Economic determinants of mayors' perceptions on power shifts in a crisis scenario

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DRAFT VERSION. PLEASE DO NOT QUOTE

ABSTRACT

Time series of regionalisation as measured by the regional authority index have suggested increasing self-rule of regions in many unitary and even federal countries around the world. Despite this institutional trend, the economic policies adopted by European governments to face the crisis have produced a notable transformation of local governments that range from local agglomeration processes to cuts in local service provision, which lead to dramatic alterations of relative local public expenditures. These policies have been particularly harsh in those economies that suffered greater challenges, thus affecting the autonomy of their local governments in crucial matters. Our main question is whether these austerity measures and economic choices have an effect on the perceptions mayors hold regarding the overall evolution of the integrity of local power. In other words, we intend to find out to what extent the loss of economic capacity of local governments translates into higher levels of perceived power shifts from municipalities to other tiers of government. We observe that mayors within countries that implemented more severe budget reductions perceive higher levels of power shifts, regardless of geographical or institutional settings.

Keywords: Mayors; economic crisis; local autonomy; local power shifts

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1. Introduction

In harsh economic times, local governments are the primary trench for resisting austerity, and they are also the perfect test bed for implementing institutional reforms and organizational rearrangement plans on the grounds of higher levels of efficiency and cost saving. Usually these reforms alter the effective resources available to local governments thus modifying their capacity for policy making. In a nutshell, they erode the integrity of local power, being basically understood as the perceived capacity to act and react through local governments' decisions and policies.

At the forefront of local institutions, European mayors play a crucial role in the interplay between local institutions and upper tiers of governments, as they are increasingly embedded in a multilevel scenario characterized by increasing power shifts.

Since the beginning of the current economic crisis, several EU states engaged in severe economic adjustments promoted by the so-called Troika (formed by representatives of the IMF, the European Commission, and the European Central Bank), ranging from bail-out strategies (Greece, Cyprus, Ireland and Portugal), to partial interventions (Spain and Italy). Nevertheless, since 2009 a wide panoply of changes and reforms of administrative and governmental institutions have been carried out throughout Europe. Bertrana and Heinelt (2013) state that "the current economic and fiscal crisis has opened a 'window of opportunity' to realize reforms which would have been difficult to implement under normal circumstances". Particularly, local governments suffered from stronger multidimensional alterations in a wide range of directions: from an economic perspective, including budgetary control, financial reforms and restructuring of local government funding, among others. Together with these economic reforms, several institutional reforms have followed suit, affecting territorial, functional and democratic aspects of local governments. These include mergers and elimination of municipalities in Germany, Portugal and Greece; rescaling efforts in Spain, France, the Netherlands, Portugal and Greece; and functional modifications in Belgium, among others (Bertrana and Heinelt, 2013; Kickert, 2011; Sotiropoulos, 2004; Wollmann, 2012; Meneguzzo et al., 2013).

The particular effects of the economic crisis on citizen perceptions on democracy or, to a large extent, on government have already been tested in the political economy literature. In particular, recent research emphasizes the intertwined nature of individuals' perceptions on democracy and governmental functioning with economic performance and governmental autonomy on decision-making. On the one hand, Polavieja (2013) shows the combined effect of GDP contraction and EMU (European Monetary Union) membership as a causal mechanism to understand the falls in citizen satisfaction with democracy. On the other hand, Armingeon and Guthman (2014) attribute the erosion of satisfaction with democracy to the economic crisis, together with the loss of governmental autonomy. In addition, Ruiz-Rufino and Alonso (2016) do also account for the fact that bad economic outcomes erode citizens' perceptions on democracy but they add in governmental (in)capacity of building alternative policies when changes in office occur. All of them account for a primary role of macro-economic factors on individuals perceptions.

However, to our knowledge, so far no systematic work has tackled European local elites' perceptions on power shifts and their determinants. Following the economic determinants perspective, this article intends to analyse the differences in perceptions of European mayors when it comes to report on changes in political power among tiers of government in turbulent times. Mostly, we expect mayors to perceive higher political power volatility when economic decisions hurt more their ordinary functioning. Therefore, in a time of austerity and economic crisis, the perceptions of power change may not be related to other issues than economic ones.

We expect the particular local financial situation and the specific institutional constraints in which local governments act as moderators—but not determinants—of such perceptions. In other words, perceived changes and shifts in political powers are mainly related to economic power loss, rather than concrete institutional configurations (e.g., the level of fiscal autonomy) or geographical considerations. Mayors mainly perceive stronger power shifts, when a significant decrease of local budgets is being implemented, leaving aside other institutional considerations.

We intend to find out to what extent the loss of economic capacity of local governments translates into higher levels of perceived power shifts from mayors to other tiers of government. We assess this statement combining data from the OECD regional database, the local autonomy index (Ladner, et.al., 2015), with that of the second round of the POLLEADER survey.

2 From institutional reforms to citizens' perceptions on the effect of economic losses

The effects of the economy on several aspects of local governments have so far been analysed focusing on three different levels of analysis: at a first level, there is evidence about the objectives and motivations for local restructuration; at a meso level we find the reactions of local politicians and local organisations to austerity measures; and finally, at a third level, we have evidence on the effects of economic loss on citizen perceptions on government. Following this framework, this section builds on three combined literatures: (1) structural and administrative reforms at the local level, and recent Troika interventions, (2) austerity measures at the local level, and (3) individual perceptions over government performance. By analyzing these three complementary frameworks, we are willing to design an operative environment for the understanding of the integrity of local power.

2.1 Structural reforms and economy at the local level

Almost all discourses on territorial reforms affecting local governments have economic implications, since savings and efficiency are the more commonly cited objectives. This is especially clear from the beginning of the last and enduring global fiscal crisis, since 2008. Probably, due to the fact that territorial reforms are politically difficult, economic arguments are (over)used in justifying them. However, even with this existing political difficulties, territorial changes have been implemented in nearly half of the European countries within the last 25 years (for a complete overview, see: Swianiewicz, et.al., 2017 and Askim, et.al. 2017). In line with this, Fiorillo and Ermini (in Dollery & Robotti, 2008), classify the multifaceted approach to structural reforms in Europe, together with other countries in the globe, in three main objects of reform: territorial reforms (mainly amalgamations), devolution reforms (transfers and reallocation of competencies), and services reforms (altering the forms of service delivery).

Despite reforms have seeped through most European countries, the development of the fiscal crisis has affected specially south European countries, since recent Troika directives have had a direct effect on local governments. In effect, Greece, Portugal, Italy and Spain have carried out administrative reforms at the local level following austerity measures dictated by the Troika and executed by central governments (Corte-Real, 2008; Verney, 2009; Kovras & Loizides, 2014). However, these are not the only countries to undertake cuts and austerity measures at the local level, as they have also been implemented in the UK, Ireland, or the Netherlands (Lowndes & Pratchett, 2011; Shaw, 2012).

To understand the effect of reforms on perceptions, some authors have taken on an institutional perspective. Mainly focusing on southern European countries, Kickert (2011) underlines the common features affecting local government reforms: their welfare states, their political democratic systems and their bureaucracies. The analysis of Alba and Navarro (2011) concerning the common elements that characterise the so-called “southern Model” or Napoleonic tradition of public administration goes in the same direction. According to the authors, these common elements include: 1) a deeply rooted vision of the state as an organic construction with society rather than being a utilitarian liberal covenant; 2) a legal framework that gives support and meaning to the administrative culture (i.e., the statute of public employees, accountability, etc.); 3) a blurring of the dividing line between politics and administration (Alba & Navarro, 2011: 799). These shared characteristics are being challenged in the light of administrative reforms like the ones guided by the Troika and the austerity measures driven at the local level after the economic crises of 2008.

More recent works explore the determinants of local reforms in Europe, and coincidently, consider that the debates on reforms are focused first of all on economic issues and capacity to provide services, with less attention devoted to the functioning of local democracy (Swianiewicz, et.al., 2017). These authors also emphasize that the local elites usually stand as a strong opposition to each reform, generally by being afraid of losing their identity by their villages and being sceptical of the effectiveness of implementing distant administrative units to manages local services. In a similar vein, Askim et.al (2017) consider four vectors of territorial reforms, where fiscal stress has a significant role. According to these authors, the expectation of a clear relationship between fiscal stress and amalgamation of local governments appears as a powerful vector of territorial change: “fiscal and economic considerations associated with austerity trigger increasing demands for efficiency, and small local governments are, as mentioned, often seen as impediments for achieving economies of scale” (p. 6). However, their conclusions seem to cling on the fact that GDP growth is negatively related to change in the number of local governments, suggesting that territorial upscaling is not driven by fiscal stress, but rather by fiscal growth.

In any case, change in territorial structures is much more usual than expected at a first glance, and territorial reforms of local government and second tiers are being reconsidered in many European countries (Bertrana & Heinelt, 2013), after a decade of administrative reforms affecting the first and second tier of local government. Greece is the most outstanding example, where a typically “Nordic” reform (decrease of the number of municipalities and second tier of local government) has been implemented in a context of economic and fiscal crisis. Another territorial reform has occurred in Italy, where provinces (second tier) have been replaced by metropolitan governments in the largest urban agglomerations of the country. These reforms, together with the Spanish reform of 2013, evince the weakness of local governments and the predominance and power for supervision and control from central governments. However, local reforms have not gone unchallenged from local political elites, thus showing that local elites play a crucial role in any structural reform or deep change in local government integrity.

2.2 Elite reaction to austerity measures at the local level

There is ample evidence on the reactions from local government elite and organisations to austerity measures imposed or suggested by upper tiers of government. For instance, Medir et.al (2017), Cepiku, et.al (2016), Keller (2014), Ladner and Soguel (2015), Overmans and Noordegraaf (2014), and Overmans and Timm-Arnold (2015) offer a basic understanding of some of the factors behind the shape and fortune of austerity measures at the local level, thus helping explain how local governments react to imposed austerity.

Reactions to financial and economic stressful situations for public organisations at all levels include ‘denying or delaying cuts,’ ‘implementing cuts’ as instruments, and strategic or ‘equal misery’ approaches to solving problems. However, when local governments are considered, Politt (2010) includes a moderation effect related to the size and shape of the local government systems and concludes that highly fragmented systems may face more difficulties in applying global responses. Therefore, local government approaches will opt more commonly for programs based on fiscally-oriented measures that tend towards stability rather than other kinds of structural measures (Overmans & Noordegraff, 2014).

Regarding the instruments for implementing austerity measures, Raudla et al (2013) classify them according to different typologies, namely “1) instruments for cutting operational measures (running costs); 2) program measures (transfers and grants) and 3) capital expenditures (investments)”. Each category in turn may include different kinds of mechanisms, which aim to limit government activities and public expenditure. Periods of retrenchment may also produce an impact on management practices and the authors (Rauda et al., 2013: 24) suggest five sub-fields that might be affected by cutbacks: centralization and decentralization of decision-making; budgeting and financial management; human resource management; performance management; and management of change. Overmans and Noordegraaf (2014) present a model based on two dimensions to analyse the effects and types of austerity measures. One dimension is related to stability or change of the organisation and the other focuses on the type of measures –fiscal and organisational measures. The combination of these two dimensions results in a matrix that represents four responses to austerity: decline, cutbacks, retrenchment and downsizing. According to this approach, decline would imply a reactive response aimed at reducing the expenditure but avoiding structural changes; cutbacks would consist of temporary adjustments; retrenchment measures may imply some kind of reform although they tend to have a strong fiscal orientation; finally, downsizing can be considered a strategy aimed at improving performance and efficiency. The results of this research point out that cutbacks, which mainly implied temporary adjustments, constituted the cornerstone of austerity measures. Some contradictions between discourse and reality were also detected: “Municipal austerity talk indicates management through organizational change […]. In reality, however, most municipalities predominantly use fiscally oriented measures that tend towards stability" (Overmans & Noordegraaf, 2014: 113).

Therefore, empirical expectations, according to recent literature on the austerity measures carried out by local governments, will also rely on the idea that there is a tendency to perceive reforms as mere cutbacks, which generally produce 'conservative' reactions among municipal executives without strategic approaches. Therefore, local political elites react, in the first instance, by focusing on stability and safe measures, with minimal political cost (Medir et.al., 2017). From this literature, then, we may argue that local elites will perceive economic restrictions as highly perturbatory and strongly affecting integrity of local government, and they will try to counterbalance it as much as they can.

2.3 Individual perceptions in times of economic recession

We rely on literature that accounts that economy is usually the main vector of change and volatility on citizens' perceptions, and we assume that local elites do not differ from this pattern. Therefore, the perception of power changes, will be mainly driven by economic matters. Some recent research on citizen satisfaction with democracy (and subsequently governmental action), has begun to test the effect of harsh economic times as a determinant of this satisfaction, with compelling findings: citizens perceive the absence of actually different political alternatives under strong economic crisis, thus leading to disaffection and insatisfaction with democracy (and therefore, governmental functioning).

Political economy has classically highlighted that satisfaction with democracy—and to a larger extent, with a political regime—, is usually linked to governmental economic performance regardless of other considerations (Ruiz-Rufino and Alonso, 2016). This approach puts in second place important things such as: effective governmental autonomy, democratic choice between different political options, or even alternative policies. However, we count today with enough empirical evidence to challenge such radical perspective.

For example, Armingeon and Guthman (2014) show that support for national democracy and trust in parliament declined clearly during the current economic crisis. Their findings focus on the joint action of both international organisations and markets interfering with national democratic procedures, together with the eroding situation of the national economy perceived by individuals. In their conclusions, the authors suggest that support for democracy is largely conditional on both economic and political performance. However, political performance is affected when external actors interfere with the working of the political system at large. In other words, as imposed austerity measures contributed to the recession, these amplified the effect of worsening economic performances on national democratic support.

In a similar vein, Cordero and Simon (2016) explore how the economic crisis affected core support for democracy as a regime, since frustration in the expectations of political performance may affect the core support for democracy under a negative economic shock (Przeworski, 2006). Their analysis is grounded on the basis that Troika interventions represent a major challenge to political systems, thus affecting political actors by eroding their capacity to provide satisfactory policy responsiveness and to offer meaningful political alternatives. Although they also analyse the internal effects of austerity in bailed-out countries, implying an increase in their attachment to democratic values, it is clear from their research that individuals' satisfaction with the way democracy works is affected by the perception of the economy: a negative perception of the economic situation tends to corrode citizen evaluations of democracy.

Finally, Ruiz-Rufino and Alonso (2016) investigate how loss in governmental autonomy to act according to its democratic mandate affect citizens' attitudes towards the way democracy works. Their results show how in countries especially affected by economic negative external shocks, the subsequent bad economic outcomes downgrade the levels of satisfaction with democracy. They state that "when citizens observe that democracy is a system in which parties lose elections but winners are unwilling or unable to implement alternative policies to those rejected at the ballot box, then satisfaction with democracy decreases".

3 Theoretical expectations

What can we expect from the relationship between economic losses of local government and mayors' perceptions? As commented above, structural reforms of local governments are usually based on economic claims, and we have also noted that the main reactions of local governments—as institutions—to imposed austerity measures are of a resilient nature. Indeed, individual perceptions on democracy are quite dependent on the economic and political performance of governments.

From this puzzling phenomenon, involving institutional issues (structural reforms with local political responses to austerity) and individual perceptions, we build a set of four different hypotheses that aim to disentangle several aspects of these relationships affecting the perception of local power integrity.

As we have stated, local power can be eroded and affected by several means, and the elites' perception over it deserves academic attention. From the previous section we can establish that the perception over the integrity of local power—i.e., its ability to decide on and pursue its core functions and objectives—could be highly dependent on the institutional setting in which local governments act, but also from the mayoral positions and beliefs concerning their duties and capacities.

Our basic concern is to test whether loss in the economic capacity of local governments has an impact on mayors' perceptions over the power integrity of local government, measured both as dependence from other tiers of government and capacity of influence. We use local fiscal autonomy as a key institutional feature to account for the effects of changes on the local economic capacity on mayors' perceptions.

Therefore, our hypotheses to test are built upon two main groups: H1 to H3 aim to deal with economic factors explaining the changes on individual perceptions of mayors, through the analysis of the perceived dependence, the perceived change in influence, and the effects of local economy on the perceived influence between tiers of government; H4 aims to complete our understanding of individual perceptions of mayors by introducing the main institutional factor affecting the local economic situation: the degree of fiscal autonomy measured at the country level. Precisely, our hypotheses are conceived as follows:

- H_1: Perception of dependence on upper tiers of government will increase as local economic capacity decreases.
- H_2: Perception of change in influence will increase as local economic capacity decreases.
- H_3: Loss in local economic capacity will have an effect on the perceived change in influence between tiers of government.
- H_4: Perception of dependence due to loss in local economic capacity will be lower when fiscal autonomy is higher.

4 Data and method

Our main independent variable is the change in economic capacity of local governments. To measure it we use data from the OECD Regional Database. In particular, we calculate the 2008-2014 difference (in percentage points) of local government expenditure as a percentage of country GDP. Basic descriptives of the main variables can be seen in Table 1, while the distribution of the values of the change in local economic capacity and local fiscal autonomy per country may be seen in Table 2.

Table 1

The dependent variable to test hypotheses 1 and 4 is based on mayors' responses to question 5 of the POLLEADER questionnaire. Following up two previous questions on the priority mayors' attach to a set of major challenges for local governments, the question asks "to what extent would you say that your administration depends on the cooperation and support of the different actors [...] in addressing this problem". Three of these actors are regional and national governments, and the European Union and other supranational organisations, and the level of dependence is measured through a 1-to-5 Likert scale. This variable has been recoded to take on value 0 (low dependence) if response is 1 or 2, and value 1 (high dependence) otherwise.

On the other hand, to be able to measure the amount of change in influence perceived by mayors (hypotheses 2 and 3), we recoded the variables on question 35 ("drawing on your experience of local political life, how would you characterise the changes in influence that have occurred in the last decade among the main actors in local affairs?"). If the response was "Identical" (i.e., no change in influence), the recoded variable takes on value zero; if response is "A little more" in either direction, the recoded variable takes on value 1; if it was "More" in either direction, the recoded variable takes on value 2; and if response was "Much more" in either direction, the recoded variable takes on value 3.

Table 1 shows that average values for all individual variables of amount of change in influence are below the midpoint, although on average respondents locate a higher amount of change between tiers of government (regional-national or local-regional) than within local governments.

With the values of the recoded variables, we created an additive index of change in influence (ICI) summing up each respondent's values and dividing by 18 (the maximum value of the whole sum), so that it takes values between 0 and 1. The mean value of the ICI index is 0.27. Our aim is to build a measure of the intensity of changes in perceptions, regardless their particular directions. In order words, we do not take into account whether mayors perceive a change in influence favourable to regions or to states, but its intensity in absolute terms.

Finally, Table 2 shows that, although southern European countries were at the center of Troika austerity measures, their local governments were not unique in loss of economic capacity. The data show, for instance, that local governments of Hungary, Ireland and the Netherlands presented even higher levels of loss of economic capacity than Italy and Spain. Moreover, the relationship between change in local economic capacity and local fiscal autonomy, though positive and significant, is not extremely strong (Pearson's r = 0.55).

Table 2

To test our hypotheses we fit two kinds of multilevel regression models, all of which have local economic capacity as the main independent variable. Given that hypotheses 1, 3, and 4 use short scales as dependent variables (either original scales, as in question 5, used in the first hypothesis, or recoded to be used as components of our ICI index), in these three cases we fit logistic regression models with binary response. In hypothesis 2 we fit linear regression models using the ICI index as a continuous dependent variable.

Given that our main independent variable presents no within-country variation, models do not allow for a coefficient that measures within-country effects. On the contrary, we fit multilevel models with varying intercept by country. To test hypothesis 4 we we fit interactions between local economic capacity and local fiscal autonomy (as created and reported by Ladner et al., 2015). Models also include controls at the individual (political leader) and local level. In particular, given that we deal with perceptions of influence and dependence on other tiers of government, we control for the leaders' level of support to further local decentralisation.

5 Empirical results

Table 3 shows the results of a multilevel regression analysis of the perception of dependence of local administrations on other tiers of government (regional, national, EU) on the loss of local economic capacity. In particular, respondents were asked: "to what extent would you say that your administration depends on the cooperation and support of [...] different actors" in facing a number of challenges. Results show partial support to our first hypothesis in that there is a significant negative effect of local economic capacity on the perception of dependence. In particular, when local economic capacity grows (i.e., values tend to be less negative or positive), the perception of dependence on the national tier of government decreases significantly (column 3), controlling for local fiscal autonomy, size, and leaders' support for local decentralization. For EU and other supranational organisations, the coefficient (column 5) has the expected sign, but the effect is not significantly different from zero, except when it is interacted with the level of fiscal autonomy. Finally, columns 1 and 2 suggest that local economic capacity has no effect on the perception of dependence regarding regional governments.

Table 3

Our hypothesis 2 relates perceptions on changes in influence of tiers of government to the loss of local economic capacity. The hypothesis is tested through results shown in Table 4. As expected, local leaders in countries where municipalities have experienced larger losses in economic capacity perceive larger amounts of overall change in influence. The effect of local economic capacity is significant, but not large, as shown in Figure 1. On average, mayors in countries where municipalities suffered larger economic losses report higher levels of power volatility, and the difference between those and the ones in countries where localities experienced zero change in economic capacity is almost 0.1 on a 0-1 scale.

Table 4

Figure 1

According to our third hypothesis (H3), though, the effect of local economic capacity on these changes in influence should be apparent across the local and regional tiers of government. In particular, we expected to find that changes in local economic capacity be especially dependent on the relationship between local governments and upper tiers. Table 5 tests this argument regressing the amount of change in influence (no influence versus otherwise) across tiers on local economic capacity. We fitted the models with and without control variables, and according to the results, political leaders do present significant variation on their perceived change of influence across local and regional tiers of government, but not across regional and national government, which points precisely to a higher degree of sensitivity of mayors towards the loss of local power. Focusing on the latter, although the addition of control variables affects the level of significance of our main predictor, the size of the effect remains almost unchanged.

Table 5

Finally, our last hypothesis (H4) expects that the effect of local economic capacity on the perception of influence is conditional to the existing fiscal capacity of local governments. Given the existing low correlation between the level of local fiscal autonomy and loss of local economic capacity that we observed in Table 3 above, the question behind this last hypothesis is whether the institution of fiscal autonomy matters in the perception mayors hold about the vulnerability of local power. If the institution matters, we would expect to find that the perception of loss of local power is more intense among mayors in cities with lower fiscal autonomy than among those enjoying higher levels of fiscal autonomy.

In columns 3 and 5 of Table 3 we get partial corroboration of our fourth hypothesis. In particular, mayors governing cities in countries with higher levels of local fiscal autonomy are significantly more likely to report lower levels of local dependence towards upper tiers of government (national and EU). As Figure 2 shows, the effect of fiscal autonomy is quite large: controlling for the loss of local economic capacity, the probability that mayors report high levels of dependence drops significantly as fiscal autonomy increases.

Figure 2

However, to test whether the effect of fiscal autonomy changes at different levels of loss of economic capacity, we fit an interaction term between local economic capacity and fiscal autonomy in our models. Going back to Table 3, columns 2, 4 and 6 test the conditional effect of fiscal autonomy on the relationship between loss of economic capacity and dependence of local governments to upper tiers. Although the coefficients of the interaction can no longer be interpreted as marginal effects, the results show that the conditional effect of local fiscal autonomy is significant for national and EU tiers of government, but not for regional government. In other words, local fiscal autonomy has a moderating effect on the relationship between local economic capacity and perceived dependence on the national government and the EU.

Figure 3

To better interpret the results of this interaction, Figure 3 plots the marginal effect of fiscal autonomy: the effect of changes in local economic capacity on perceived dependence is stronger among leaders from municipalities with lower fiscal capacity. However, the plot also shows that, regarding the perception of dependence on the national government, this effect is only significant at levels of fiscal autonomy below 2.2, at which point the coefficient ceases to be significantly different from zero.

Figure 4

In addition, the moderating effect of fiscal autonomy really is only effective at very low levels of loss of economic capacity. This effect is better depicted in Figure 4 where we plot the predicted effects of fiscal autonomy on the perception of dependence of local governments on the national tier at different levels of loss of local economic capacity. When there has been no change in local economic capacity, the slope of the line is negative, indicating that fiscal autonomy decreases the probability of mayors to report high levels of dependence. However, when economic losses are negative (e.g., −2 percentage points or higher), the line gets flatter and confidence intervals widen up, thus indicating that fiscal autonomy loses its explanatory power.

Moreover, the moderating effect of fiscal autonomy is neither significant when we test it using perceived change in influence instead of perceived dependence on upper tiers of government, which underscores the idea that the loss of economic capacity erodes the potential moderating effect of institutions on the perception about the integrity of local power.

6 Conclusions

In this paper we deal with European mayors' perceptions on power shifts and their determinants. We rely on the economic determinants perspective when analysing the differences in perceptions of European mayors when it comes to report on changes in political power among tiers of government in harsh economic times. Our results suggest that the economic situation of localities is a key factor to understand perceived power shifts in local elite's state of mind.

As we expected, the particular local financial situation and the specific institutional constraints within which local governments act are moderators—but not strong determinants—of such perceptions. Our main results seem to reinforce the idea that perceived changes and shifts in political power are mainly related to economic power loss, rather than to specific institutional designs (e.g., fiscal autonomy) or geographical considerations. Nevertheless, being this work a first attempt to analyse the relationship between the economic situation and the perception of changes in local power integrity, more disaggregated data would be needed—preferably economic data that vary across local units—to give extra weight to our first results.

In order to test to what extent the loss of economic capacity of local governments promotes higher levels of perceived power shifts from mayors to other tiers of government, we tested four interrelated hypotheses.

In general terms, our results support the idea that mayors' perceptions of power shifts are strongly mediated by the local financial situation and only partially moderated by institutional constraints. Results regarding our first hypothesis find that when local economic capacity grows the perception of dependence on upper tiers of government decreases significantly, and conversely, the effect of loss of local economic capacity produces larger perceptions of dependence. We also find that local fiscal capacity decreases the perception of dependence on upper tiers of government.

Our second and third hypotheses are related to the previous one, since they link perceptions on changes in influence of tiers of government to loss of local economic capacity. In this case, in agreement with our underlying reasoning that the economic situation of local governments matters, local leaders in countries where municipalities have experienced higher losses in economic capacity perceive higher amounts of overall change in influence. Moreover, political leaders do present significant variation on their perceived change of influence across local and regional tiers of government

The last hypothesis intends to account for the potential effect of institutions when analysing mayoral perceptions. In this case we refined previous conclusions by showing that political leaders within municipalities with lower levels of fiscal autonomy are significantly more sensitive to loss of local economic capacity than leaders in municipalities with high fiscal autonomy. However, this moderating effect takes place at zero or very low levels of economic loss, and only for those countries with lower levels of fiscal autonomy. Moreover, similar effects do not hold when it is change in influence what is measured instead of dependence.

This work aims to contribute to the literature linking economy and local elite perceptions. Despite the limitations of our data, our results support the argument that local economy matters when it comes to understand mayoral perceptions and beliefs on the power situation of local government vis-à-vis other tiers of government.

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Table 1. Descriptive statistics of the main variables

Variable	*N*	*Mean*	*St. Dev.*	*Min*	*Max*
Difference in local expenditures/GDP (p.p.)	2,520	−0.795	2.12	−7.496	1.534
Local fiscal autonomy	2,618	2.436	1.040	0.360	4.000
Support local decentralization	2,114	3.786	0.996	1	5
Local population size	2,500	41,047.6	89,898.9	10,002	2,821,876
Dependence on tiers of government					
Depends on regional government	2,176	3.867	1.050	1	5
Depends on national government	2,474	3.595	1.179	1	5
Depends on European Union and *supra*	2,468	3.226	1.237	1	5
Amount of change in influence					
Regional-National	1,900	1.277	0.993	0	3
Local-Regional	2,027	1.272	0.955	0	3
Executive Board-Assembly	1,816	1.041	0.990	0	3
Mayor-Executive Board	1,843	1.123	1.043	0	3
Mayor-Assembly	2,047	1.126	1.020	0	3
Elected officials-Bureaucrats	2,050	0.903	0.925	0	3
Index of Change in Influence	2,666	0.273	0.239	0.000	1.000

Table 2. Levels of loss of local economic capacity (p.p.) and fiscal autonomy by country.

Country	*Economic capacity*	*Fiscal autonomy*
Hungary	-7.50	0.96
Ireland	-7.31	2.00
Portugal	-3.89	1.48
Netherlands	-3.79	2.00
Italy	-2.83	1.96
England	-2.45	2.00
Spain	-2.27	2.00
Switzerland	-0.95	4.00
Slovenia	-0.82	0.36
Slovakia	-0.63	1.40
Denmark	-0.36	3.44
France	-0.32	2.00
Greece	-0.22	1.00
Belgium	-0.13	2.00
Austria	-0.09	3.00
Israel	0.20	NA
Poland	0.24	1.90
Germany	1.13	3.95
Norway	1.18	2.00
Czech Republic	1.37	1.00
Sweden	1.53	2.88

Table 3: Multilevel logistic regression model with binary response of dependence of municipal government on upper tiers of government, with varying intercepts by country.

	Dependence of municipal government on upper tiers					
	Regional		National		EU and *supra*	
	(1)	(2)	(3)	(4)	(5)	(6)
Local economic capacity	0.297	0.979	-0.353***	-0.473*	-0.099	-0.418**
	(0.239)	(0.676)	(0.122)	(0.275)	(0.105)	(0.212)
Fiscal autonomy	0.091	0.124	-0.480*	-0.477*	-0.716***	-0.708***
	(0.417)	(0.399)	(0.257)	(0.252)	(0.247)	(0.228)
Municipal size (log)	0.091	0.089	0.147*	0.149*	0.030	0.033
	(0.115)	(0.115)	(0.084)	(0.084)	(0.073)	(0.072)
Local economic capacity x Fiscal autonomy		-0.369		0.076		0.223*
		(0.342)		(0.155)		(0.131)
Constant	1.136	1.096	1.026	0.986	2.025**	1.942**
	(1.540)	(1.512)	(1.067)	(1.063)	(0.943)	(0.918)
Observations	1,901	1,901	2,148	2,148	2,148	2,148
Log Likelihood	-581.633	-581.081	-953.214	-953.096	-1,142.064	-1,140.736
Akaike Inf. Crit.	1,173.267	1,174.161	1,916.428	1,918.192	2,294.128	2,293.473

Note: *p<0.1; **p<0.05; ***p<0.01

Table 4: Multilevel linear regression model of perception of influence change, with varying intercepts by country.

	Volatility	
	(1)	(2)
Local economic capacity	-0.012*	0.002
	(0.007)	(0.015)
Fiscal autonomy	-0.021	-0.022
	(0.015)	(0.015)
Support local decentralization	0.015***	0.015***
	(0.005)	(0.005)
Municipal size (log)	0.001	0.001
	(0.007)	(0.007)
Local econ. capacity x Fiscal autonomy		-0.010
		(0.009)
Constant	0.309***	0.317***
	(0.083)	(0.083)
Observations	1,802	1,802
Log Likelihood	140.585	137.449
Akaike Inf. Crit.	-267.170	-258.898
Note:		*p<0.1; **p<0.05; ***p<0.01

Table 5. Multilevel logistic regression with binary response on changes in influence between tiers of government, with varying intercepts by country.

	Changes in influence			
	Regional-National		Local-Regional	
	(1)	(2)	(3)	(4)
Local economic capacity	0.002	0.079	-0.148**	-0.137*
	(0.084)	(0.087)	(0.070)	(0.082)
Fiscal autonomy		-0.220*		0.027
		(0.116)		(0.113)
Municipal size (log)		0.083		0.088
		(0.076)		(0.076)
Constant	1.199***	0.870	1.213***	0.280
	(0.126)	(0.834)	(0.095)	(0.837)
Observations	1,765	1,712	1,895	1,843
Log Likelihood	-1,006.891	-968.786	-1,032.035	-999.541
Akaike Inf. Crit.	2,019.781	1,947.573	2,070.071	2,009.082
Bayesian Inf. Crit.	2,036.209	1,974.800	2,086.712	2,036.678
Note:				*p<0.1; **p<0.05; ***p<0.01

Figure 1. Predicted effect of local economic capacity on the perceived change in influence of local government.

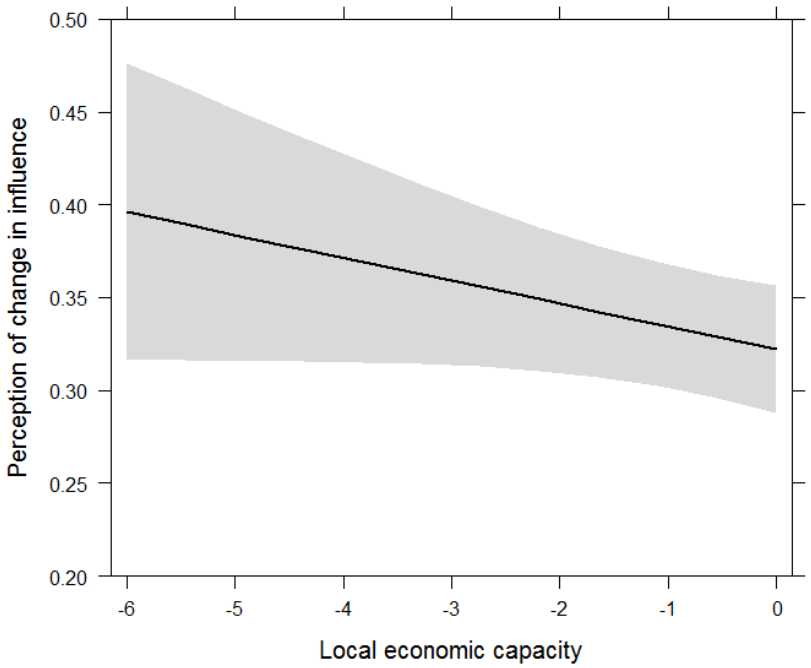

Figure 2. Predicted effects of local fiscal autonomy on perceived dependence on upper tiers of government.

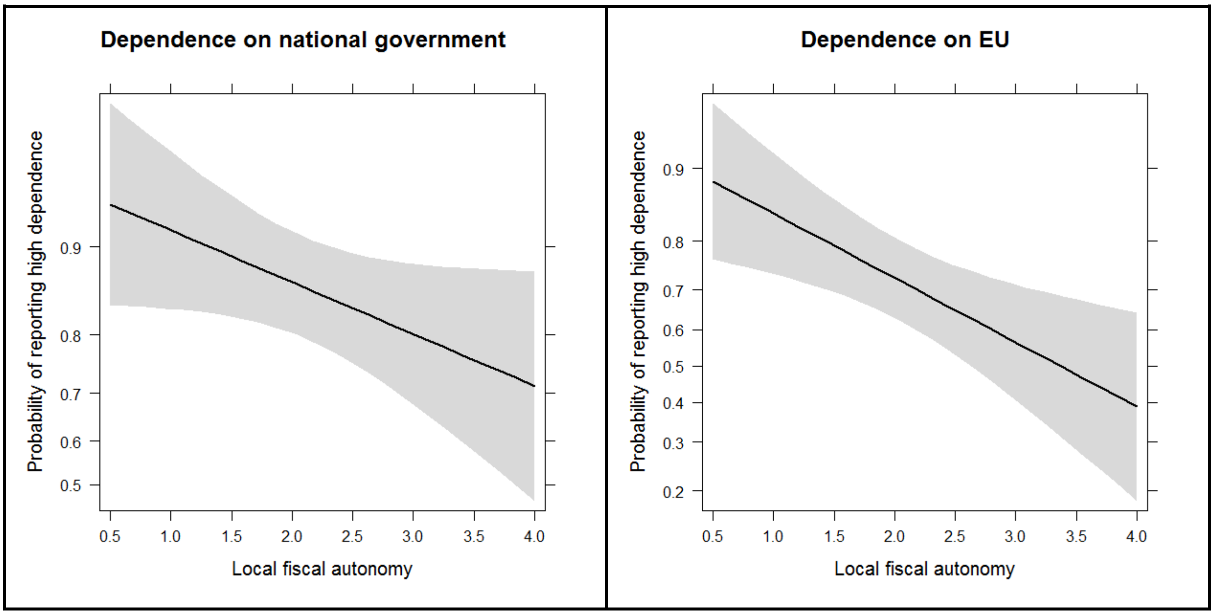

Figure 3. Marginal effect of change in local expenditure on dependence on national government, by local fiscal autonomy.

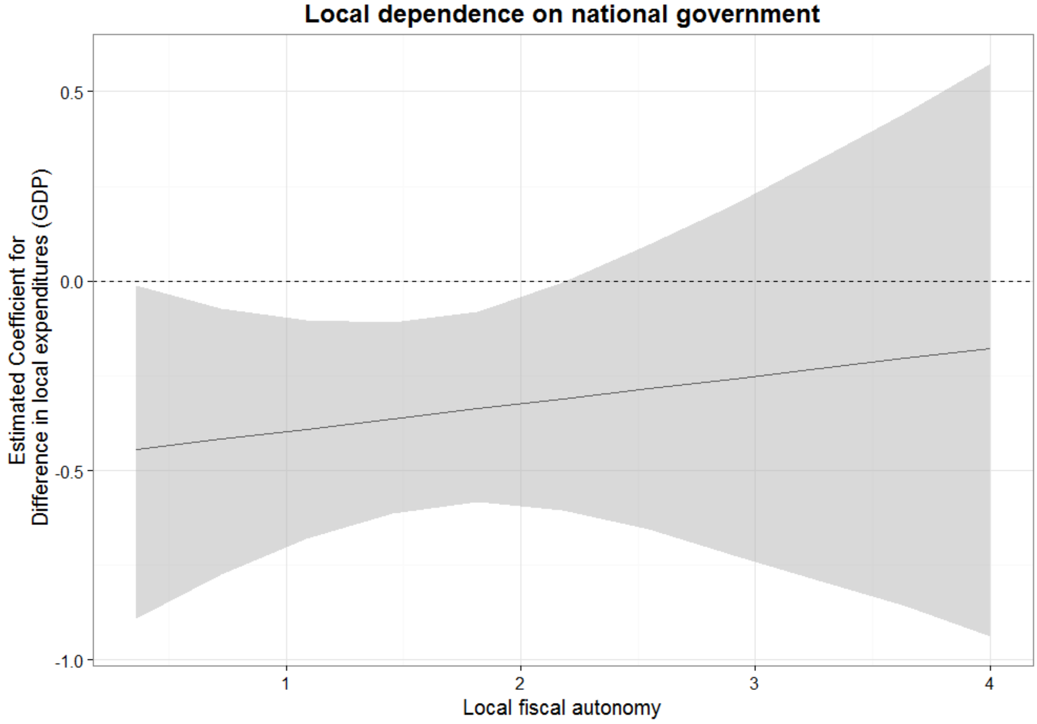

Figure 4. Predicted effect of fiscal autonomy on perceived dependence on national government at different levels of loss of economic capacity.