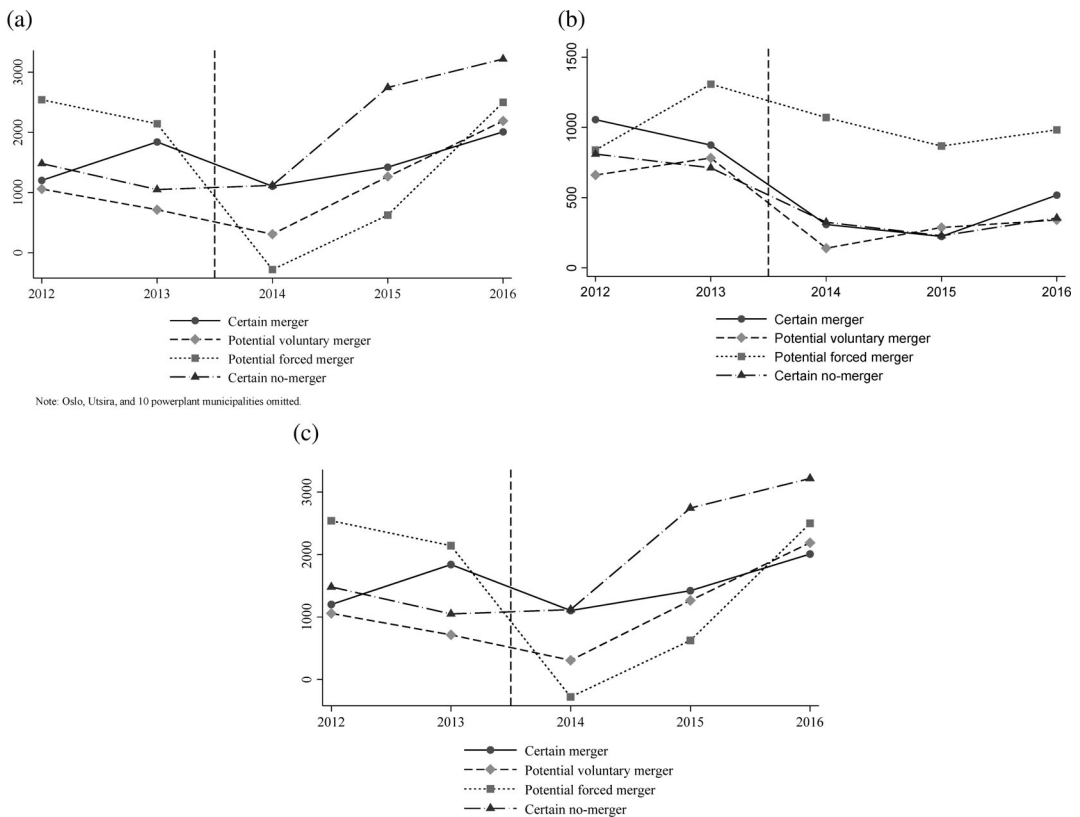
We obtained final accounts data from the official Norwegian database for local government accounting (KOSTRA) and budget data from the 18 county governors (direct correspondence). The data cover 2 years before the reform process was initiated (2012 and 2013), 2 years of local processes of evaluating the prospects of merging (2014 and 2015), and 1 year in which governments in the potential-forced-merger group had strong reason to expect forced merger in the last 3 months of the year (2016).

The panel data set contains budget data for 338 municipalities and final accounts data for all 428 municipalities for the years 2012–2016. As the data have a panel structure, ordinary least squares regression (OLS) is unlikely to produce unbiased results because of problems related to autocorrelation and heteroskedasticity. To remedy this potential bias, we ran OLS regressions with cluster-corrected SEs clustered at the level of the individual municipality (e.g., Blom-Hansen et al., 2014). Since our hypotheses regard budget overruns, in all analyses we focused on the 338 municipalities with available budget data. Apart from a lower wealth in budget data municipalities, we found no systematic differences between municipalities with or without available budget data (see Table A2 in the appendix).

Fiscal policy is influenced by factors other than a potential merger on the horizon. Since our sorting of municipalities into groups was not random, we included controls for three variables known to affect the fiscal policies of Norwegian municipalities from previous analyses (Borge & Tovmo, 2009; Hagen & Vabo, 2005): municipal wealth, expenditure needs, and population. See Table A1 in the appendix for information on the measurement of all dependent and independent variables. Additional background information on the sample and the four subgroups is included in Table A3 in the Appendix. Municipalities in Groups 1 and 2 are larger, less affluent, and more urbanized than those in Groups 3 and 4, but we see no reason why these variances should affect the likelihood of municipalities easing their fiscal policies either openly or covertly.

## 5 | RESULTS

Figure 1 shows the development of fiscal policy over time for the three dependent variables in the four groups of municipalities. It is important for the validity of the DiD regression analyses that the groups developed similarly before the treatment—that is, before the onset of the local government reform. Overall, Figure 1 does not indicate



**FIGURE 1** Fiscal policies in four groups of municipalities with budget data (simple means) 2012–2016. (a) Actual operating surplus; (b) budgeted operating surplus; and (c) budget variance, operating surplus

systematically different trends across the four groups before the onset of the reform in 2014. However, prereform trends for actual surplus and budget variance for the group of certain mergers are less like the others, so the results for this group are indicative. To increase the overall robustness of regressions and to make estimates less sensitive to yearly fluctuations, we used the average of the two pretreatment years 2012 and 2013 as the basis for DiD estimates.

The DiD-based regression analysis, presented in Table 2, formally tested whether municipalities facing certain or potential mergers changed fiscal policy relative to nonmerging municipalities from the pretreatment years (2012/2013) to the treatment years (2014, 2015, and 2016). In this stage of the analysis, Groups 2 and 3 have been combined into a single group called “potential merger”; we thus overlook variation in merger willingness for this step. The control group of no-merger municipalities (Group 4) was the reference group.

There are three models in Table 2, one for each aspect of the dependent variable: the actual operating surplus in Model 1, the budgeted operating surplus in Model 2, and the difference between the two (labeled budget variance) in Model 3. None of the hypotheses concern Model 1 directly; it is included here to compare with Askim et al. (2020)<sup>3</sup> and as a reference point for the interpretation of results of Models 2 and 3. The first block of independent variables estimated pretreatment differences between the treatment groups and the nonmerger control group. None of these estimates was statistically significant, thus showing that no systematic pretreatment differences existed between the treatment groups and the control group.

The second block of independent variables is the DiD estimates; these tested whether differences between the treatment groups and the control group were affected by the onset of the reform in 2014. Specifically, the DiD



**TABLE 2** DiD analysis of operating surplus in municipalities facing merger 2012–2016

	(1)	(2)	(3)
	Actual operating surplus	Budgeted operating surplus	Budget variance, operating surplus
<i>Exposure to merger (ref = nonmerger, Group 4)</i>			
Certain merger (Group 1)	857.05 (622.06)	94.51 (409.88)	762.54 (469.71)
Potential merger (Groups 2 and 3)	332.53 (376.41)	63.83 (324.27)	268.70 (362.07)
<i>DiD estimates (ref = nonmerger x 2012 and 2013)</i>			
2014 x Certain merger	−462.97 (606.41)	−242.17 (484.81)	−220.79 (577.29)
2014 x Potential merger	−1023.76*** (369.93)	30.30 (227.02)	−1054.06** (441.73)
2015 x Certain merger	−1777.33*** (533.72)	−214.83 (473.78)	−1562.50*** (587.45)
2015 x Potential merger	−1605.55*** (463.31)	175.97 (241.25)	−1781.52*** (533.86)
2016 x Certain merger	−1532.87*** (522.82)	11.91 (452.37)	−1544.77** (597.24)
2016 x Potential merger	−914.74** (367.10)	146.64 (251.11)	−1061.38** (428.27)
<i>Year dummies (ref = 2012 and 2013)</i>			
2014	−643.51** (288.33)	−358.85* (197.94)	−284.67 (351.72)
2015	906.23** (367.61)	−483.71** (203.54)	1389.94*** (436.51)
2016	1503.65*** (256.61)	−352.11 (219.09)	1855.77*** (308.24)
<i>Control variables</i>			
Wealth per capita	0.05 (0.06)	−0.06 (0.05)	0.11* (0.06)
Expenditure needs per capita	1012.04 (4521.68)	2727.63 (3279.30)	−1715.59 (5758.32)
Population (ln)	146.13 (245.09)	−157.54 (218.10)	303.67 (241.14)
Constant	−3165.89 (4060.85)	2779.58 (3341.36)	−5945.46 (5342.63)
Observations	1619	1619	1619
Adj. R <sup>2</sup>	0.065	0.005	0.082
Max VIF	2.628	2.628	2.628

Note: Robust SEs in parentheses (clustered at each municipality).

\* $p < 0.1$ . \*\* $p < 0.05$ . \*\*\* $p < 0.01$ .

estimates are interaction terms that interacted the group to which a municipality belongs with each treatment year. For all DiD estimates, the reference group was the prereform level of the dependent variable for the control group of no-merger municipalities. For each reform year, we thus estimated whether the difference between a treatment group and the reference group was larger or smaller than it was before the onset of the reform.

First, we looked at municipalities facing certain merger. Model 1 showed that these municipalities in 2014 reduced the actual operating surplus more than the nonmerging municipalities did, compared with the pretreatment difference between the two groups. The estimate for 2014 is insignificant, but in 2015 and 2016, when the merger process proceeded, municipalities facing certain mergers reduced the actual operating surplus significantly relative to nonmerging municipalities, compared with the pretreatment difference between the same groups. In line with Askim et al.'s (2020) analyses of all Norwegian municipalities, we thus for the subset of municipalities with available budget find that municipalities facing certain mergers ease fiscal policies by lowering their actual operating surplus. No significant changes occurred in the budgeted operating surplus, though (Model 2). Budgets that had been approved by the municipal councils thus showed no sign that fiscal easing was about to occur. However, the budgeted surplus was significantly overestimated. The actual operating surplus ended up significantly lower than what was budgeted compared with prereform fiscal policies (Model 3). In both 2015 and 2016, the municipalities facing certain mergers overestimated their operating surpluses by NOK 1540–

1560 per capita, compared with the prereform difference between these municipalities and the control group of no-merger municipalities. Municipalities facing certain mergers, in other words, overspent by easing fiscal policies and overrunning the budget after the initial budget approval.

Turning to municipalities facing a potential merger, we saw significant reductions in the actual operating surplus (Model 1). As was the case for the certain-merger municipalities, no significant policy changes were visible in the budgeted operating surpluses of the potential-merger municipalities (Model 2). The budgeted surpluses were, however, significantly overestimated in all three treatment years (Model 3). In other words, budgets were significantly overrun in all three treatment years. These municipalities thus responded to the possibility of a merger by a reform-driven easing of fiscal policy evident from the first year of treatment. However, like those in the certain-merger group, potential-merger municipalities did not change their budgeted operating surpluses significantly. In all three reform years, potential-merger municipalities eased fiscal policies predominantly—or solely, to be more precise—by overrunning budgets.

Having established that both certain-merger and potential-merger municipalities did overspend—and did this predominantly by overrunning budgets—we moved on to test whether there were systematic differences in fiscal easing patterns between these two groups. To make this comparison, we conducted a supplemental analysis with the reference group switched to certain-merger municipalities (see Table A4 in the appendix). The results show no systematic differences in fiscal easing between certain-merger and potential-merger municipalities. Certain-merger and potential-merger municipalities overspent to the same extent, and for both groups, fiscal easing predominantly occurred as budget overruns, not as planned behavior visible in budgets.

The lower part of Table 2 contains the control variables and the year dummies. It appears that variations in fiscal policies across municipalities and over time were partly contingent on these fiscal constraints: relatively wealthy municipalities had significantly higher budget overruns than the less wealthy had. The year dummies estimate the general time trend in the period—that is, the development in fiscal policies in the control group of no-merger municipalities.

Next, we scrutinized municipalities facing a potential merger. To determine whether those unwilling to merge overspent more than those willing to merge did, we split the potential-merger group into two: potential-forced and potential-voluntary merger municipalities. We then made the potential-voluntary group the reference group in the regression analysis, as shown in Table 3. Our interest is in the DiD estimates for the potential-forced group.

Table 3 shows that potential-forced-merger municipalities overspent significantly more than potential-voluntary-merger ones did. Fiscal easing was manifested in 2014 and 2015 in the actual operating surplus (Model 1) and driven by overruns of the budgeted surplus (Model 3). The budgeted surpluses (Model 2), however, gave no indications that potential-forced-merger municipalities were about to relax fiscal policies. Comparing Models 2 and 3 reveals systematic difference between the two groups. From the DiD estimates in Model 2, we see that those in the potential-forced group consistently budgeted with an *increase* in the operating surplus relative to the potential-voluntary group (statistically significant in 2014). However, the budgeted operating surpluses were realized to a lesser extent in the potential-forced group; this group's budgeted surpluses were consistently overrun relative to the potential-voluntary group (Model 3). The combined results of Models 2 and 3, in other words, suggest that potential-forced-merger municipalities signal fiscal easing in their budgets to a lesser extent than potential-voluntary-merger municipalities. Someone surveying the budgets of potential-forced-merger municipalities would have been left with the false impression that these municipalities would show more restraint in the premerger phase than potential-voluntary municipalities would. No statistically significant fiscal easing was found for 2016, but the direction of the patterns is similar to the two preceding years. Overall, Table 3 shows that municipalities unwilling to merge overspent more than municipalities willing to merge—and did this hidden in budget overruns, not candidly in budgets.

## 6 | DISCUSSION

This study of Norway's recent experience supports the well-known insight that consolidation reforms incentivize local governments to ease their fiscal policies (Blom-Hansen, 2010; Fritz & Feld, 2015; Hansen et al., 2014;

**TABLE 3** DiD analysis of operating surplus in municipalities facing merger 2012–2016

	(1)	(2)	(3)
	Actual operating surplus	Budgeted operating surplus	Budget variance, operating surplus
<i>Exposure to merger (ref = potential voluntary merger, Group 2)</i>			
Certain merger (Group 1)	1066.13* (619.16)	172.54 (383.85)	893.59** (434.72)
Potential forced merger (Group 3)	1729.50** (797.16)	480.39 (649.18)	1249.11** (485.98)
Certain no-merger (Group 4)	243.36 (304.91)	104.91 (257.62)	138.45 (375.02)
<i>DiD estimates (ref = potential voluntary merger x 2012 and 2013)</i>			
2014 x Certain merger	84.50 (564.74)	−85.70 (469.10)	170.20 (502.28)
2014 x Potential forced merger	−1477.43** (655.58)	555.90** (280.11)	−2033.33*** (734.39)
2014 x Certain no-merger	551.66* (332.20)	159.32 (234.30)	392.34 (401.45)
2015 x Certain merger	−773.72* (462.07)	−319.22 (459.49)	−454.50 (485.72)
2015 x Potential forced merger	−1863.21** (725.14)	203.02 (278.82)	−2066.23*** (748.96)
2015 x Certain no-merger	1005.73** (445.50)	−102.79 (259.23)	1108.52** (524.81)
2016 x Certain merger	−877.12* (518.80)	−38.06 (431.75)	−839.06 (583.51)
2016 x Potential forced merger	−846.18 (635.50)	264.13 (293.74)	−1110.30 (727.17)
2016 x Certain no-merger	638.26* (358.49)	−61.87 (268.29)	700.13* (417.94)
<i>Year dummies (ref = 2012 and 2013)</i>			
2014	−1175.26*** (183.90)	−504.68*** (147.42)	−670.58*** (210.23)
2015	−87.53 (255.07)	−372.82** (168.41)	285.30 (290.55)
2016	877.11*** (260.78)	−282.46 (173.98)	1159.57*** (290.51)
<i>Control variables</i>			
Wealth per capita	0.03 (0.07)	−0.08 (0.06)	0.11* (0.06)
Expenditure needs per capita	2631.67 (4878.63)	3868.60 (3892.49)	−1236.92 (5822.28)
Population (ln)	229.82 (211.28)	−90.24 (185.23)	320.06 (251.45)
Constant	−4908.12 (3785.69)	1521.43 (3093.13)	−6429.56 (5514.30)
Observations	1619	1619	1619
Adj. R <sup>2</sup>	0.075	0.011	0.088
Max VIF	2.655	2.655	2.655

Notes: With potential-voluntary-merger municipalities as the reference group. Robust SEs in parentheses (clustered at each municipality).

\* $p < 0.1$ . \*\* $p < 0.05$ . \*\*\* $p < 0.01$ .

Hinnerich, 2009; Jordahl & Liang, 2010; Nakazawa, 2018; Saarimaa & Tukiainen, 2015). Councilors spend lavishly on localized goods before shutdown and pass the bill to the future merged entity. Some might, naively, have imagined that Norway, with its record-high level of generalized trust and social capital, could be a context where local leaders would initiate “cooperative action,” that is, let the common pool be, and expect leaders of neighboring jurisdictions,

their potential merger partners, to “reciprocate” (Ostrom, 2000, p. 138). However, mergers make Norwegian local governments overspend, too.

Consolidation reforms are not always marked by full certainty about who is going to be merged, when, and how (Baldersheim & Rose, 2010; Meligrana, 2004). Our findings support a notion with only limited evidentiary backing so far (Askim et al., 2020)—namely, that even the possibility that a merger might occur is enough to trigger fiscal easing. Theoretically, this is a significant insight because it speaks to the strength of the underlying incentive. Put simply, it is harder than one might think for local governments to resist depleting this type of common pool. If a merger derails, no common pool will materialize, and consequently, local governments will have to pay for the fiscal easing themselves. This possibility evidently does not prevent local governments under territorial uncertainty from “freeriding.”

We hypothesized that premerger fiscal easing would occur predominantly as budget overruns, not as planned behavior visible in budgets, and that this pattern would be found both among local governments certain of merging (H1) and among those for whom merger was a possibility (H2). The results confirm both hypotheses. Our explanation, deduced from game theory, has to do with monitoring costs: it is in the interest of prospective partners to a merger agreement to closely monitor each other's economic dispositions, but it costs more to monitor overruns than to monitor budgets. Keeping prospective partners in the dark about one's own depletion of the common pool maximizes the chance of emerging as the only overspender in the prospective merged entity. Budget overruns are therefore the instrument of choice for premerger fiscal easing.

A supplementary explanation for the observed pattern has to do with the role of the national government as the policy owner. Because it wants to avoid the aggregate perverse effects of consolidation reform, the government has a stake in local governments' premerger fiscal policies. Based on the current evidence, the proclivity for covert fiscal easing might in part be explained by municipalities' trying to avoid sanctioning by the national government. Prospective merger partners should be able to agree not to freeride in the premerger phase, argue Saarimaa and Tukiainen (2015). Restraint is not the only policy prospective partners can agree to, though; they might also agree to ease fiscal policies and to try to hide this behavior from the national government, hoping to avoid sanctions. In the current empirical context, however, the threat of government sanctioning was not very realistic. The government prioritized mergers over economic concerns (Klausen et al., 2021). Our interpretation is therefore that local governments' hiding economic dispositions from each other is a more accurate explanation than their hiding economic dispositions from the government. Still, in future research in a setting where government sanctioning of planned fiscal easing is a realistic scenario, the second explanation should also be considered.

In an exploratory vein, we also asked whether the tendency to be open or covert about premerger fiscal easing varies depending on a local government's willingness to merge. The results point to differences in the two groups' fiscal easing: Not only did the unwilling ones ease fiscal policies more than the willing ones did, they were also more likely to do so covertly. From a game-theoretical perspective, this result is somewhat surprising. For potential-voluntary local governments, covert fiscal easing would seem a viable strategy for reducing the risk of one or more partners—having detected their partner's spendthrift ways—deciding to jump ship, leaving their “freeriding” partner to cover their own costs. This strategic option is unavailable to potential-forced local governments. The outcome of the game situation for unwilling units depends entirely on whether the government ultimately decides to impose a merger, and there is little to suggest that attempts at covert fiscal easing would affect the government in one way or another. Our empirical results, however, run counter to these assumptions.

If an explanation for the observed difference in fiscal easing behavior between the potential-forced and potential-voluntary groups cannot be found by reference to differing strategies for utility maximization, one might instead surmise that nonstrategic behavior is at play. Perhaps the threat of an imposed merger has impaired the councils' overall capacity for strategic behavior, for instance, in the form of reduced fiscal discipline. After all, budgetary overruns are the accumulated result of a number of large and small budgetary decisions made during the year. Maybe the threat of an imposed merger—effectively, the prospect of being terminated as an independent jurisdiction—somehow impairs these councils' powers of restraint against rising expenditures during the fiscal year.

Further research is needed to get a fuller understanding of strategic and nonstrategic responses among local governments with varying attitudes to merging.

Note that the empirical test bed contained no cases combining unwillingness to merge and certain mergers; all cases of certain mergers coincided with a positive attitude toward merging. In addition to theory development, further empirical research is therefore also needed to understand how variation in merger willingness moderates preferences for particular fiscal easing instruments.

A more general limitation of the research design is that we studied some fiscal easing technologies, but not all. For example, capital investments can be used for premerger fiscal easing (Blom-Hansen, 2010; Hansen, 2014; Reingewertz & Serritzlew, 2019). In some contexts, it will be difficult to channel fiscal easing as a last-minute spree of capital investment simply because the reform is quick and capital investments require planning. Moreover, capital investments should generally be easier to monitor than current overruns are. Nonetheless, it is possible that we overlooked fiscal easing in this study by focusing entirely on the operating surplus. With a different regulatory regime, other fiscal easing instruments may be more practicable or attractive than the operating surplus, which is clearly practicable in the present context.

When considering the potential for generalizing these results to other settings, we acknowledge contextual idiosyncrasies. Norwegian municipalities have a comparatively high level of local autonomy, including in matters of fiscal policy and economic dispositions (Ladner et al., 2016). For less autonomous local governments, fiscal easing may be less feasible. Furthermore, while the Norwegian government did not implement any regulations of fiscal policies during the reform process, governments in other countries may well be less lenient, potentially making fiscal easing less feasible. Yet another factor that could increase the likelihood of fiscal easing in Norway is that the downside of “irresponsible” local fiscal policies is limited: Norwegian municipalities are comparatively wealthy, they cannot go bankrupt (Local Government Act § 29-2), and citizens are legally entitled to high-quality welfare services irrespective of the financial wellbeing of their municipality. The worst-case outcome of irresponsible fiscal behavior is likely less dramatic in Norway's local government sector than in those of other countries, from which it follows that fiscal easing is likely in Norway, too.

Put together, regulatory and economic factors thus give reason to expect that the overall level of premerger fiscal easing might be higher in Norway than in many other contexts. One might also surmise that the inclination to be candid rather than secretive about one's fiscal easing is stronger in Norway than in many other countries for much the same reasons. Because high local autonomy and lenient governmental regulation mean that local governments assume the freedom to manage their fiscal affairs independently, they may be less inclined to try to cover their tracks. In contexts where local governments are less autonomous financially or in cases where regulations from higher levels of government are implemented, the level of premerger fiscal easing is likely lower, and municipalities are likelier to try to hide any fiscal easing from outside stakeholders. If the risk of premerger fiscal easing is not met with regulations or other countermeasures, there is, however, every reason to expect that fiscal easing patterns observed in the Norwegian context will occur elsewhere as well. In other contexts, we would also expect to find that governments facing potential mergers will ease fiscal policies as much as governments facing certain mergers will—and that fiscal easing is generally veiled by budget overruns rather than exposed candidly in budgets.

Although there is much to suggest that Norwegian local governments are likelier to ease fiscal policies than their counterparts in other countries, one cultural contextual idiosyncrasy might suggest otherwise. Norway is characterized by high levels of interpersonal trust and high levels of trust in the government (Rothstein & Stolle, 2003). Norway's municipalities may well be reluctant to betray this trust. One would at least expect Norwegian local governments to be culturally disposed to keep any “shameful” fiscal easing well hidden from their neighbors and other outside stakeholders—particularly in voluntary amalgamation scenarios. In less trustful societies, where actors harbor few illusions about anyone's motives and strategies, attempting to cover up one's fiscal easing could be less effective or downright futile.

## 7 | CONCLUSIONS

Given the dramatic wave of local government mergers across the developed world over the last 50 years (Askim et al., 2017; Blom-Hansen et al., 2016), surprisingly few researchers have studied fiscal easing or freeriding in the premerger phase. The present study contributes to the literature by exploiting the analytical potential of a semi-voluntary reform. We asked whether premerger fiscal easing predominantly occurs in the open, documented in budgets, or covertly, as budget overruns. Consistent with what we hypothesized, concealment is the strategy of choice. Our explanation is that each local government thus stands to maximize its gains from freeriding. The second research question was whether the tendency to be covert about premerger fiscal easing depends on a local government's willingness to merge. The answer is yes: concealment is the strategy of choice *in particular* for the municipalities unwilling to merge.

Theoretically, key findings from the common-pool literature on mergers are largely supported. The most notable theoretical extension provided by the study is that concealing fiscal easing as overruns is more prevalent than is candid fiscal easing in budgets—a pattern consistent with game theory.

Premerger fiscal easing can endanger the effectiveness of consolidation reforms and damage the new, merged polities. Depending on which shape the behavior takes, a possible consequence of premerger fiscal easing is that merged polities start out with operating balances, liquidity levels, debts, project obligations, and long-term rental agreements that limit their ability to shape and run a well-functioning polity. Still, one should not demonize the behavior under study. Some would argue that losses of allocative efficiency and future room for political maneuver resulting from premerger fiscal easing are balanced by gains in allocative *fairness* from the perspective of citizens in the old municipality. After all, premerger fiscal easing means spending surplus funds in the jurisdiction where those funds were originally appropriated, in part by local taxpayers' money. Furthermore, fiscal easing measured as we have done in our study does not necessarily reflect waste and certainly not corruption; it probably reflects spending on new equipment in primary schools, extra personnel in elderly care institutions, and other expressions of higher local service levels. However, an extra service for the present citizenry might come at the cost of possibly reduced services for the future citizenry and at the risk of undermining the reform's intentions. Avoiding or limiting premerger fiscal easing by, for example, government regulation is therefore advisable to maintain the legitimacy of a type of public sector reform that governments must have in their arsenal, that is, the possibility to restructure the architecture of government.

What lessons might these results hold for the practice of regulating premerger fiscal easing? Our study took place in a low-regulation context, and we did not study the effect of regulation on fiscal easing. Still, it is possible to extract from the results three insights of relevance for the dark art of regulating premerger fiscal easing. That many local governments ease fiscal policies soon after perceiving a threat to their jurisdictional integrity means that to be effective, countermeasures to fiscal easing should be implemented as soon as a reform is announced and should cover the whole population of local governments, not just local governments the government intends to target for merging. Moreover, because a range of instruments may be used for fiscal easing, and because local governments are trained and skilled at using the instruments available to them, monitoring and sanctioning should target a number of fiscal easing instruments, if maximizing the effect of regulation is the objective.

### ENDNOTES

- <sup>1</sup> The county governors are government-appointed state territorial representatives with supervisory and adjudicating functions.
- <sup>2</sup> The reform's eventual outcome in terms of actual mergers was meager; see Klausen et al. (2021) for a study that attempts to explain why. In the period studied here, though, the political situation gave municipalities every reason to take the "threat" of merger seriously.
- <sup>3</sup> Askim et al. (2020) analyzed all Norwegian municipalities, whereas we focus on the subset of municipalities with available budget data.

## DATA AVAILABILITY STATEMENT

The data that support the findings of this study are available from the corresponding author upon reasonable request.

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## APPENDIX

TABLE A 1 Measurement of variables and descriptive statistics 2012–2016

Variables	Measurement	Mean	SD	Min	Max
<i>Dependent variables</i>					
Actual operating surplus	Net operating surplus per capita in the final account of the year. Net operating surplus is measured as current revenues minus current expenditures and interest ("Netto driftsresultat i kroner per innbygger").	2122	3505	–9885	40,042
Budgeted operating surplus	Net operating surplus per capita in the budget. Same definition as for actual operating surplus.	563	2654	–14,505	36,096
Budget variance, operating surplus	Net operating surplus per capita in the final account minus net operating surplus per capita in the budget	1560	3629	–13,851	38,566
<i>Main independent variables</i>					
Territorial uncertainty					
	Four groups of municipalities categorized by exposure to merger.				
	Nonmerger (ref.)	0.440	0.497	0	1
	Certain merger	0.034	0.181	0	1
	Potential voluntary merger	0.354	0.478	0	1
	Potential forced merger	0.172	0.377	0	1
<i>Control and other variables</i>					
Wealth per capita	Municipal wealth per capita. Total revenues from general grants and local taxes ("Frie inntekter").	58,370	10,526	40,649	104,141
Liquid assets per capita	Liquid assets per capita primo budget year ("Disposisjonsfond").	4641	5976	–1729	62,916
Expenditure needs per capita	Demographic and socioeconomic needs per capita according to the criteria in the Equalization Scheme. Measured as an indicator measuring the within-year position of the individual local government relative to a national average set at 1. Source: Ministry of Labour and Government, yearly calculations for the Equalization Scheme ("Inntektssystemet"). For 2016 see <a href="http://www.regjeringen.no/contentassets/744de1ad6f0f4df09311c33edd01ae99/trykk_gront-hefte.pdf">http://www.regjeringen.no/contentassets/744de1ad6f0f4df09311c33edd01ae99/trykk_gront-hefte.pdf</a>	1.12	0.14	0.90	1.75
Population (ln)	Natural log of municipal population January 1.	8.58	1.13	6.15	12.54

(Continues)

TABLE A 1 (Continued)

Variables	Measurement	Mean	SD	Min	Max
Degree of ruralness (ln)	Natural log of a structural criterion ("Strukturkriteriet") measuring the average travel distance for the inhabitants of a municipality to reach 5000 inhabitants (Ministry of Local Government and Modernization 2016, p. 55).	2.41	1.01	0.278	6.05

Notes:  $N = 1613$  for liquid assets and 1605 for degree of ruralness.  $N = 1617$  for all other variables. All economic figures calculated in NOK, 2016 prices. All data except budget data are register data from the KOSTRA database run by Statistics Norway. (<http://www.ssb.no/offentlig-sektor/kommune-stat-rapportering/kostra-databasen>). They include data on municipal fiscal indicators stemming from the local governments' accounting systems, based on national specifications set by the national government framework for KOSTRA. In addition, Statistics Norway and the Ministry of Labour and Government collect demographic and socioeconomic data on all local governments. The authors collected budget data by contacting the county governors and individual local governments.

**TABLE A2** Test of prereform (2013) representativity of municipalities with budget data available

	Budget data municipalities	Other municipalities	Total
<i>Comparison of means</i>			
Actual operating surplus	1980	2539	2105
Wealth per capita (NOK)	58,348*	60,674	58,867
Liquid assets per capita (NOK)	4329	4007	4256
Expenditure needs per capita (NOK)	1.119	1.122	1.120
Population (ln)	8.567	8476	8.547
Degree of ruralness (ln)	2.412	2.573	2.449
<i>N</i>	320	96	416

Note: Two-tailed *t*-tests of differences in means.

\**p* < 0.1.

**TABLE A3** Descriptive statistics on prereform (2013) characteristics across four groups (budget data municipalities)

	1. Certain merger	2. Potential voluntary merger	3. Potential forced merger	4. Certain no merger	Total
<i>Comparison of means</i>					
Wealth per capita (NOK)	54,055	53,376	59,280	60,873	58,348
Liquid assets per capita (NOK)	5149	3930	3877	4742	4329
Expenditure needs per capita	1.043	1.081	1.117	1.157	1.119
Population	14,364	17,551	7088	6781	10,929
Population (ln)	9.085	8.970	8.401	8.266	8.567
Degree of ruralness	8.407	11.760	21.902	23.850	18.787
Degree of ruralness (ln)	1.854	2.046	2.467	2.718	2.412
<i>N</i>	11	114	53	142	320

**TABLE A4** DiD analysis of operating surplus in municipalities facing merger 2012–2016: With certain-merger municipalities as the reference group

	(1) Actual operating surplus	(2) Budgeted operating surplus	(3) Budget variance, operating surplus
<i>Exposure to merger (ref = certain merger, Group 1)</i>			
Potential merger (Groups 2 and 3)	–524.52 (659.04)	–30.68 (434.35)	–493.84 (415.25)
Certain no-merger (Group 4)	–857.05 (622.06)	–94.51 (409.88)	–762.54 (469.71)
<i>DiD estimates (ref = certain merger x 2012 and 2013)</i>			
2014 x Potential merger	–560.79 (587.65)	272.48 (462.71)	–833.27 (538.10)
2014 x Certain no-merger	462.97 (606.41)	242.17 (484.81)	220.79 (577.29)
2015 x Potential merger	171.79 (480.67)	390.80 (449.37)	–219.02 (496.55)
2015 x Certain no-merger	1777.33*** (533.72)	214.83 (473.78)	1562.50*** (587.45)
2016 x Potential merger	618.13 (514.67)	134.73 (421.73)	483.40 (583.70)
2016 x Certain no-merger	1532.87*** (522.82)	–11.91 (452.37)	1544.77** (597.24)
<i>Year dummies (ref = 2012 and 2013)</i>			
2014	–1106.48** (538.26)	–601.02 (448.19)	–505.46 (464.39)
2015	–871.10** (388.92)	–698.54 (430.28)	–172.56 (391.75)
2016	–29.21 (463.97)	–340.20 (406.29)	310.99 (519.45)
<i>Control variables</i>			
Wealth per capita	0.05 (0.06)	–0.06 (0.05)	0.11* (0.06)
Expenditure needs per capita	1012.04 (4521.68)	2727.63 (3279.30)	–1715.59 (5758.32)
Population (ln)	146.13 (245.09)	–157.54 (218.10)	303.67 (241.14)
Constant	–2308.84 (4066.80)	2874.09 (3305.36)	–5182.92 (5304.74)
Observations	1619	1619	1619
Adj. R <sup>2</sup>	0.065	0.005	0.082
Max VIF	2.655	2.655	2.655

Note: Robust SEs in parentheses (clustered at each municipality).

\* $p < 0.1$ .

\*\* $p < 0.05$ .

\*\*\* $p < 0.01$ .