

Economic aspects of a “middle layer” of administration and government: some experience from Austria

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ABSTRACT

There was no “middle layer” of government between the central state and the municipal level in the new member states of the European Union when these countries joined the EU recently. For various motivations – the ability to optimize access to EU funds being one of the motivations – the creation of a middle layer of regional government or administration has been discussed. In opposite to the new EU members Austria has already had a political system with three layers not only of administration but with three layers of government for several decades.

Section 1 discusses major features of the territorial organization of Austria’s economy and its system of political decision making. Section 2 finds that history, a strong political preference for federalism, and pragmatism are major explanations for the emergence and durability of the system. Section 3 analyses the economic cost of Austria’s complex territorial organisation, and section 4 shows the scope for economic policy action at the state level using examples from the state of Salzburg.

Key words: Austria, economy, regionalism, organizational structure

1. The territorial organization of Austria’s economy

The territorial organization of Austria’s economy and its system of political decision making is rather complex. It comprises four levels of legislation: Since its accession to the European Union legislation at the EU-level affects and limits the degree of freedom of national politics. Austria itself is a federal state with three layers of government, with elected government institutions, independent decision making powers and budgetary autonomy – the federation, the states, and the municipalities.

Walter Scherrer

Economic aspects of a “middle layer” of administration and government: some experience from Austria

Austria’s 8 million inhabitants live in 9 states, the average size of a state being less than 10.000 square kilometres of land, and the median number of population being less than 700.000. Federalism, Austrian style means an own parliament, an own government, an own set of laws with an own administration etc. for small numbers of inhabitants. The states have substantial legislative powers which include social welfare, health care in the hospital sector, some areas of primary and secondary education, nature conservation, building regulations, and regional infrastructure planning, including transport.

Table 1: Key data of Austrian states

	Area (km ²)	Population (census 2001)	Number of districts	Number of municipalities
9 states, average	9.319	892.547	11	262
9 states, median	9.500	673.000	10	171
8 states (without Vienna), minimum	2.601	277.569	4	96
9 states, maximum	19.178	1.550.123	25	573
Austria, total	83.871	8.032.926	99	2.359

Source: Statistik Austria (2006)

Austria’s territory is organized in more than 2.300 municipalities. Austrian states comprise up to 573 autonomous municipalities; the median still is 171. The constitution guarantees the autonomy of the municipalities in all local matters. Municipal authorities perform policing and inspection tasks and local planning, and they provide infrastructure – such as water services and buildings for primary and secondary schools – and social services.

Groups of municipalities can voluntarily form co-operations and are often mandatory members of co-operations of municipalities which address specific issues (e.g. in providing infrastructure, social and school services). These co-operations of municipalities add another layer of administration to the whole system.

Finally there is the district level: 99 districts have administrative competencies, but no elected government officials and no legislation power.

2. Administrative regions vs. functional regions

The complex territorial organization of Austria's political and administrative system is rooted in history and tradition as well as in a strong political will. Most parts of the provincial structure (states) and of the district structure of administration have been inherited already from the Habsburg monarchy and reflect the administrative entities of the monarchy. Many Austrians have strong emotional ties to the state they live in or they were born in. Federalism is one of the cornerstones of the constitution since Austria became a republic in 1920 and thus it is an expression of political will; the federalist structure has never been seriously disputed since then.

From an economic point of view the diversified legislative and administrative structure has some major advantages. Decentralised decision powers are expected to allow policy makers to take local preferences and specific regional needs of the population better into account than in a unitary state. It also allows to take political decisions and to perform related administrative tasks at those levels of government at which the provision of public goods is most cost-effective.

From a European Union member's perspective regional entities below the level of the central state are important for attracting European Union regional and structural funds. The nomenclature of unit's territorial statistics (**NUTS**) distinguishes several layers of statistical description of regions: At the NUTS 1 level Austria is structured in three regions (east, south, and west) which have purely statistical significance (see Statistik Austria 2006, ch.37). The NUTS 2 level reflects the basic administrative structure of the country, and therefore it is structured in 9 regions which are equivalent to the states. The NUTS 3 level Austria is structured in 35 regions which are equivalent to districts or clusters of districts within a state. Regions which are eligible to EU funds in most cases are defined according to the NUTS 2 classification, but EU documents also relate to NUTS 3 and even smaller regional entities. So the statistical regional units are based on the existing administrative structure (availability of data!) and they were defined according to several criteria, one of them being the eligibility for EU support. While until 2005 the state of Burgenland was a target 1-area (which allows for the highest levels of support), now no Austrian state is defined as a target area for EU regional funding any more.

By and large the territorial organisation of Austria's economy reflects administrative regions. Administrative regions are the units in which regional economic policies are designed and executed and the members of regional governments and regional parliaments find their constituencies in such regions. Regional economic policy thus will primarily reflect the administrative

Walter Scherrer

Economic aspects of a “middle layer” of administration and government: some experience from Austria

regions’ interests; therefore they are proper starting points for most purposes of regional economic policy analysis. “Functional regions” have much more intense economic interactions inside the region than with any other area outside the region and are likely to be congruent with labour market regions. In fact, the definitions of functional regions in a recent international survey on this topic (OECD 2002) are based on labour market regions in most countries. Although this definition might sometimes be too narrow for the analysis of some issues as there are other than labour market interactions (e.g. flows of goods and services, flows of knowledge) regularly taking place which cross the borders of individual labour market regions, this concept is a proper starting point for regional economic analyses.

A major problem with administrative regions is that they only rarely are congruent with functional regions, which entails the emergence of positive and negative spillovers. This means that actions of one region’s government have an impact (positive or negative) on other regions which in turn have no possibility to avoid the negative impact or which have no incentive to pay for the provision of the service from which the positive impact derives. As there is no way to change the structure of administrative regions in Austria there has emerged a complex system of intergovernmental cooperation and financial relations as a pragmatic solution. The longer a “grown system” is in place the more difficult it seems to be to change that system. Therefore it might be particularly worthwhile to consider the concept of functional regions and to make administrative regions congruent with them when the territorial organization of a country is diversified by adding another layer of administration or government.

3. The economic cost of Austria’s complex territorial organisation structure

Each additional layer of government imposes additional cost on a nation’s economy as the complexity of the system will be increased. Therefore the three layers of government within Austria and the complex relations among the many administrative units create substantial cost of the political and administrative system. The waste of resources within this system (“There is much scope to improve the efficiency of revenue allocation across governments”; OECD 2005, p.14) has been a major topic of the latest OECD Economic Survey of the Austrian economy.

Walter Schrepper

Economic aspects of a “middle layer” of administration and government: some experience from Austria

Several interrelated issues are responsible for this situation: First, the mere size of Austria's states (and even more so of municipalities) often does not allow exploiting economies of scale in the provision of public goods and services. Approximately half of Austria's 2.300 municipalities count less than 1.500 inhabitants, and cost of administration per capita are significantly higher in small municipalities than in larger ones.

Second, in the field of legislation there is the “factor 9” (or even 10 if the federal level is included). Legislative bodies derive its existence and its meaning from the production of laws and regulations, and administrations derive their existence from enacting regulations in a specific way. As Austria comprises nine states it has nine different parliaments producing law and regulations at the sub-national level and nine different state governments which enact these laws and regulations. This is not only costly in terms of the direct resource cost of government like paying salaries and maintaining the administrative infrastructure, it also is the source of cost which is imposed on the population and on firms indirectly. Law and regulations at the state level are not always well co-ordinated among states, and therefore it is no wonder that sometimes negative implications for the macro-economy arise. For example, the laws governing subsidies for residential construction vary across states and therefore – in addition to its highly questionable impact on income distribution – they impair mobility of labour between states and thus negatively affect the flexibility of the labour market.

Third, the existence of several layers of government implies a great variety of forms of shared decision making processes which in many cases end up in a fragmentation of decision making across different layers of government (OECD 2005). Decision making competences in closely related areas are often assigned across different levels of government, responsibilities might overlap, and most administrative tasks emanating from federal legislation are delegated to the states, and – to a lesser extent – to the municipalities. In some matters the constitution assigns legislative powers on the framework conditions to the federal level, and states can set regulations within this framework. The fragmentation of decision making regularly goes hand in hand with inefficient incentive systems and/or a lack of transparency. The situation is even worsened because part of government activities have been outsourced to “private” firms in which a public authority still is the single owner, and in those cases in which other public entities like social insurance are involved.

An example of inefficiencies is the sharing of responsibility in primary and secondary education among layers of government: Municipalities or co-operations of municipalities provide buildings and other infrastructure (if “poor” municipalities are not able to do that the state might help), the states

Walter Scherrer

Economic aspects of a “middle layer” of administration and government: some experience from Austria

employ the teachers and legislate teachers' working conditions, while the federal government has to pay for the teachers' salaries and sets up the curricula. Therefore the states have no incentive to save cost of teachers, which made the federal government develop a variety of regulations which entail a continuous series of re-negotiations of regulations and allocations. In effect, the degree of freedom for state policy is rather small.

Another very costly example for the fragmentation of decision making is the spending responsibilities in health care. The constitution assigns legislative powers on the framework conditions of hospital care to the federal level, and the states legislate within this framework. Executive powers and financial responsibilities again involve all layers of government plus the social insurance, and it is further complicated by the fact that health care services provided by hospitals and those provided outside hospitals by practicing physicians have been managed separately. The states contribute only less than half of government expenditure for hospital services but they play a dominant role in decision making for hospital services.

Fourth, the Austrian federal system has experienced a dynamics of its own which is best reflected by developments in the federal financial system. After having run a federal system for several decades Austria has been confronted now with a multitude of general rules, special regulations, and various provisions which have been added to the initial system of allocating public tax income to federal, state, and municipal governments. Earmarking of revenues, extra-budgetary funds, and co-financing arrangements between governments have increasingly become important and have increased the complexity of the system of federal fiscal relations. A consultation mechanism which aims to reduce cost spillovers of legislation originating from the federal or the state level on other levels of government was introduced in 1998 and has brought some relief. The legislating level of government has to reimburse other levels of governments for such cost spillovers; any municipal, state or the federal government can invoke the mechanism.

4. The scope for economic policy action at the state level

Finally, the possibilities of state governments to pursue an own distinct economic policy ought to be addressed from an empirical perspective. For this purpose the results of an analysis of five regional economic policy instruments

Walter Scherrer

Economic aspects of a “middle layer” of administration and government: some experience from Austria

implemented by the state government of Salzburg (Scherrer, 2003) are reported briefly.

A key element which determines the scope for regional policy and its success is its appropriate relation to policy at the federal level. Some issues obviously cannot be treated adequately at the regional level as the relevant agents are located outside the region or solving the issues would render implications which are considered delicate at the macroeconomic or federal level. This was one of the major reasons why an effort to enhance work-time flexibility failed in Salzburg.

There can be a strong trade-off between customizing economic policy to local needs and cost efficient provision of public goods. An innovation stimulation program is a good example: On the one hand it tried to provide custom-tailored support for firms in the region, on the other hand the state government does not have the expertise to evaluate innovation projects (and it would be extremely costly to develop that expertise). The state delegated the decision on funding to the federal level which improved efficiency but at the same time it raised difficulties to meet local needs.

Federal policy interventions sometimes provide new opportunities for regional policy initiatives. Response at the state level to federal legislation has to be timed properly (e.g. the effort to enhance work time flexibility came too late). States also have to weigh the benefit increased scope for regional policy intervention against the economic burden which might be shifted to them by the federal authorities. For example the federal government has legislated the founding of polytechnic universities (“Fachhochschulen”) in the 1990s and “allowed” the states to support them and thus to share the financial burden of provide tertiary education which by constitution is within the competencies of the central state.

Another major result of the evaluation of policy instruments is that merely giving money – public money – is not sufficient for a successful policy intervention: Complimentary advisory and consultancy services have been most important for the success of two of the economic policy instruments which have been analyzed, the village renewal program and the regional place marketing organization.

The evaluations further show that the impact of individual instruments is weak unless they are not part of a comprehensive economic policy strategy. Economic policy options within such a strategy at the state level basically seem to be twofold: First, there is a potential for “defensive” economic policies which largely aim at reducing the negative impact of change on those parts of the public which are hit most severely. These policies include social

Walter Scherrer

Economic aspects of a “middle layer” of administration and government: some experience from Austria

policy and policies to attain regional equity; in many cases they are of a curative nature. Second, there is a potential for “pro-active” economic policies at the provincial level. These policies aim at improving the framework for economic growth and development in the region and include innovation policy, build-up of infrastructure, land use regulation, education and labor market policy, and location marketing.

In summary, a differentiated answer to the fundamental question about the potential scope of regional policy intervention has to be given, but some success stories suggest that such a potential exists.

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POVZETEK

Gospodarski vidiki »srednje ravni« administracije in upravljanja: nekaj izkušenj iz Avstrije

Avstrija je država z 8 milijoni prebivalcev, zvezna parlamentarna republika od leta 1920, ki ima v svoji sestavi 9 dežel (Länder) in 99 upravnih okrajev (Politische Bezirke). Zakonodajna in izvršilna moč sta porazdeljeni med federalno državo in dežele, nižja raven od dežel pa so občine (Gemeinde), ki ji je 2359. Občine so teritorialne in hkrati upravne enote s pravico lokalne samouprave, mesto Dunaj ima status dežele, okraja in občine.

Avstrijske dežele imajo precejšnje zakonodajne pristojnosti na področju socialnega in zdravstvenega varstva, osnovnega in srednješolskega izobraževanja, varstva okolja, gradbenih predpisov ter načrtovanja regionalne infrastrukture, vključno s prometom. Ustava zagotavlja avtonomnost občin glede vseh lokalnih zadev. Občinske oblasti so pristojne za policijsko dejavnost, inšpekcijske naloge in lokalno načrtovanje ter infrastrukturo, kot so vodovod in stavbe za osnovne in srednje šole, in socialno skrbstvo. Upravni okraji imajo samo administrativne pristojnosti.

Decentralizirana pristojnost odločanja naj bi oblikovalcem politike omogočala, da bodo bolje upoštevali lokalne želje in posebne regionalne potrebe, kot je to mogoče v unitarni državi. Sprejemanje političnih odločitev in izvajanje s tem povezanih administrativnih nalog naj bi se izvajalo na tistih ravneh upravljanja, kjer je zagotavljanje javnih dobrin stroškovno najbolj učinkovito.

Po nomenklaturi statističnih teritorialnih enot (NUTS), ki so pomembne za pridobitev regionalnih in strukturnih skladov EU, se Avstrija nahaja na ravneh NUTS 1 (3), NUTS 2 (9) in NUTS 3 (35). Regije, upravičene do sredstev EU, so v večini primerov opredeljene v skladu s klasifikacijo NUTS 2.

Teritorialna organizacija avstrijskega gospodarstva odraža administrativne regije, enote, v katerih se načrtujejo in izvajajo regionalne gospodarske politike. Te so primerno izhodišče za večino namenov analize regionalne gospodarske politike. V "funkcionalnih regijah" potekajo precej bolj intenzivne gospodarske povezave znotraj regije kot z območji zunaj regije, za te regije pa je verjetno, da so skladne z regijami trga delovne sile. Glavna težava z administrativnimi regijami je v tem, da se redko ujemajo s funkcionalnimi regijami, kar ima za posledico pozitivne in negativne

Walter Scherrer

Economic aspects of a "middle layer" of administration and government: some experience from Austria

učinke. Veljalo bi razmisliti o konceptu funkcionalnih regij in te uskladiti z administrativnimi regijami.

Vsaka dodatna raven upravljanja pomeni dodatne stroške v gospodarstvu države, saj se poveča kompleksnost sistema. Tudi velikost avstrijskih dežel (še bolj pa občin - približno polovica jih ima manj kot 1500 prebivalcev) pogosto ne omogoča izkoriščanja ekonomije obsega pri zagotavljanju javnih dobrin in storitev, stroški administracije na prebivalca pa so v majhnih občinah precej višji kot v velikih. Ker ima Avstrija devet dežel, ima devet različnih parlamentov, ki pripravljajo zakone in predpise na deželni ravni, ter devet različnih deželnih vlad, ki te zakone in predpise uresničujejo. To ni drago samo v smislu neposrednih stroškov virov uprave, kot so izplačila plač in vzdrževanje administrativne infrastrukture, temveč je tudi vir stroškov, ki se posredno prenesejo na prebivalce in podjetja. Razen tega zakoni in predpisi na državni in deželni ravni niso vedno dobro usklajeni, zato ni čudno, da včasih pride do negativnih makroekonomskih učinkov. Obstoj več ravni upravljanja pa pomeni tudi večjo različnost oblik procesov odločanja, kar ima v mnogih primerih za posledico razdrobljenost odločanja.

Rezultati analize petih regionalnih instrumentov gospodarske politike, ki jih je uporabila deželna uprava Salzburga, kažejo, da je ključni element, ki določa obseg pristojnosti regionalne politike in njeno uspešnost, ustrezen odnos do politike na zvezni ravni. Ukrepi zvezne politike pomenijo včasih tudi nove priložnosti za spremembe regionalne politike, vendar mora biti odziv deželne ravni na zvezno zakonodajo pravočasen, dežele pa morajo tudi pretehtati, kakšna bi bila korist večjega obsega pristojnosti regionalne politike glede na gospodarsko breme, ki bi ga nanje lahko prenesle zvezne oblasti. Vpliv posameznih instrumentov je šibak, če niso del izčrpane strategije regionalne gospodarske politike. Analiza instrumentov politike pa je tudi pokazala, da za uspešno spremembo regionalnih pristojnosti ni zadoščala zgolj zagotovitev javnih sredstev, ampak so bile odločilne dodatne, strokovne svetovalne storitve.