

# Politics and Intergovernmental Grants



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Marie Kjærgaard  
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# Chapter 1: Introduction

How to provide the funding for public service is a core question for policy makers in many countries and for economists and political scientists trying to understand the fiscal side of the public sector. Intergovernmental grants channel money from one level of government to another or between governments at the same level and are important instruments for securing, controlling and influencing the delivery of public services and transfers in a multi-layered government structure.

Typically, intergovernmental grants are transfers from a higher level government (national, federal or supra-national) to regional or local governments such as funds from the European Union to the member states (structural funds) or grants from the federal to the local level to fund schools, health care or other services. Moreover, intergovernmental grants can be transfers from one local government to another at the same level, for example the equalizing grants in Germany used to level out fiscal disparities between former East and West German Länder (Stehn and Fedelino, 2009).

Intergovernmental grants can be used for several purposes.<sup>1</sup> First, they can be used to close the ‘vertical fiscal gap’, which is created when taxes are not collected at the governmental level where they are spent. Traditional approaches to fiscal federalism argue that many public services are best provided at the local level since local governments are better able to fit the supply for public service to local demands. Thus, local provision enhances allocative efficiency. In regards to tax collection, the fiscal federalism literature argues that, under some conditions, the central government is more efficient (Musgrave, 1959; Oates, 1972). If taxes are collected at the central governmental level but services are provided at the local level, some transfer of funds from the central to the local level must take place. Second, intergovernmental grants can be used to equal out disparities between local governments arising from the different structural characteristics of local governments. Third, central governments may use intergovernmental grants to influence the prioritization of local governments. If intergovernmental grants are earmarked for specific purposes, the central government is able to curtail the freedom of local governments to prioritize funds between tasks and service areas.

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<sup>1</sup> The purposes highlighted are considered the most general. Other more specific purposes are discussed in the literature (see for example Boadway and Shah, 2009).

Intergovernmental grants are important from a theoretical perspective and for policy makers since they transfer enormous sums. For example, in 2006, US local governments received \$475 billion from the state and federal governments, which corresponds to around 38 % of local government revenue (Wildasin, 2009). In 2013, Danish local governments (municipalities) received approximately DKK 85 billion in transfer corresponding to around 25 % of municipal revenue (Ministry of the Interior, 2014). Thus, intergovernmental grants have a real impact on public service delivery due to the large amounts of money.

The traditional literature on intergovernmental grants is the so-called first generation of fiscal federalism (FGFF). According to this perspective, intergovernmental grants can be used to enhance efficiency and equality in public service provision (Musgrave, 1959; Oates, 1972). The second generation of fiscal federalism (SGFF) rejects the assumption that the distribution of responsibility and allocation of funds across layers of government is made by a benevolent social planner. Instead, politicians and bureaucrats are assumed to act in their own interest. Moreover, citizens are expected to respond to political decisions about the delivery of public service (Oates, 2005; Weingast, 2014). This perspective emphasizes how important it is that analyses of intergovernmental grants take into account which incentives and interests citizens, politicians and bureaucrats are facing.

While the SGFF argues that intergovernmental grant systems create incentives for bureaucrats and politicians which could have adverse effects on fiscal behavior (Oates, 2005; Weingast, 2009), the perspective does not fully capture the political aspects of intergovernmental grant schemes. Intergovernmental grant schemes represent distributional and often also redistributional institutions that are arguably developed based on the power distribution among affected actors (Knight, 1992). Affected actors are in the context of intergovernmental grants not only subnational governments that are often the focus of the SGFF literature, but could also be other actors such as officials and politicians at all governmental levels, citizens, relevant organizations and industries. Thus, intergovernmental grant schemes are institutions associated with strong political interests by many actors.

This dissertation adds to our knowledge on intergovernmental grants by considering different ways political interests affect intergovernmental grant schemes. Some of the most prominent research in this field focuses on how the relationship between national and local governments affects local fiscal performance and points to ways in which party politics can moderate this relationship (Rodden, 2006). While important, party politics is only one way political factors can influence intergovernmental grant schemes. Political interests might be articulated in a number of different ways ranging from in-

tergovernmental lobbying, over spatially oriented politics to the institutional arrangement organizing intergovernmental transfers. This dissertation points to important ways in which political factors affect our understanding of the design and workings of intergovernmental grant schemes. It does so by answering the following research question:

How and when do political factors affect intergovernmental grant schemes?

To understand how political factors affect intergovernmental grant schemes we first have to define what constitutes political factors in this context. As noted earlier, grant schemes are distributional institutions that “create incentives for subnational political officials that affect their policy choice and hence their jurisdiction’s performance” (Weingast, 2009, p. 283). How these incentives unfold, however, depends on the interests and motivations of the affected actors. Based on the assumption that actors work in their own interest, this means, for one, that politicians seek reelection by safeguarding geopolitical or party-political interests. Party politics could also influence grant schemes based on politicians’ ideological standpoints. Finally, political institutions at the national and local level may affect grant schemes. Based on existing knowledge and theory, Chapter 2 in this monograph discusses how political factors affect intergovernmental grant schemes. This discussion addresses the question of *how* political factors affect intergovernmental grant schemes. As far as *when* political factors are influential, the dissertation investigates three stages of a grant system at which political factors play a role (see Figure 1). Figure 1 does not cover every way politics may affect intergovernmental grants, but it points to some important aspects of this relationship. In the following, each stage is introduced and the stages are discussed in more detail in Chapters 4 and 5.

Figure 1. Overview of the three parts of the dissertation

<p>STAGE 1: INTRODUCTION OF GRANTS</p> <p>Political factors:</p> <p>Intergovernmental lobbying</p> <p>Local government representation at national level</p>	<p>STAGE 2: DISTRIBUTION OF GRANTS</p> <p>Political factors:</p> <p>Strategic allocation based on party affiliation</p> <p>Strategic allocation to constituencies</p>	<p>STAGE 3: EFFECTS OF GRANTS</p> <p>Political factors:</p> <p>Politics matters</p> <p>Local government budget institutions</p>
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Stage 1 considers the process of introducing and changing intergovernmental grant schemes. Grants are introduced by the institution or actor in power to grant money, typically the national government. The receiving governments

often have some influence on this policy process either through formal representation in a second chamber or through lobbying performed by local governments or by a local government organization representing local governments (Loftis and Kettler, 2015). This process of interest representation of local or regional governments at the national level is important for understanding the overall design of an intergovernmental grant scheme. This dissertation focuses on the informal intergovernmental lobbying and not on the formal representation. Some studies exist on this issue (Callanan and Tatham, 2013; Cammisa, 1995; Chandler, 1988; Haider, 1974; Loftis and Kettler, 2015; Nugent, 2009), but only a few focus on funding issues, offering little knowledge on what characterizes the interactions between local and central governments in negotiations about funds. This dissertation develops a theoretical framework for understanding when and how local governments lobby the central government for grants. The theoretical account is supplemented by an exploratory study that sheds light on which strategies local governments use when lobbying for grants.

At Stage 2, where grants are distributed, intergovernmental grants can be used strategically to serve national politicians' interests (see for instance: Arulampalam, Dasgupta, Dhillon, and Dutta, 2009; Dahlberg and Johansson, 2002; Larcinese, Rizzo, and Testa, 2006). Several studies have found that national politicians distribute grants to local governments based on either geopolitical interests or party politics. Politicians have been found to distribute grants to their own constituencies (Berry, Burden, and Howell, 2010; Larcinese et al., 2006; Rodden and Wilkinson, 2004), to local governments with which they are politically affiliated (Arulampalam et al., 2009; Brollo and Nannicini, 2012; Sole-Olle and Sorribas-Navarro, 2008; Veiga and Pinho, 2007) or where they consider the chance of winning votes high (Case, 2001; Dahlberg and Johansson, 2002; Litschig, 2012).

Most of these studies are conducted in two-party systems (Albouy, 2013; Ansolabehere and Snyder, 2006; Larcinese et al., 2006; Levitt and Snyder, 1995) or use a two-party logic (Arulampalam et al., 2009; Case, 2001; Dahlberg and Johansson, 2002) to investigate whether strategic allocation of grants takes place. Little is known about whether these results can be replicated when taking into account the structure of multiparty governments. Study 2 in this dissertation investigates strategic use of grants in a multiparty system and the results suggest that the strategic use of grants differs in the two systems. Such differences indicate that macro-political institutions like electoral systems or government structure or informal institutions such as political culture might affect the functioning of intergovernmental grant schemes.

Third, the dissertation argues that politics can be important at a third stage, namely for understanding the effects of grants and how these are used at the local level. At this stage both formal institutions at the local level and political leadership at the local level could influence local government response to grants. The most famous branch of literature in this field are the studies on the flypaper effect, which refers to the phenomenon that grants seem to stimulate local government expenditures. Local governments that receive an intergovernmental grant tend to raise expenditures for public services instead of using part of the grant on tax reliefs (Hines and Thaler, 1995; Oates, 1972; Wyckoff, 1991). The phenomenon has been explained as the tendency of local policy makers to consider grants a different kind of revenue than for example local tax revenue. Studies 3 and 4 address this issue and contribute to the literature on the flypaper effect by looking at the impact of budget institutions and ideology for the response to intergovernmental grants. Moreover, Study 4 investigates the difference between responses to changes in grants and changes in other sources of local government revenue.

The type of grant is important for how political factors influence grant schemes at all three stages. Grants come in various forms posing different constraints on the receiving government (Boadway and Shah, 2009). The traditional conceptualization of grants distinguishes between unconditional and conditional (earmarks) grants. The former allows the local government to spend grants as desired, whereas the latter can only be spent on predefined services. Another and related distinction is matching or non-matching grants. Matching grants require some funding on the side of the local government that will then be matched by the national government through an intergovernmental grant.

The FGFF has analyzed the efficiency gains from different grant types in terms of how local governments are expected to adjust the production of locally provided public goods in response to intergovernmental grants (Musgrave, 1959). Similarly, grant types are expected to influence the relationship between political factors and grants. For example, whether a grant is unconditional or conditional affects the response option for local politicians. Thus, an analysis of the impact of political factors has to consider type of grant. The traditional conceptualizations (conditional/unconditional and matching/non-matching) refer to the spending criteria related to grants and are very relevant in analyses of effects of grants. As far as the introduction and the allocation of grants, however, a conceptualization is needed that differentiates between allocation mode and the rules for changing a grant. A more relevant conceptualization for investigating political influence at Stages 1 and 2 is proposed in Chapter 2 and developed further in Study 1.

Summing up, based on a comprehensive understanding of intergovernmental grants this dissertation investigates how and when political factors can influence intergovernmental grant schemes and contributes with studies of three stages at which political factors might affect intergovernmental grant schemes. While it does not claim to cover all instances of political influence on grants, it points to three important cases where political factors matter. Assuming a view on intergovernmental grant schemes as distributional institutions, it argues that politics come in many different forms and affect grants through the institutional set-up, through party and geopolitics and through local governmental lobbying. Moreover, the dissertation contributes to three specific literatures that address important aspects of intergovernmental grants: intergovernmental lobbying, distribution of grants, and the flypaper effect (effects of grants). The more specific contributions to these literatures are discussed in Chapter 2.

The dissertation is a combination of three studies written as papers and a monograph containing a fourth study and a summary of the dissertation. The 5 elements in the dissertation are listed below:

- Summary (Chapter 1-3 and 5-6 in this monograph)
- Study 1: Kjærgaard, Marie. Lobbying for Intergovernmental grants: The Strategies of Local Governments. (Chapter 4 in this monograph).
- Study 2: Kjærgaard, Marie. Friends and Enemies: Strategic Use of Grants in Multiparty Systems (*unpublished paper*) (Paper 1)
- Study 3: Kjaergaard, Marie (2015). The Flypaper Effect: Do Political Institutions Affect Danish Local Governments' Response to Intergovernmental Grants? *Local Government Studies*, Vol. 41, Nr. 4 (Paper 2)
- Study 4: Kjaergaard, Marie; Baekgaard, Martin (2016) Intergovernmental Grants and Public Expenditures: Evidence from a Survey Experiment. *Local Governments Studies*, Vol. 42, Nr. 2 (Paper 3)

The following chapter presents the overall theoretical framework for the dissertation, including a typology of different grant types. Moreover, the chapter presents three specific literatures and how the studies in the dissertation contribute to each literature. A more detailed discussion of each of the three literatures is found in Studies 1 through 4. Chapter 3 discusses the overall methodologic considerations and the choice of Denmark as an overall case for the empirical studies. Chapter 4 contains Study 1, which examines how political factors can affect the introduction of and change of grants. Chapter 5 discusses the empirical findings of Studies 2, 3 and 4. Based on the find-

ings in Study 2, the chapter addresses the role of politics in the allocation of grants, and, based on the findings in Studies 3 and 4 it considers the role of politics when grants are used at the local level. Chapter 6 sums up the results from the different parts of the dissertation and discusses their contribution to our knowledge about how and when political factors affect intergovernmental grants.



## Chapter 2: Theoretical framework and contributions

This chapter presents the theoretical framework for the dissertation. First, the definition and classification of grants are discussed. Second, important contributions from the fiscal federalism literature to our understanding of intergovernmental grant schemes are outlined. Third, the three literatures that are the focus of this dissertation are presented along with an argument for how the dissertation contributes to these literatures.

### 2.1 Conceptualization of intergovernmental grants

Intergovernmental fiscal transfers are grants from one level of government to another (Boadway and Shah, 2009, p. 10) or between governments at the same level. Classifications of intergovernmental grants can be separated according to two dimensions: how specified the purpose of the grant is and how the grant is allocated.

Referring to the first dimension, intergovernmental grants have, traditionally, been classified according to whether they are conditional or unconditional (Boadway and Shah, 2009; Musgrave and Musgrave, 1984; Oates, 1972)<sup>2</sup>. Conditional grants are to some extent restricted, that is, some purposes for which the grant can be spent by the receiving government are defined. In contrast, unconditional grants have no strings attached and the receiving government can spend them as it likes (Boadway and Shah, 2009; Oates, 1972).

Related to the second dimension, both conditional and unconditional grants come in various forms depending on how they are allocated. For conditional grants, one important distinction is between matching or non-matching. With matching grants, the receiving government has to match the grant by a specified ratio (Boadway and Shah, 2009). Matching grants can be open-ended, i.e., there is no limit to how much funding the receiving government can get through the matching grant, or closed-ended, i.e., the amount that can be extracted through this grant is limited. Conditional, non-matching grants still have to be used for a particular purpose, but do not have to be matched by the receiving government. The classification of un-

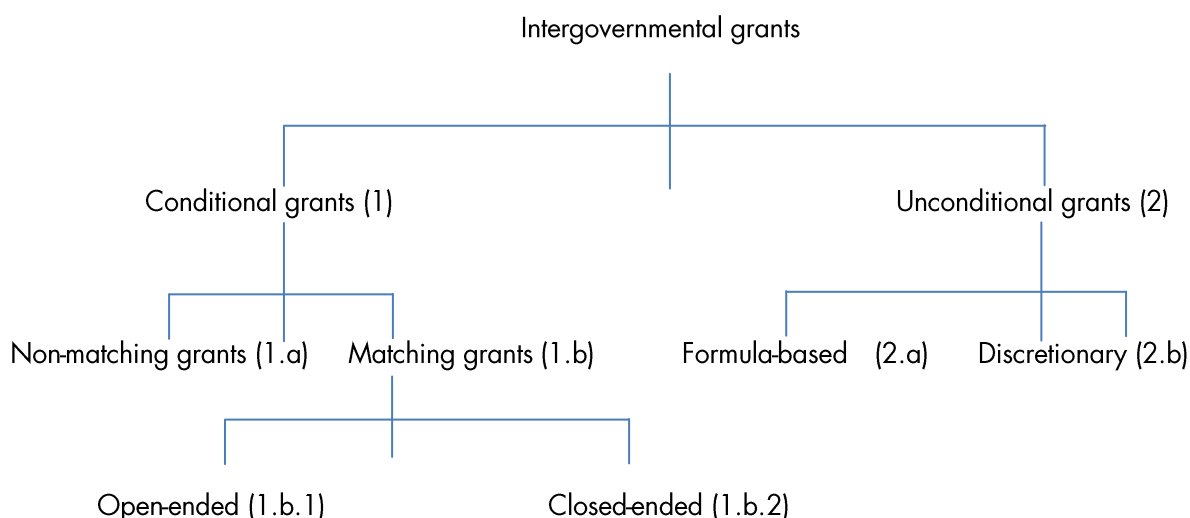
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<sup>2</sup> The following description builds primarily on the classification presented by Boadway and Shah (2009) and Oates (1972).

conditional grants is less clearly formulated than the one for conditional grants. However, one relevant distinction is whether the allocation of the unconditional grant is formula-based or discretionary. Formula-based grants are allocated based on pre-defined criteria, whereas discretionary grants are allocated discretionally by the grantor.

Figure 2 illustrates the traditional conceptualization of intergovernmental grants

Figure 2. Classification of grants



Note: Based on Pedersen (2007, p. 254).

The above classification of grants has guided several literatures investigating effects of grants both theoretically and empirically. Thus, a rather extensive positive literature analyzes how the effects on local government expenditures differ for matching and non-matching grants (Boadway and Shah, 2009; Courant, Gramlich, and Rubinfeld, 1979; Musgrave and Musgrave, 1984; Wilde, 1971; Wyckoff, 1991), for conditional and unconditional grants (Boadway and Shah, 2009; Gramlich, Galper, Goldfeld, and McGuire, 1973; Musgrave and Musgrave, 1984; Oates, 1972, 1979; Wilde, 1971) and for open-ended and closed-ended grants (Boadway and Shah, 2009; Moffitt, 1984; Wilde, 1971). Moreover, a normative literature has used the classification to discuss prescriptions for the design of intergovernmental grant schemes (see for example Boadway and Flatters, 1982; Boex and Martinez-Vazquez, 2007; Musgrave and Musgrave, 1984; Oates, 1972; Weingast, 2009). This literature discusses how the use of different grant types to finance subnational governments can help to create and maintain vertical and horizontal fiscal balances, uphold equity, and create what is deemed good incentives for local government action (e.g. limit tax competition).

The classification presented in Figure 2 offers a valuable distinction between grants for analyses of effects of grants. When one wants to investigate how political factors affect grants in the decision-making process leading to the introduction of a new grant or to a change in an existing grant scheme, the classification does not satisfactorily distinguish between grant types. For this purpose a classification is needed that discriminates between grants according to their consequences and how they are decided upon. As discussed further in Chapter 4, the dissertation suggests a classification incorporating these two dimensions based on distributional consequences (inspired by Cammisa (1995)), and whether the grant has long- or short-term consequences.

## 2.2 The fiscal federalism perspective

There are two overall approaches to understanding intergovernmental grants. The traditional approach is based on the First Generation of Fiscal Federalism (FGFF), which dates back to the 1950s and 1960s. Over the last decades, an alternative approach, the Second Generation of Fiscal Federalism (SGFF), has developed. This dissertation is placed within this SGFF-framework. The following section discusses the two approaches and their understanding of intergovernmental grants. Following this discussion, the more specific literatures to which the dissertation speaks are presented along with the contributions to these literatures.

The traditional First Generation of Fiscal Federalism (FGFF) approach presents a normative understanding of a decentralized public economy focusing on how the public sector should be designed in order to achieve efficiency, macroeconomic stabilization and redistribution (Musgrave, 1959; Oates, 1999; Samuelson, 1954). The primary task of the public sector is to correct failures of the market in order to handle inefficiencies arising from decentralizing certain tasks to lower levels of government (Boadway, 1997; Flatters, Henderson, and Mieszkowski, 1974; Oates, 2005). One public choice-inspired logic to achieve these efficiency gains is to let citizens ‘vote with their feet’ (Tiebout, 1956), thereby sorting themselves into local jurisdictions that provide the optimal level of service at the lowest price possible. The design of an optimal intergovernmental grant system is viewed as another way to achieve these goals and create an optimal fiscal structure in the public sector (Musgrave and Musgrave, 1984; Oates, 1999). This FGFF perspective is based on the assumption that public decision makers have complete information and work as benevolent planners for the public interest (Oates, 2005; Weingast, 2009).

The Second Generation of Fiscal Federalism (SGFF) was introduced as an alternative understanding of fiscal federalism. This perspective rejects the assumption of FGFF that decision makers are benevolent planners and argues that decision makers have goals that are not always aligned with the public interest and that complete information is rarely available (Oates, 2005; Weingast, 2009). This means that political and fiscal institutions become increasingly important in understanding how the public economy works since these institutions shape goals and incentives for politicians and bureaucrats. Consequently, a major part of the SGFF literature is concerned with modeling institutions and decision makers' behavior in order to understand the effects of important aspects of a fiscal federalism structure (e.g. decentralization and intergovernmental grants) (Oates, 2005; see for example Qian and Weingast, 1997; Weingast, 2009, 2014).

An important question in the SGFF literature is how the design of intergovernmental political and fiscal institutions affects outcomes such as democracy, corruption (Weingast, 2009) and local fiscal performance (Brennan and Buchanan, 1980; Rodden, 2002, 2006). One example of such an institutions is the idea of a 'hard budget constraint' that is argued to be important for sound economic performance at the subnational level (Rodden, 2006; Wildasin, 1997). Subnational governments facing a hard budget constraint cannot expect to be bailed out by the central level in times of economic crisis (Kornai, Maskin, and Roland, 2003). Subnational decision makers seeking re-election have incentives to spend above their means or to underprovide services with substantial positive externalities if they regard it as likely that they will be bailed out by the central government in times of fiscal crisis. Installing a hard budget constraint through credible commitment by the central level not to bail out local governments is a way to secure fiscal discipline among subnational governments (Shah, 1998; Weingast, 2009). In contrast, local governments facing a 'soft budget constraint' are able to pressure the central government to rescue them in times of fiscal crisis. Local governments that rely heavily on intergovernmental grants as their source of revenue are argued to have a particularly high chance of succeeding in pressuring the central level for bailouts (Oates, 2005; Rodden, 2006). A second and related example of how the intergovernmental institutional setup creates incentives for local governments is the extent to which local governments have independent taxation right. Several studies have found that local governments that have the right to raise own revenues through local taxes are more accountable to citizens and are less corrupt (Rodden, 2003; Weingast, 2009). Moreover, independent taxation rights minimize local governments' dependency on grants and thereby limit the possibility to use these grants to raid the common pool of resources (Oates, 2005). Taken together, these

findings highlight that the way political and fiscal institutions are designed matters for local governments' behavior.

## 2.3 The contributions of this dissertation

This dissertation operates within the SGFF framework and builds on a comprehensive understanding of intergovernmental grant schemes. Intergovernmental grants constitute a form of distributional or re-distributional policy, which means that actors affected by the institutions have strong interests in its design (Knight, 1992). Citizens, local politicians and local bureaucrats may, thus, have strong interests in how the intergovernmental grant system is designed. Moreover, central decision makers are likely to pursue their own interests when designing and redesigning intergovernmental grant systems. Building on the insights from the SGFF literature to understand how political factors can influence intergovernmental grants schemes at three different stages, the dissertation contributes both to the SGFF and to more narrow literatures on intergovernmental grants.

The dissertation focuses on three stages in an intergovernmental grant system at which political factors such as party politics, institutions, and ideology could affect intergovernmental grants (see Chapter 1). Each stage relates to different literatures in understanding the role of political factors, and this dissertation focuses specifically on literature on intergovernmental lobbying (stage 1), strategic grant allocation (stage 2) and the flypaper effect (stage 3). The following paragraphs discuss these three literatures and how the studies in the dissertation contribute to each literature. For a more detailed description of the literatures, I refer to the specific studies.

### 2.3.1 Introduction of grants

The first stage relates to the introduction or change of grant schemes. The potential for political factors to influence grants at this stage is either formal, through local representation in for example a second chamber (Haider, 1974; Pitlik, Schneider, and Strotmann, 2006) or more informal through what is termed intergovernmental lobbying (Cammisa, 1995; Haider, 1974; Loftis and Kettler, 2015). This dissertation focuses on intergovernmental lobbying. The literature on intergovernmental lobbying has primarily studied how national organizations representing the interests of local or regional governments act to influence the national political decision-making process (Blom-Hansen, 2002; Cammisa, 1995; Cigler, 1994; Haider, 1974). Only a few studies have analyzed how individual local governments lobby for grants (see for example Freeman and Nownes, 1999; Loftis and Kettler, 2015). Loftis and

Kettler focus on the amount of money spent on individual lobbying, and do not go into detail with the specific strategies. Freeman and Nownes offer some insights on which strategies local governments use, but do not relate these strategies to grants. Thus, more research is needed to understand how intergovernmental lobbying takes place and how it affects decisions about intergovernmental funds.

Study 1 adds to our understanding of intergovernmental lobbying by exploring local government strategy choice in regard to intergovernmental grants. Since the literature on strategies does not offer a thorough conceptualization of strategies (see Freeman and Nownes, 1999 for a discussion), one aim of the study is to map strategies used by local governments to lobby for grants. Second, the study investigates potentially important factors for understanding which strategy a local government chooses. This explanatory part studies the importance of grant type and local government characteristics for intergovernmental lobbying. Understanding how intergovernmental lobbying is undertaken by individual local governments will further the knowledge about how intergovernmental grant schemes are introduced and changed.

### 2.3.2 Distribution of grants

The second stage where political factors are expected to matter for intergovernmental grant systems concerns the distribution of grants. A whole literature, referred to as strategic grant allocation or pork barrel politics, has shown how national politicians use particularistic benefits to further their own reelection chances (Balla, Lawrence, Maltzman, and Sigelman, 2002; Mayhew, 1974; Stein and Bickers, 1994; Stokes, 2009). Most of this literature focuses on funds either to individuals or to lower governmental layers, and many scholars have found evidence that either individual politicians or parties use funds to build coalitions at the national level (Baron and Ferejohn, 1989) or to win votes at national elections (Arulampalam et al., 2009; Case, 2001; Lee, 2000; Sole-Olle and Sorribas-Navarro, 2008; Stein and Bickers, 1994). The two most prominent hypotheses in this literature state that national decision makers target core voters (Cox and McCubbins, 1986) and voters with weak party preferences (Dixit and Londregan, 1996; Lindbeck and Weibull, 1987). The argument for targeting core voters is that risk-averse political candidates will make the safest investment by targeting voters whose preferences they know. Targeting core voters will, thus, offer the best return in terms of electoral support at the lowest costs (Cox and McCubbins, 1986). The swing voter hypothesis argues that targeting groups of voters with weak ideological preferences will lead to a higher payoff in terms of

votes compared to targeting core voters. Targeting voters who might have voted for another party or candidate simply enhances the chances of winning an election more than targeting voters whose support is already secured (Dixit and Londregan, 1996; Lindbeck and Weibull, 1987). These two hypotheses have been adopted to study strategic use of grants from the central level of government to lower levels. In this part of the literature, studies have found substantial support for the swing voter hypothesis (Arulampalam et al., 2009; Case, 2001; Veiga and Pinho, 2007) whereas evidence in favor of the core voter hypothesis is more mixed (Berry et al., 2010; Larcinese et al., 2006; Rodden and Wilkinson, 2004). The study of strategic grant allocation across layers of government has added a third hypothesis to the original framework that focuses on the party alignment between the governments at the local and central level. Thus, studies have found that subnational governments that are in alignment with the national government in terms of party affiliation receive more funds than other subnational governments (Arulampalam et al., 2009; Brollo and Nannicini, 2012; Sole-Olle and Sorribas-Navarro, 2008; Veiga and Pinho, 2007).

Most studies on strategic grant allocation are conducted in a two-party system (Balla et al., 2002; Stein and Bickers, 1994; Wallis, 1996) or focus on two-party characteristics of multiparty systems (Arulampalam et al., 2009; Dahlberg and Johansson, 2002; Veiga and Pinho, 2007). Thus, relatively little is known about strategic grant allocation between layers of governments in multiparty systems that often rely on coalition governments. Parts of the coalition theory have pointed to the general ability of all parties to attract benefits when they are part of a government (Ansolabehere, Snyder, Strauss, and Ting, 2005), while others argue that large parties have an advantage when bargaining in coalitions (Baron and Ferejohn, 1989; Warwick and Druckman, 2001). More specifically focusing on grants, Rodden and Wilkinson (2004) suggest that the different bargaining power of parties in parliament in a multiparty system may change allocation strategies. They argue that parties that are pivotal for the governing coalition could potentially use this power in the national governing coalition to attract grants to their constituencies. Study 2 in this dissertation builds on these arguments and discusses, on theoretical grounds, some of the mechanisms that are relevant for understanding strategic grant allocation in multiparty systems. While the data in the study does not allow for an empirical test of the specific mechanisms that may unfold in multiparty systems, the study investigates the core and swing voter hypotheses and the alignment hypothesis for different coalition types at the national level. A better understanding of whether and how strategic grant allocation unfolds in multiparty systems will help us to get a better grasp of how institutional setups affect intergovernmental grants.

### 2.3.3 Effects of grants

The third stage at which political factors are expected to affect intergovernmental grants relates to how local governments respond to changes in grants. The FGFF theory of intergovernmental grants argued that the effect of grants could be determined based on the type of grant as discussed in relation to Figure 2. However, the introduction of the SGFF pointed out that grants may not have the effect predicted by normative economics. Two prominent claims are found in this literature. First, the *flypaper effect hypothesis* states that local governments in case of a revenue increase raise expenditures more if the increase stems from increasing grants than if it stems from increases in citizen income. Evidence in favor of this hypothesis is extensive (Courant et al., 1979; Dahlberg, Mörk, Rattsø, and Ågren, 2008; Deller and Maher, 2006; Filimon, Romer, and Rosenthal, 1982; Gramlich et al., 1973; Mehiriz and Marceau, 2014). Second, the *asymmetrical response hypothesis* argues that local governments respond differently to increases and decreases in grants. Local governments are expected to raise expenditures more in case of a grant increase than they will lower expenditures in case of a grant decrease of similar size. Some studies support the asymmetrical response hypothesis (Cárdenas and Sharma, 2011; Edward M. Gramlich, 1987; Heyndels, 2001; Lago-Peñas, 2008; Rattsø and Tovmo, 2002), others do not (Gamkhar, 2000; Gamkhar and Oates, 1996).

Several explanations have been suggested for the flypaper effect (see Bailey and Connolly, 1998 for an overview), but they are rarely tested empirically. The most prominent explanation relates to the fiscal illusion of voters. According to this explanation, voters are assumed to underestimate the costs of providing public service when the service is funded by intergovernmental grants rather than by locally collected taxes. Consequently, voters demand higher levels of service (and costs) if the service is paid for by intergovernmental grants (Courant et al., 1979; Dollery and Worthington, 1996; Oates, 1988).

The mechanism behind the asymmetrical response hypothesis is often explained with reference to local decision makers who respond to expenditure pressures from citizens in their locality (Edward M. Gramlich, 1987; Gamkhar and Oates, 1996). Drawing on Wilson's distinction between distributed and concentrated costs and benefits (Wilson, 1973, 1980), it can be argued that if the benefits of public service are concentrated, but the price for services in terms of local taxes is spread out, local decision makers are more likely to gain electoral support by raising taxes (instead of cutting back service) in case of a cutback in grants, and to increase expenditures (instead of lowering tax rates) in case of an increase in grants. If this asymmetrical re-

sponse is realized it will increase overall tax and expenditure levels in the local public sector.

While the studies in this dissertation do not investigate the mechanisms behind the flypaper effect or the asymmetrical response hypothesis, Study 4 comes one step closer in understanding what drives the response to changes in local revenue by investigating not only responses to changes in grants, but also to changes in citizen income. If the responses to changes in citizen income are similar to the response found in case of grant changes, this suggests that local government response is driven more by some general mechanisms than by mechanisms related specifically to grants. In contrast, if the response to grants differs substantially from the response to changes in citizen income, this might support the idea in the literature on the asymmetrical response hypothesis that grants constitute some special kind of revenue that is treated differently than other revenue sources by citizens and decision makers. Moreover, Study 4 investigates response to revenue changes for individual politicians. This allows for a better understanding of the individual level foundations for the studies conducted at the local government level (see for example Rattsø and Tovmo, 2002).

While the notion that a flypaper effect and an asymmetrical response exist in some situations is broadly accepted in the literature, it is still a puzzle why the two effects are sometimes, but not always, identified and why they are estimated to be of different size (Cárdenas and Sharma, 2011; Dahlberg et al., 2008; Deller and Maher, 2006; Edward M. Gramlich, 1987; Gamkhar, 2000; Gamkhar and Oates, 1996; Heyndels, 2001; Mehriz and Marceau, 2014; Rattsø and Tovmo, 2002). One explanation may be found by looking at the political context in which local decision makers decide to respond to grant changes or changes in citizen income. The response to grant and income changes is a product of an often complex decision-making process at the local level, where several factors such as organizational structure, past performance, national regulation and characteristics of the local government influence budget decisions. Some of these political context factors have been explored and studies have found for example that the size of the flypaper effect is reduced when the local council consists of only one political party (Tovmo and Falch, 2002). A study of adjustments to temporary revenue shocks in Denmark in the 1990s finds that political strength in terms of fragmentation of the local council has no effect on local government spending adjustments and only limited effect on tax adjustments. Political ideology is found to have an impact on expenditure adjustments since local councils with a large social democratic faction tend to raise expenditures more than local councils with fewer social democrats (Rattsø and Tovmo, 2002).

Building on these findings, the dissertation adds to our knowledge about effects of political context factors by investigating how ideology affects responses to revenue changes by individual local politicians and whether budget institutions matter for the response to revenue changes.

#### 2.3.4 Summing up the contributions

Summing up, the dissertation contributes to our knowledge and understanding of intergovernmental grants by investigating the role of intergovernmental lobbying, institutions, ideology and party politics for intergovernmental grants. The dissertation builds on a comprehensive understanding of intergovernmental grants, which means that the role of political factors is investigated at three different stages.

## Chapter 3:

### Research design

The empirical studies in this dissertation all use Denmark as an overall case, since it provides a promising ground for studying both the overall research question and the questions raised in the individual studies. Moreover, studying different parts of the Danish intergovernmental grant system contributes to our understanding of the political aspects of this particular system. This chapter provides the arguments for choosing Denmark as an overall case and presents and discusses the research designs, data and methods used in the individual studies.

#### 3.1 Overall research design

The following criteria guide the choice of empirical context for studying when and how political factors affect intergovernmental grant schemes. First, in order to make grant schemes relevant for political actors at all levels, intergovernmental grants have to be an important part of public sector funding. Second, a setting is needed in which it is possible to collect data at and study all three stages of potential political influence. Relating to the first stage, this dissertation focuses on intergovernmental lobbying. This requires a setting in which it is possible for local governments to influence the decision-making process leading to the introduction or change of grants. Regarding the second stage, this dissertation focuses on the strategic distribution of grants in multiparty systems. This focus requires a grant allocated with substantial discretion in a multiparty setting. Stage 3 is investigated with focus on how local governments adjust to grant changes by adjusting either own source revenue or local government expenditures. This kind of study requires a setup where the variation in grants is as close to exogenous as possible and where local governments are dependent on both own source revenues and intergovernmental grants. Third, since political factors might affect grant schemes differently depending on the type of grant, a good empirical setting includes several different grant types. While the dissertation does not aim at testing whether the importance of political factors varies systematically across the different stages, politics is likely to play out differently depending on the grant type in question.

Denmark offers an institutional setup that meets all the above-mentioned standards and therefore constitutes a fruitful overall case for the individual empirical studies. Moreover, choosing one national setting as em-

empirical field ensures that the results of the individual studies can be compared holding constant a number of factors such as general political culture, macro-economic situation etc. Focusing on one single country obviously comes at the cost of generalizability. However, securing comparability across studies and the opportunity to look at how political factors influence grants at different stages in the *same* country is prioritized over statistical generalizability (at the country level). Instead, results are generalized analytically. The scope of this generalizability is discussed in each study and will be taken up in the final chapter in this monograph.

The following section elaborates on why Denmark fulfills the criteria mentioned above and introduces to some of the empirical context relevant for the individual studies. The description is not a comprehensive introduction to Danish local government or to the Danish grant system (such introductions can be found in for example the Ministry of the Interior (2015), Pedersen (2007) or Blom-Hansen and Heeager (2011)). Instead the discussion aims at highlighting, at a general level, why Denmark is a good case for studying intergovernmental grants. For a more detailed description of the case selection in the empirical studies, I refer to the individual studies.

### 3.1.1 Funding public service through intergovernmental grants

First, intergovernmental grants are important for funding public service in Denmark. Denmark is a small country with a large public sector and extensive welfare services. The state is unitary but with large responsibility decentralized to lower levels of government. The two lower levels of government, the regions and the municipalities, are responsible for around two thirds of public spending in Denmark (Blom-Hansen and Heeager, 2011). The primary task for the five regions is health care. In addition, the regions are responsible for some social functions and regional development in cooperation with the state and the municipalities. The regions have no independent taxation right and are financed through user fees and intergovernmental grants primarily from the central level, but also from municipalities. The 98 municipalities are the main providers of public services and are responsible for delivering a number of services including secondary health care, primary education, elderly care, day care, some infrastructure tasks and some social affairs functions. In addition, the municipalities handle individual payment transfers such as unemployment and sickness payments. The municipalities have independent taxation right and are financed through local taxes (approx. 55 percent of municipal revenue), intergovernmental grants (approx. 21 percent of municipal revenue) and user fees (approx. 22 percent of municipal revenue) (Ministry of the Interior, 2014). Intergovernmental grants,

thus, play a large role in funding both the regional and municipal levels, which together provide a major part of public services in Denmark. The following discussion will focus on the lowest level of government, the municipalities, since they are the empirical focus in this dissertation.

### 3.1.2 Studying grants at three stages

Second, Denmark provides an opportunity to study influence of political factors at the three stages where political factors are expected to matter for intergovernmental grants. Turning to the first stage, grant programs in Denmark are introduced in multiple ways, involving several actors. In the following some examples are mentioned of which grants exist and how they are decided upon. A large part of the grant scheme is negotiated in a yearly agreement between the national government and the local government organization (KL). These agreements are not legally binding, but have, for many years, been the primary instrument for regulating overall local tax levels, and large parts of the intergovernmental grant scheme (Blom-Hansen, Baekgaard, and Serritzlew, 2014). The agreement lays out the boundaries for a large general block grant that is adjusted every year. Moreover, the agreements are used to negotiate the introduction of new smaller grant programs or to evaluate the size of such smaller pools. The Minister of the Interior is often delegated discretion to allocate these smaller programs and to set eligibility criteria. Finally, the agreements cover loan-based grant programs for which municipalities can apply. The Minister of the Interior decides which municipalities are allowed to borrow. Another significant part of the Danish grant system is an equalizing grant aimed at leveling out fiscal disparities between municipalities. The equalizing grant scheme is formula-based and allocated according to demographic, structural and fiscal criteria. Changes to this system have traditionally been made by a majority in parliament based on suggestions from an expert committee.<sup>3</sup> Finally, a number of grants are placed in the sectoral ministries (rather than in the Ministry of the Interior and the Ministry of Finance). These grant programs are earmarked to a specific service area such as education or health and are administered by the ministry in charge of that area.

As is evident from these examples, the introduction of grants is negotiated and discussed in many arenas involving several actors. This opens up the possibility for actors both at the national and local level to influence the decision-making process leading to the introduction or change of grants. Especially important, the many involved actors and decision points highlight that

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<sup>3</sup> Pedersen and Hold-Olesen (2001) provide (among other things) evidence of majorities supporting reform of the equalizing system.

it is necessary to focus not only on formal, but also on informal influence to understand how and when political factors can affect the introduction of grants.

Related to the second stage, studying strategic allocation of grants in multiparty systems requires, first, a grant that is allocated on a discretionary basis. Grants are almost always introduced with some aim, be it supporting for example disadvantaged regions or elderly. From that perspective it seems unlikely if not impossible to find a grant that is totally free from political intentions and that can be allocated solely at the will of the grantor.<sup>4</sup> What one is looking for, then, is a grant that leaves significant discretion to the person or agency responsible for allocating the grant. In Denmark a ‘special grant’ exists that has been allocated to local governments for a long time. The grant is aimed at municipalities in a difficult situation, but has no formal criteria attached (Ministry of the Interior, 2015). This means that the Minister of the Interior has discretion to allocate the grant. Moreover, studying strategic grant allocation requires that shifts in government at the national and local level occur in the period where a grant is allocated. This is the case in Denmark, where several shifts in government took place in the period from 1991-2006 where the allocation of the special grant is studied. Finally, it can be investigated whether the strategic grant allocation found by previous studies in a two-party context can be transferred to the Danish multiparty setting. Since a country relies on either a multiparty or a two-party setup, comparing studies from one country with studies from another country does not allow for a test of the effect of party systems for strategic allocation. Exploring the scope conditions for existing findings from two-party systems might, however, give rise to novel theoretical thinking.

As to the third stage, the main challenge when studying effects of grants is to secure exogenous variation in grant allocation. If for example local governments benefit from changes in grants for an underlying reason that also leads them to raise expenditures, the correlation between increases in grants and increases in expenditure could be falsely identified as a causal effect. Additionally, and as discussed earlier, local actors potentially have influence on which grants are introduced and distributed. For these reasons, it is crucial to find a setting where such influence is limited and where grant changes are exogenous in order to study their effects. One ideal option would be to set up a field experiment randomly allocating grants to municipalities and evaluate their reactions. Since this is not possible for ethical and economic rea-

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<sup>4</sup> Here I discuss grants allocated in western developed countries. Obviously, many examples exist from the developing world of grants used at the will of the political leader.

sons, one has to look for other ways to secure exogenous variation. One solution is to imitate the field experiment by use of an experiment embedded in a survey. Study 4 does this by using vignettes in a survey experiment to simulate grant changes. Local politicians are exposed to fictitious scenarios of changing grants and are asked to indicate their response to such a scenario. A second solution to the challenge of securing exogeneity is to use real events introducing exogenous variation in grants. A financial reform of the grant system, coinciding with a structural reform of local governments in Denmark, offers an opportunity to study effects of grants in a semi-experimental setting (study 3). Moreover, to study effects of grants one needs a setup where local governments depend on both intergovernmental grants and own source revenue. Danish municipalities are an excellent example of such local governments, since about 21 percent of their revenue stems from intergovernmental grants and 55 percent from local taxes. Finally, they must be able to control both own source revenue and expenditure levels. Regarding the power to adjust own source revenue, the local governments formally have independent taxation right allowing municipalities to set tax rates within the limits of the yearly agreement between the local government association and the national government. In practice, however, the right to adjust taxes has been heavily curtailed since 2009, meaning that local governments are now punished for raising taxes by cuts in the general intergovernmental grant.<sup>5</sup> Also local expenditure levels have been controlled in the past years. In 2012, a ‘budget law’ was enacted putting ceilings on national, regional and local expenditures (Baekgaard and Kjaergaard, 2016). If local governments’ budgets and accounts are above the level decided in the law, municipalities are punished by cuts in intergovernmental grants (Blom-Hansen, Ibsen, Juul, and Mouritzen, 2012). These tax and expenditure limitations make it harder for local governments to adjust to changes in grants and, consequently, to study effects of grants. Study 3 focuses on expenditure adjustments following grant changes. Since the ceilings on expenditures were not enacted in 2009, which is the last year of measurement in the study, effects on the expenditure side should still be expected. Local governments were, however, at that time already significantly restricted in their options to adjust taxes. For one, this means that it is not especially meaningful to investigate adjustments in taxes in this case. Moreover, it could lead one to expect that the binding on taxes

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<sup>5</sup> More precisely, local governments are punished for raising taxes both through individual and collective sanctions in a way that extra revenue, generated by local tax increases, is offset by a cut in the local government’s grant (individual sanction) and in the grants to all municipalities (collective sanction) (Blom-Hansen, Bækgaard, and Serritzlew, 2014).

would result in larger changes in expenditures than would otherwise have occurred. The study handles this challenge by using a design that looks at *differences* in changes in expenditures. Thus, it compares changes in expenditures for local governments with decreasing grants with changes in expenditures for governments with increasing grants.

### 3.1.3 Studying different grant types

Third, the different grants in the Danish intergovernmental grant scheme allow for an investigation of the influence of political factors on different grant types.<sup>6</sup> The important distinction in the literature is between conditional grants, which can be matching or non-matching, and unconditional grants, which can be discretionary or formula-based (see Section 2.1). Conditional, matching grants are found mostly in relation to individual transfer payments such as unemployment benefits and sickness pay. Local governments are responsible for these transfers, but are reimbursed by the national government for part of the expense (Pedersen, 2007, Chap. 6). Matching grants are also found in some of the smaller grant programs (KREVI, 2008) where local governments can get funding equivalent to the amount they invest. These latter programs are small compared to the total local government economy and are often based on loans. Conditional, non-matching grants are known from a number of smaller grants directed at for example elderly and at increasing the number of pedagogues in municipal day care (The Ministry of Social Affairs and the Interior, 2015). Most of the grant scheme, however, is given as unconditional grants, which means that the municipalities are free to prioritize these grants within the limits of the law. Examples of unconditional, formula-based grants are a large general block grant distributed according to number of inhabitants and an extensive equalizing system. Moreover, a significant part of the smaller grant programs are allocated as unconditional, discretionary grants (Pedersen, 2007).

The traditional distinction in the literature between matching and non-matching grants and between conditional and unconditional grants relates to the distribution of grants and to how they can be used at the local level. Thus, the two distinctions are not very helpful for studying introduction and distribution of grants. To remedy this shortcoming, Study 1 introduces a distinction between grants with long- and short-term consequences and draws on the distinction between grants with strong and weak re-distributional consequences to describe grant types relevant for investigating how politics influences the introduction and distribution of grants. Denmark offers an

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<sup>6</sup> For a thorough description of the Danish grant system see for example The Ministry of the Interior (2015) and Pedersen (2007).

opportunity to use this distinction in an empirical study. While grants are often hard to classify empirically as belonging to exclusively one category, some Danish grants fit the categories satisfactorily. Chapter 4 (regarding Study 1) offers a more detailed description of the grants used for this study.

### 3.1.4 Summing up: Denmark as an overall case

Denmark constitutes a very good case for studying how and when political factors affect intergovernmental grant schemes. First, Denmark has one of the world's largest local sectors with responsibility for providing and delivering important public services (Blom-Hansen, Houlberg, and Serritzlew, 2014; Page, 1991). Since the local level does not collect taxes equivalent to its many tasks, intergovernmental grants are very important for funding public services at the local level. Second, Denmark offers an opportunity to study introduction, distribution and effects of grants. Finally, the Danish grant scheme covers a number of different grant types that allow one to explore the impact of political factors relating to different grant types.

## 3.2 The four studies

Choosing a research design almost always involves some trade-off in terms of securing measurement, internal and external validity. The four studies in this dissertation call for a different prioritization of these criteria and, consequently, require very different data and methods. In the following, the research strategy, methods and data for each study are discussed. An overview of the data and methods is found in Table 1.

Table 1. Overviews over studies in the dissertation

Study	Research design/data	N	Unit of analysis	Data and time for data collection	Methods
1	Case study	12 (4)*	Municipalities	Interview data (December 2015)	Qualitative content analysis
2	Panel design	232 (271)	Municipalities	Register data from Statistics Denmark, Valgdatabasen and the Ministry of the Interior (2014)	Panel data regressions
3	Quasi-experiment	98	Municipalities	Register data from Statistics Denmark, Valgdatabasen and the Ministry of the Interior (2012)	Panel data regressions
4	Survey experiment	654	Local politicians	Survey collected by Marie Kjærgaard, Martin Bækgaard and Poul Aaes Nielsen (Spring 2014)	Multilevel, fixed effects regression

\* 12 interviewees placed in four different municipalities.

Study 1 investigates which strategies local governments use related to inter-governmental grants. Safeguarding interests involves attempts to contact central decision makers. Such contacts are often both formal and informal, which can make them hard to measure precisely. Moreover, the stage of the existing literature on intergovernmental lobbying does not allow for the formulation of theoretically driven hypotheses. Thus, a research design is needed in which a partly explorative approach can be implemented and that secures an accurate measurement of local government strategies. Consequently, a case study approach is used that explores the strategies of four municipalities using interview data from three interviews in each municipality (with the mayor and two high-ranking officials). This research strategy is promising, since it allows for an in depth understanding of which strategies local governments use to safeguard interests and which factors are important in terms of understanding strategy choice. The focus on a few cases comes at the cost of generalizability. Each municipality represents one specific kind of local government (based on a specific combination of municipal characteristics) which means that each example of a kind of municipality could potentially be a special case with deviant characteristics on unobserved variables. In this sense, the local governments investigated are not necessarily representative of local governments in Denmark or in other countries. Since the aim of the study is to map strategies and point to factors that potentially influence strategy choice, this does not undermine the conclusions in the study. However, it is left to future research to investigate whether the conclusions hold when a larger number of local governments are investigated.

Study 2 investigates strategic grant allocation in multiparty systems. One crucial factor in analyzing strategic distribution of grants is to isolate the effect of being in government from the effect of a specific party being in government. Identifying this effect, and thus securing the internal validity of the study, requires shifts in government both at the national and the local level and that the same grant is distributed in all government periods. An inter-governmental grant distributed on a fairly discretionary basis allows for a longitudinal research design fulfilling these criteria. Based on a dataset comprised of register data from a number of different sources covering 16 years (1991 to 2006) the strategic use of grants is analyzed using panel data models. Moreover, Study 2 focuses on strategic grant allocation in multiparty systems. Denmark is a multiparty system, but it is special in the sense that minority governments are the most common constellation at the national level (Skjæveland, 2003). This does not seem problematic for the conclusions drawn from the study regarding multiparty systems, since the theoretical mechanisms driving the strategic allocation are supposed to be present whether a minority or a majority government is in power. Moreover, general-

izations to other party systems from this study (as well as others in the literature) will inevitably be analytic, since there is no variation on party system in the study.

Studies 3 and 4 both focus on detecting effects of grants at the local level. As discussed previously in this section, studying effects of grants requires the identification of exogenous variation on grant allocation. Study 3 uses an external shock to the intergovernmental grant system combined with measures of local governments' expenditure levels before and after the reform to estimate effects of grants. The expenditure levels were collected in a dataset also covering a number of control variables measured before and after the financial reform. Study 4, in turn, uses a survey experiment to explore reactions to grant changes among local politicians. The randomized survey experiment was conducted as part of a survey sent to all local politicians in Denmark. Both studies prioritize internal validity since they focus, in different ways, on estimating the causal effect of grant changes. Study 3 focuses on the aggregated municipal level and measures real expenditure adjustments, whereas Study 4 investigates the intentional (and not actual) reactions of individual local politicians to grant changes.



# Chapter 4:

## Lobbying for intergovernmental grants: the strategies of local governments (Study 1)

### 4.1 Introduction

In many countries, intergovernmental grant programs have a huge impact on local governments' fiscal situation. Local governments therefore have strong interests in influencing grant programs. The literature on intergovernmental lobbying has addressed this question at some length, arguing that subnational governments lobby higher level governments to create policy programs in their favor (Callanan and Tatham, 2013; Cammisa, 1995; Chandler, 1988; Haider, 1974; Nugent, 2009). The lobbying often takes place through associations of subnational governments. In contrast to policy issues where local governments share a common interest vis-à-vis the central government, many intergovernmental grants have re-distributional consequences. Such grants potentially create a conflict between local governments, since some benefit from the program at the expense of others. Local governments, thus, do not necessarily have a common interest that can be represented by the local government association when it comes to grants. In these instances it is not clear from the literature how subnational governments safeguard their interests. This part of the dissertation investigates how intergovernmental lobbying takes place in relation to intergovernmental grants with both strong and weak re-distributional consequences. More specifically, the chapter investigates *which strategies local governments use to safeguard their interests regarding intergovernmental grants*.

Hitherto, only a few studies have explored which strategies are available to local governments (Freeman and Nownes, 1999; Nugent, 2009) and what explains a local government's strategy choice (see Loftis and Kettler, 2015 for an exception). Therefore, this chapter sets out to map the strategies used by local governments when they lobby for intergovernmental grants and to investigate which factors influence strategy choice related to grants. Scholars studying intergovernmental lobbying related to other issues than grants suggest that the degree to which a policy issue has re-distributional consequences is likely to influence local government strategies (Blom-Hansen, 2002; Heeager, 2012). When the lobbying concerns grants, the re-distributional

consequences are likely to be even more important for strategy choice, since grants come in a monetary form and are very visible to policy makers compared to other policy issues. While the re-distributional consequences of grants are probably an important factor, we know little about how this factor affects strategy choice. A second factor that is potentially important for understanding strategy choice is organizational capacity, which is found in the literature on interest groups and to a lesser extent in the literature on inter-governmental lobbying to affect organizational strategies (Binderkrantz, 2005; Callanan and Tatham, 2013; Donas and Beyers, 2012; Heeager, 2012; Loftis and Kettler, 2015). Organizational capacity is likely to be important for local government strategies related to grants, but we have little knowledge as to how. The current state of the literature makes it difficult to formulate specific hypotheses about how the re-distributional consequences of grants and organizational capacity affect local government strategies. This chapter takes up the task of formulating a theoretical framework from which such hypotheses can be developed. First, the chapter develops a typology for grant types, which is relevant for investigating strategy choice. This typology builds on knowledge about the impact of re-distributional consequences, but adds a dimension to the conceptualization of grant types. Second, it presents two propositions about how local government characteristics may affect strategy choice. More specifically, the chapter focuses on the size and fiscal situation of the subnational government. Summing up, the chapter offers a thorough description of local government strategies and presents a framework on which hypothesizing about explanations for local government strategies can be built.

To inform the hypothesis-generating process, the chapter conducts an exploratory, empirical study. Since our knowledge about local government strategies is for the most part limited, the study uses a case-based research design that allows for an in depth analysis of the selected cases. Based on the variables of interest (local government characteristics and grant type), four Danish local governments and four grants are selected. Three interviews are conducted with two top level bureaucrats and the mayor of each local government. The cases (grants and local governments) are selected to maximize variation on the combination of the independent variables of interest. This research design makes it possible to study the effect of different combinations of local government characteristics.

The following three sections present the theoretical argument for what kind of lobbying activity can be expected related to intergovernmental grants. Section 4.5 introduces the research design and explains how the municipalities and grants are selected. Section 4.6 analyzes the findings with focus on mapping strategies and understanding strategy choice and briefly de-

scribes each of the four municipalities. Section 4.7 discusses the findings and concludes.

## 4.2 Local government interests

The arguments in this study build on the assumption that local governments act as unitary actors. According to Scharpf (1997), organizations consisting of individuals can be perceived as ‘composite actors’, which to varying degrees can be classified as unitary actors, depending on their ability to act strategically (Blom-Hansen, 2002, p. 82). This might differ from situation to situation and must be determined for each analytical purpose. In the case of intergovernmental lobbying for grants it seems uncontroversial to consider a local government a unitary actor. Nugent (2009) argues that local governments have a generic ‘corporate interest’, that is, an interest related to the subnational government as such and not to personal or partisan interests of its leaders. Moreover, decisions about grant lobbying are made at the top political and administrative level. Finally, since the local government as a whole will benefit or suffer from changes in grants, it is most likely that all parts of the organization will have the same interest regarding intergovernmental grants. Thus, this study follows Nugent (2009) in treating each local government as a unitary actor.

How then should the interest of local governments related to intergovernmental grants be defined? In this study, I follow the approach by Frieden (1999) and derive the interests of the local governments theoretically drawing on literature about public organizations in general and more specifically on literature discussing the interests of local governments.

Public organizations are in general perceived as pursuing two different interests: growth and autonomy.<sup>7</sup> The interest in growth is most clearly expressed by Niskanen (1971), who argues that organizations are mostly concerned with expanding through budget maximization. According to Niskanen, top bureaucrats are always looking for ways to expand the budget of their organization since a larger budget is likely to increase their own salary, power and prestige (Niskanen, 1971). This has resulted in the conventional perception in the literature that public organizations have an interest in growth or expansion through budget maximization. In relation to intergovernmental grants, the interest in budget maximization would predict that lo-

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<sup>7</sup> In addition to these two interests, public organizations are expected to have an interest in survival (Wilson, 2000, Chap. 10), which can be seen as a more fundamental interest than the two others. Since the interest in survival is likely to be secured when the issue of intergovernmental grants is at stake, this interest is not discussed further in this chapter.

cal governments lobby for more grants, since additional grants enable the local governments to increase the budget.

In contrast to this view, Wilson (2000, p. Chap. 10) argues that public organizations are not solely interested in expanding but also in maximizing autonomy. Apart from resources to survive, public organizations need political support, which they can best acquire when *‘the agency’s goals are popular, its tasks simple, its rivals nonexistent, and the constraints minimal’* (Wilson, 2000, p. 181). In relation to intergovernmental grants, an interest in autonomy means that local governments seek as much flexibility in the grants as possible. A large flexibility in what the grant can be used for allows the local government to perform tasks that are in accordance with its mission with as little influence from the central level as possible. Local governments are, thus, in general supposed to pursue *as large intergovernmental grants with as few constraints as possible*. How these general interests translate into strategy choice when local governments lobby for grants is expanded on in Section 4.4, but first Section 4.3 discusses which strategies a local government is likely to use.

### 4.3 Local government strategies

The proposition that local governments act strategically to pursue interests raises the question which strategies they use. To answer this question one needs a definition of what constitutes a strategy. The interest group literature suggests that an influence strategy is interest organizations’ overall approach to pursuing its political goals (Berry, 1977). However, it varies which types of strategies are included in a study and how they are classified (Binderkrantz, 2005, p. 60). This study suggests a differentiation of strategies by looking at two dimensions: the “intensity of the strategy,” i.e., how active or passive the local government is in its lobbying activity; and the “mode of strategy,” i.e., how a strategy is performed, differentiating between a collective and an individual strategy. Since local governments can be active or passive using both an individual and a collective strategy, the possible strategies are illustrated in a two-by-two table (Table 2).

Table 2. Conceptual framework for local government strategies

		Mode of strategy	
		Collective	Individual
Intensity of strategy	Active	Active Collective Strategy (1)	Active Individual Strategy (2)
	Passive	Passive Collective Strategy (3)	Passive Individual Strategy (4)

This conceptualization of strategies is tentative, and an independent goal of this study is to clarify what the relevant strategies are for local governments. To have a framework to build on in the empirical analysis, the following section discusses how to distinguish local government strategies according to the two dimensions.

The first question confronting a local government is whether to invest resources in lobbying activity at all. A local government has a limited amount of resources that it must allocate between all its tasks and therefore evaluates the costs of lobbying against the benefits it can gain by a change of a given intergovernmental grant (Borck and Owings, 2003). In instances where only one local government benefits from a specific grant, each local government is likely to estimate the benefits of lobbying as high compared to the costs of lobbying. In other instances, lobbying activity will constitute a collective action problem in which each local government has an incentive to free-ride (Olson, 1965). When a change in grants benefits more than one local government, the benefitting governments will have a common interest in lobbying for the grant change, while each individual local government has an incentive to free-ride and hope that others do the lobbying. While this collective action problem can be solved in some instances (Olson, 1965), it indicates that local governments sometimes have good reason to invest resources in lobby activity, and sometimes not. A local government is thus characterized as active when it lobbies extensively and as passive when it does not or when it is only minimally active.<sup>8</sup>

Turning to the “mode of strategy” dimension, the collective action problem has in many countries led to the development of a local government association that can safeguard the interests of local governments (Blom-Hansen, 2002; Cammisa, 1995; Haider, 1974). In a specific situation, a local government has the choice of using the existing local government organiza-

<sup>8</sup> Whether a local government is active or passive is likely to be a matter of degree. Thus, empirically, a local government can be more or less active.

tion, which corresponds to a collective strategy, or to bypass the existing local government organization, which corresponds to an individual strategy. Both modes of strategy can be used actively or passively, which will be explained further below.

First, concerning the collective strategy, a local government following this strategy chooses to use established local government organizations to safeguard its interests. While we know from the literature that local government organizations are often used to lobby central decision makers, it is not clear what this means for local government strategies. As a starting point, this study conceptualizes an *active collective strategy* as a strategy where a local government has contact with the local government organization and tries to make the organization work for the interests of the local government. On the other hand, a local government using a *passive collective strategy* relies on established local government organizations to safeguard its interests, not actively trying to lobby through the local government organization. It is not clear from the literature whether this distinction between a passive and an active mode satisfactorily covers the use of a collective strategy. Consequently, one aim of this study is to empirically investigate whether this distinction is meaningful.

Alternatively a local government can choose an active or passive individual strategy. If it chooses an *active individual strategy*, it invests resources in directly lobbying the central decision makers for grants. This could be done in at least two ways: Lobby alone and bear all costs or seek coalition partners with whom to share the costs of lobbying. Haider (1974), Nugent (2009) and Cammisa (1995) consider coalition building in their work on intergovernmental lobbying. Haider (1974, pp. 233–235) argues that organizations only rarely achieve their goals when acting alone since this requires resources in terms of staff, expertise and personnel that one organization often does not possess. Nugent (2009, pp. 126–128) describes how governors of four states in the United States unite to promote their interests vis-à-vis the federal government. Building coalitions with other local governments is not costless and often involves compromises regarding the goal. Likewise, coordination and cooperation entails some transaction costs (Cammisa, 1995). If, however, these costs seem small relative to the gains of cooperating, local governments are likely in some instances to build coalitions to lobby the central government. Thus, based on the existing literature, there is reason to believe that local governments will sometimes work in coalitions and sometimes alone to lobby the central government. However, we do not know how the interaction with the national government takes place or why a local government works alone or seeks coalition partners. Second, a local government choosing a *passive individual strategy* is not devoting resources to actively

lobby the government but hopes that other local governments do the lobbying for it (relying on the local government association is conceptualized as a passive collective strategy). Again, the distinction between an active and a passive individual strategy is tentative and it will be investigated empirically whether this is a useful distinction.

Summing up, local governments are likely to pursue one of four strategies when safeguarding their interests in growth and autonomy related to intergovernmental grants. The strategies described here are considered the most fundamental regarding lobbying activity, since they capture the decision about whether to be active or passive and whether to use the local government organization or to act individually. The strategies are not mutually exclusive and a local government may use several strategies at the same time. One aim of this study is to investigate whether this conceptualization of strategies is useful for studying intergovernmental lobbying.

## 4.4 Understanding strategy choice

This section discusses which factors potentially affect a local government's choice of strategy. The literature offers some guidelines as to which factors to include, but little is known about how these factors influence local government strategies. Building on the existing knowledge, this study aims to present a framework for generating more specific hypotheses about which factors are important for strategy choice. The study focuses on grant type and local government characteristics as important explanatory factors.

### 4.4.1 Grant type – rules and redistribution

The literature on fiscal federalism traditionally distinguishes between unconditional grants (general-purpose transfers) and conditional grants (specific-purpose transfers) and between matching and non-matching grants (Boadway and Shah, 2009, pp. 306–312) (see Chapter 2 in this monograph). If local governments pursue interests in growth and autonomy, as argued in Section 4.2 in this chapter, they will, all else being equal, pursue as large grants as possible, no matter in which form they come. Similarly, they will pursue as free grants as possible, which means they will favor unconditional grants as opposed to conditional grants and non-matching grants rather than matching grants. The traditional typology of grants is thus not fruitful in terms of distinguishing between local governments' strategy choice with regard to intergovernmental lobbying. Instead, I propose a typology that differentiates between grants on two dimensions: First, to what extent the grant

has re-distributional consequences and, second, which kind of institutional rule the grant is based on.

First, grants vary dependent on their re-distributional consequences. To what extent a policy issue has re-distributional consequences has been shown in the literature to influence which specific interests local governments have and consequently what strategies they use (Blom-Hansen, 2002; Cammisa, 1995; Heeager, 2012). Thus, based on existing research there is reason to believe that the degree to which a grant has re-distributional consequences is an important factor for understanding local government strategies related to grants.

Nugent (2009) differentiates between three sorts of interests regarding fiscal decisions: universal, categorical and particularistic. These interests imply different levels of conflict and are likely to result in different strategies. Universal interests are preferences that are shared among all or nearly all local governments (Nugent, 2009, pp. 28–29). When a grant has weak re-distributional consequences, local governments are expected to share a universal interest in extracting as many resources as possible from the national government. In this case, no conflict exists among the interests of the local governments. Categorical interests are interests shared by a certain category of local governments that share specific characteristics such as geographical location, fiscal conditions etc. Related to intergovernmental grants, groups of local governments are expected to share interests if an intergovernmental grant can be allocated based on the characteristic they have in common. Particularistic interests are perceived by one single local government or interests perceived differently by all local governments (Nugent, 2009, p. 34). Such an interest will exist if a grant benefits or punishes one single local government or affects all local governments differently. When the re-distributional consequences of a grant are pronounced, local governments are expected to have categorical or particularistic interests in the grant. For example local governments are likely to have categorical or particularistic interests in how a given grant should be distributed among the local governments.

Second, grants vary in terms of allocation rules. The allocation rule on which a grant is based determines how easy or difficult it is to change a grant scheme and, consequently, whether the grant has long- or short-term consequences. While not previously discussed in the literature, this seems to be an important factor for intergovernmental lobbying, since it potentially alters the perceived consequences of a grant and how difficult or easy it is to influence the grant. Since much less is known about the impact of this factor, propositions related to whether the grant has short- or long-term consequences are more exploratory.

To distinguish between different allocation rules, I turn to Ostrom's differentiation between 'operational rules', 'collective choice rules' and 'constitutional rules' (Ostrom, 1990, p. 52), which refers to different levels of rule-making in societies. Operational rules are 'first-level rules' and '*affect the day-to-day decisions*' about appropriations, monitoring, sanctioning etc. Collective choice rules operate at a second, deeper level and are used to create the operational rules, that is, they affect how specific policies are decided. Finally, constitutional choice rules are rules at the third and deepest level and affect how the collective choice rules are made. According to Ostrom, changes in institutional rules happen at one level while keeping the rules at the deeper levels fixed. This means that for example operational rules are changed while the collective choice and constitutional choice rules are fixed. Similarly, Ostrom argues that the rules at the deeper levels are harder to change than rules at a higher level (Ostrom, 1990, p. 52). Intergovernmental grants are often based on rules operating at different levels. The level on which the grant rule is operating determines whether the grant has long- or short-term consequences. Grants decided by an operational rule are thus changed on a regular basis, meaning that they have short-term consequences. Grants based on collective choice rules (or constitutional rules) are often established by law and have, in general, more long-term consequences.

Combined, these two dimensions result in four types of grants for which local governments' strategies can differ (see Table 3). Grants with short-term consequences could have either strong re-distributional consequences (upper right cell in Table 3) or weak re-distributional consequences (upper left cell in Table 3). Similarly, grants with long-term consequences could have strong re-distributional consequences (lower right cell in Table 3) or weak (lower left cell in Table 3).

The distinction in Table 3 is theoretical, and exactly which grants fall into the four cells will vary empirically. Here, I will just mention examples of what kind of grant could represent the four types. First, a grant could have weak re-distributional and short-term consequences. Such grants could be decisions about the total amount of money that is transferred from the central to the local level decided on a yearly basis (1). Second, grants could be strongly re-distributional with short-term consequences (3). Such grants could be yearly negotiated funds only allocated to some local governments based on specific criteria. Third, grants with long-term and weak re-distributional consequences could be rules governing how much funding local governments will get from the central government in return for performing a certain service task for which they are responsible (2). While decisions about whether local governments should undertake a certain service delivery could have large re-distributional consequences, the negotiation about how

the area should be funded when the provision decision has been taken would often have only weak re-distributional consequences. Fourth, the best examples of the final type of grants, having long-term and strong re-distributional consequences, are probably formula-based grants, that is, grants whose allocation is determined by fixed criteria renegotiated only occasionally and which reallocate resources between local governments (4).

Table 3. Classification of grant types affecting local governments' lobbying strategy – with examples

Re-distributional consequences			
		Weak (Universal interest)	Strong (Categorical/particularistic interest)
Type of rule	Operational (short-term consequences)	Grants negotiated with central level on a yearly basis (1)	Allocation decision of fixed pool of recourses (3)
	Collective choice (long-term consequences)	Negotiations about funding of tasks for which the local government is responsible (2)	Formula-based, re-distributive grants (4)

Note: Grant types 1 through 4 are examples of which grant types fall in the cells. Thus, other examples are possible.

#### 4.4.2 How grant types affect strategies

The type of grant could affect strategy choice in several ways. First, grants with weak re-distributional consequences are likely to lead local governments to pursue a collective rather than an individual strategy. When grants have weak re-distributional consequences, all local governments have a universal interest in what the grant should look like. This means that the free-rider problem is large, since all local governments will benefit from a potential change in grants, but each local government has only a vague incentive to invest in the lobbying activity. This leads to the following proposition:

**Proposition 1:** When intergovernmental grants have weak re-distributional consequences, local governments use a collective strategy.

When grants have strong re-distributional consequences all local governments are much more likely to be active, since they cannot rely on the local government organization to do the work.

**Proposition 2:** When intergovernmental grants have strong re-distributional consequences, local governments use an individual strategy.

Since the re-distributional consequences of a policy issue have been found important for local government action in previous studies, these propositions can be rather precisely formulated including specific expectations to strategy choice depending on the extent to which grants have re-distributional consequences. In contrast, the exact implications of the rule on which a grant is based are hard to specify based on existing knowledge. I argue that the rule governing the grant decision is important in combination with other factors related to the characteristics of local governments. This is discussed in the following paragraph.

#### 4.4.3 Local government capacity: size and fiscal stress.

Capacity has been shown in several studies to affect strategies of lobbying organizations in different situations (Binderkrantz, 2005; Callanan and Tatham, 2013; Donas and Beyers, 2012; Heeager, 2012; Loftis and Kettler, 2015). Consequently, local government capacity is also likely to affect local government strategies related to grants. The capacity of an organization has in the literature on interest organizations and intergovernmental relations been used to refer to, among other things, an organization's resources in terms of staff and money, political resources, informational resources and technical knowledge as well as implementation capacity and legitimacy (Callanan and Tatham, 2013; Donas and Beyers, 2012). These could be considered different aspects of organizational capacity. Organizational capacity is argued to affect strategy choice in different ways. One argument is that organizations with large capacity are more likely to choose a parliamentary, corporate and media strategy (Binderkrantz, 2005), while others argue that organizations with larger capacity are in general likely to be more active (Blatter, Kreutzer, Rentl, and Thiele, 2008, 2010) or to lobby alone rather than in coalitions (Donas and Beyers, 2012).

In many instances, the aspects of capacity are correlated such that for example organizations with many employees are also likely to have many technical skills represented. Thus, many of the resource dimensions would be captured by looking for example at the size of a local government. Large local governments will in absolute terms have more resources than smaller local governments, measured on a number of the mentioned aspects of capacity. On the other hand, large organizations do not necessarily have more financial resources to invest in lobbying activity if they are under fiscal pressure. Both large and small local governments can be affluent, just as both large and small governments can be disadvantaged. If being fiscally disadvantaged reduces organizational capacity, it is necessary to look not only at local gov-

ernment size, but also at fiscal pressure to determine local governments' strategies.

Thus, both size and fiscal stress are likely to influence local government strategy choice. Since the distinction between these two aspects of capacity is blurred in the literature (and since the aspects are sometimes, but not always linked empirically), it is theoretically as well as empirically unclear how exactly to expect size and fiscal stress to affect strategy choice.

Turning first to size, large local governments are important players in the local government organization, because they represent a large number of citizens and therefore are likely to be influential. This increases the chance that large, compared to smaller, local governments will use a collective strategy and try to influence the local government organization. On the other hand, since large local governments have larger capacity in terms of absolute resources, number of staff etc., they are more likely to succeed in influencing national decision makers using an individual strategy either alone or in coalitions with other local governments. Thus, large local governments could use all strategies more compared to smaller local governments, that is be more active, or they could use the individual strategy more than they use the collective strategy. Small local governments have less staff and power and might, thus, be more likely to use a collective strategy. On the other hand, if it cannot assume the local government organization to work in its interest, it might use an individual strategy and try to find similar local governments with whom to share the lobbying costs. A clear hypothesis cannot be stated based on the existing knowledge about the implication of size on local government strategies. Size, however, seems to be an important factor in strategy choice, and I therefore suggest the following proposition:

Proposition 3: The size of a local government organization affects local government strategy choice in a systematic way.

Likewise, the fiscal situation of a local government is likely to affect strategy choice, but it is unclear exactly how. My argument is that fiscal stress affects strategy choice depending on which type of rule the grant is based on. The type of rule allows local governments to pursue either short-term or long-term interests. When the grant rule is operational, the local government has the opportunity to attract immediate funding that could be used the following fiscal year. Moreover, grants based on operational rules are often easier to change than grants based on collective choice rules. Consequently, lobbying for changes in grants based on operational rules requires fewer resources. On the one hand, fiscally stressed local governments are likely to be generally more active regarding grants with short-term consequences compared to grants with long-term consequences. On the other hand, fiscally

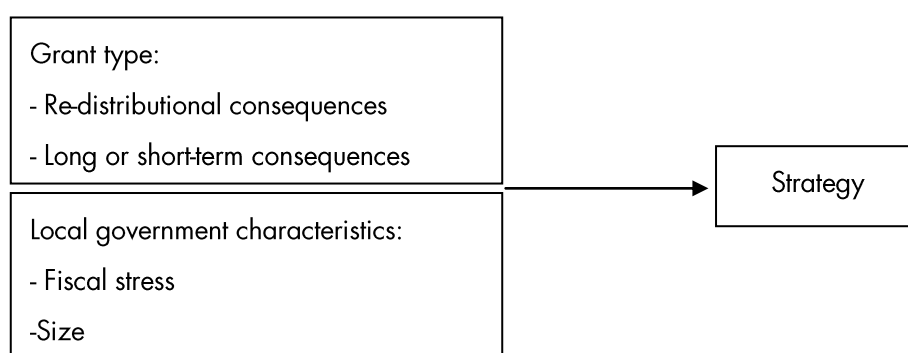
stressed local governments have many other concerns besides lobbying the central government, suggesting that they are generally more passive regarding all grant types compared to affluent local governments.

Regarding affluent local governments, one expectation is that they pursue long-term interests to influence grants based on collective choice rules. Affluent local governments are not in immediate need of funding and might, thus, concentrate more on grants that will benefit them for a longer period, even if these grants are harder to change. One could thus hypothesize that affluent local governments expectedly are more active in relation to long-term than to short-term grants. On the other hand, affluent local governments might have sufficient resources to also try to influence grants with short-term consequences. Again, it is theoretically unclear which is more likely or if the two mechanisms coexist. I therefore suggest the following proposition:

**Proposition 4:** Fiscal stress affects local government strategy choice in a systematic way.

Propositions 1 and 2 about the influence of re-distributional consequences are deductive, whereas propositions 3 and 4 are more explorative (see Figure 3). Since it is not possible to hypothesize precisely about all the causal relationships, these are not specified precisely in the model, but should be taken as indications of possible mechanisms for explaining local government strategy choice.

Figure 3. Factors influencing strategy choice of local governments in regard to lobbying for intergovernmental grants



## 4.5 Research design

The aim of this study is twofold: to develop a more detailed description of which strategies are relevant when investigating intergovernmental lobbying related to grants and to understand how local government capacity and grant

type influence local government strategies. Some rather clear expectations can be stated regarding the influence of the re-distributional consequences of grants, whereas it is much more unclear how the grant rule and local government capacity will influence strategy choice.

Since a large part of the study has an exploratory character, a case-based research design is used that enables in-depth investigation of the causal mechanisms (Gerring, 2006, pp. 39–43). The in-depth study of a few cases makes it possible to map different strategies that could hardly be grasped based on the rather limited a priori knowledge. Moreover, the strategy is promising for developing hypotheses since it secures an understanding of the mechanisms linking grant type and local government characteristics to strategy choice.

The selection of cases is guided by several considerations. First, since the study focuses on grant type and local government characteristics as potentially important explanatory factors, it is necessary to get some variation on these variables. To achieve this, two selection procedures, one for local governments and one for grants, are employed. Second, since the study focuses on the impact of variation across grant types and local governments rather than on variation in local and national relations, the cases are placed in one national context. More specifically, the study focuses on municipalities and grant types in Denmark, since Denmark provides an empirical context suitable for studying intergovernmental lobbying for several reasons.<sup>9</sup> The two selection procedures as well as criteria for the choice of empirical context are discussed in more detail below.

#### 4.5.1 Denmark as empirical context

Studying intergovernmental lobbying requires an empirical context where local governments are to some degree financed by intergovernmental grants. Moreover, the relation between the local and central level should create some space for lobbying. Finally, a study of lobbying related to different grant types requires sufficient variation on grant types. Denmark fulfills all three criteria satisfactorily.

First, Denmark has a three-level governmental structure including a central level, a regional level and a local level. This study focuses on the local level, which is financed primarily through local taxes (approx. 55 percent of

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<sup>9</sup> In this way it is also possible to hold constant a number of factors that could potentially affect which grant types exist, local government characteristics and strategies. The institutional set-up and norms governing intergovernmental relations between the central and local governments are held constant. Also the macroeconomic and political situation is unchanged.

local government revenue in 2013), intergovernmental grants (approx. 21 percent of local government revenue in 2013) and user fees (approx. 22 percent of local government revenue) (Ministry of the Interior, 2014). Thus, local governments in Denmark are highly dependent on intergovernmental grants.

Second, some space for lobbying exists in the relation between the central and the local level. The financing of local governments is decided at a number of levels. First, yearly negotiations between the local government organization (KL) and the government play an important role in determining the overall size of the local governments' grants and options for raising and lowering taxes (Blom-Hansen, Bækgaard, et al., 2014). Some of the grants to local governments are negotiated as general programs leaving the Minister of the Interior discretion to allocate the grant to specific local governments. Second, local government financing also depends on decisions in the yearly appropriation act. Here, parties in parliament have the opportunity to negotiate and enact special funds that are often earmarked for specific welfare services provided by the local governmental level. Finally, an equalization scheme negotiated by the incumbent government (potentially in collaboration with parties outside of government) for a non-fixed period determines a significant part of the intergovernmental grants to local governments. Reforms of the equalization scheme traditionally involve an advisory expert committee that makes recommendations to the government.

In sum, local governments have various opportunities to influence the national decision-making process, since the financing of local governments is decided at various points in times in different venues and involves multiple actors (e.g. the government, the parliament, the administration in the Ministry of the Interior, the LGA (local government association), and expert committees). The somewhat fragmented decision complex makes Denmark a good case for studying intergovernmental lobbying. Moreover, the prominent role of the LGA in negotiations on local government financing (Blom-Hansen, Bækgaard, et al., 2014) makes it possible to explore lobbying based on both individual and collective strategies.

Third, a number of different grant types exist in the Danish grant system. While the theoretical distinction between grants with long- and short-term consequences and grants with weak and strong re-distributional consequences is fairly clear, it is not always possible empirically to find grants that fit one category exclusively. In Denmark, however, a number of grants come close to one of the categories suggested in the typology. These grants are described in more detail in the following section.

#### 4.5.2 Case selection

Studying how grant type and local government characteristics influence local government strategies requires some variation on these variables. Variation is achieved through a two selection processes, where the importance of size and fiscal stress is accounted for by selecting municipalities based on their size and fiscal situation. The grant type is considered by selecting four different grants to be discussed in each interview. Since one aim of the study is to map local government strategies, a research design is needed that makes it possible to explore strategies related to as different grants as possible (on the dimensions included in the selection of grant types). Moreover, the study wants to explore how local government characteristics affect strategy choice. Since the local governments' characteristics may lead to a different strategy choice depending on how they are combined (e.g. a large, affluent local governments may act differently than a small, affluent local government), a research design is warranted that looks at different combinations of local government characteristics. Consequently, I focus on a diverse case selection (Gerring, 2006) that maximizes variation on the independent variables of interest (local government characteristics and grant type).

Turning first to the selection of grant types, I select one grant from each of the four cells in Table 3. These four cases allow for an investigation of which strategies municipalities use regarding different grant types. Empirically, all grants are part of a comprehensive grant system (Ministry of the Interior, 2015), making it difficult to categorize a grant as belonging solely to one of the theoretical types of grants presented in Table 3. Thus, the selection of grants has aimed at picking a grant that fits the theoretical distinctions to the highest possible extent. Sometimes it has been necessary to include more than one grant in each category since not all grants are relevant to all municipalities.

As an example of a grant with *weak re-distributional and short-term* consequences, a general grant from the central government to municipalities in Denmark is selected (referred to as 'financial grant'). The grant is negotiated in yearly negotiations between the LGA and the government and the allocation of the grant applies to one budget year.<sup>10</sup> As a grant with *strong re-distributional consequences and short-term* consequences, two smaller programs are selected that cover 'grant for disadvantaged municipalities' and 'grant to refugees and immigrants'. These programs are selected because they are based on specific criteria favoring some municipalities. The overall

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<sup>10</sup> The last 2 years, a part of this grant has been allocated based on fiscal criteria, but around 40 percent of the grant is still allocated based on population. The grant is called 'Finansieringstilskuddet' in Danish.

size of the programs is negotiated as a part of the yearly negotiations between the LGA and the government, and they apply to the budget year 2016. As an example of a grant with *weak re-distributional and long-term consequences*, the so-called DUT-grants are selected. These are grants from the central to the local level aimed at compensating the municipalities for changes in tasks. They are negotiated by the LGA and relevant ministries and are almost always allocated based on population. The individual DUT-grant has long-term consequences since the task it is compensating is permanently taken over by the municipalities.<sup>11</sup> Finally, equalizing grants are selected as a type of grant with *strong re-distributional and long-term* consequences. There are three equalizing grants for 2016: a general equalization, an equalization related to immigrants and refugees and an equalization of corporation tax (Ministry of the Interior, 2015). The main focus is the general equalization but the other two equalization schemes will be included in the interviews when relevant.

Second, the variation of size and fiscal situation is achieved through a selection of municipalities that maximizes variation on these variables (Gerring, 2006, pp. 97–100). Four municipalities are selected, each representing one of the combinations of size and fiscal situation illustrated in Table 4. Selecting cases involves a trade-off between number of cases and the depth with which each case can be analyzed (Miles and Huberman, 1994). Increasing the number of cases in each cell in Table 4 makes it more likely that inferences drawn from the study are not based on one potentially odd case. On the other hand, increasing the number of cases makes it more difficult to get a thorough understanding of which strategies local governments use and which mechanisms are guiding the choice of strategy. Since this study focuses on building an understanding from which hypotheses can be generated, the priority is a better understanding of each case, thus, selecting one case from each combination of local government characteristics. To minimize the risk of generating hypotheses based on unrepresentative cases, scholars are advised to select cases that are typical for the combination of variables they represent (Gerring, 2006). Due to the exploratory character of the study, it is, however, difficult to identify exactly which parameters to consider when deciding what constitutes a typical case. Consequently, the study selects municipalities that do not have obvious deviant characteristics (e.g. an island, the capital municipality), but does not claim to have identified completely comparable cases. Since the aim is not hypothesis testing this is considered less problematic in this particular study.

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<sup>11</sup> The DUT-grant can also be negative if tasks are removed from the municipalities.

A similar concern arises related to potentially confounding factors, such as geographical location and mayor's party affiliation. In a theory-testing logic such factors should ideally be held constant since they could influence the causal mechanisms investigated. While this is still a valid concern in the present study, it is of less importance due to the primary focus on generating, and not testing, hypotheses. In the present study, selecting cases based on holding constant other relevant factors is difficult, since it is not theoretically or empirically clear which factors to control.

Table 4. Selection of municipalities

		Size	
		Small	Large
Fiscal situation	Affluent	1 municipality	1 municipality
	Disadvantaged	1 municipality	1 municipality

The selection of municipalities requires an operationalization of size and fiscal situation. Size is operationalized as number of inhabitants in a municipality. This criterion is chosen rather than for example geographical size, since the bargaining power and resources in terms of staff etc. are more likely to be determined by the number of people in the locality. Regarding the fiscal situation, a number of determinants could be used. The most important decision is whether to focus on indicators relating to 'fiscal performance' or indicators relating to 'structural pressure'. The former focuses on dimensions of a municipality's fiscal situation that it can influence through fiscal management (e.g. issuing debt, saving money, cutting back services). The structural pressure is much harder for a municipality to influence, since it relates to structural characteristics such as demography and geography, but also to how the municipality is positioned in the general grant system. Both the fiscal performance dimension and the structural pressure dimension are relevant for local government strategy choice related to grants. Fiscal performance is expected to affect local government strategies, since a municipality that has performed poorly over the past years will be in more immediate need of funds. The structural pressure dimension is relevant, since one way to overcome this pressure is to attract more grants. Since it is not obvious which dimension is better and since it was not possible to find four municipalities that satisfy both dimensions at the same time, this study uses the fiscal per-

formance dimension.<sup>12</sup> This means a focus on financial performance in recent years. For an exact description of the selection process see Appendix A.

#### 4.5.3 Data and method

Local government strategies are investigated in a qualitative research design using semi-structured interviews with three representatives from each municipality: the mayor, the chief executive of the municipality and the chief financial officer of the municipality. The mayor is the formal political leader of the municipality and represents the municipality externally (Kjaer, 2014). He or she is backed up by a strong administration (Blom-Hansen and Heeager, 2011) headed by the chief executive of the municipality with the chief financial officer as important deputy in financial matters. These three persons are central in preparing and making strategic decisions for the municipality, which makes them the most relevant persons to interview. All interviews are recorded and transcribed.

Since this study centers on local government strategies, the main empirical focus is on local governments. However, in order to get a better understanding of the interplay between the local and central level of government, the interviews with the local governments are supplemented with an interview with a former high-ranking officer in the Ministry of the Interior. Data from this interview is not analyzed in detail, but supplements the understanding of the grant system as presented by the interviewees in the municipalities.

The coding strategy falls in two parts. First, an open coding is conducted on three interviews focusing on grasping unexpected themes or strategies that come up in the interviews. This coding process is close to what in grounded theory is called ‘initial coding’ (Charmaz, 2014, pp. 109–137) and was done staying close to the formulations and themes mentioned in the interviews. The three interviews used in the open coding process were chosen randomly and coded line-by-line (Charmaz, 2014, pp. 116–137). The open coding focused primarily on indications of strategies but also on other themes relevant for investigating which strategies local governments use to safeguard their interests in relation to grants. Such themes could be relevant for understanding why one strategy is chosen over another. Since the aim of the open coding is to be open to themes that were not expected a priori, all text from the three interviews was coded.

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<sup>12</sup> The two disadvantaged municipalities (measured as fiscal performance) are also under great structural pressure. One affluent municipality is under moderate structural pressure and one is under average structural pressure. The author thanks Kurt Houlberg (KORA) for providing data to enable this comparison.

After the open coding, the codes were aggregated in topics covering broader themes. This aggregation focused on exploring whether the predefined concepts of strategies (active and passive, collective and individual strategies) are supported by the data, but was at the same time open to new broader categories that were not expected theoretically but seemed relevant for understanding strategies and strategy choice. Since an independent aim in this study is to map local government strategies related to grants, the results of the aggregation of the open codes is discussed further in Section 4.6. A list of the aggregated open codes is found in Appendix B1.

The aggregation of the open coding resulted in a number of focused codes which were used to code the rest of the data material. The process of deciding which focused codes should be included in the analysis is discussed in Section 4.6. Appendix B2 lists the focused codes along with an explanation of their content.

The results of the analyses are presented using displays. All displays were created with focus on including all relevant data and staying as close to the formulations and meanings in the data as possible (Dahler-Larsen, 2002, pp. 44–47). To secure transparency, displays were condensed using working displays (available upon request).

## 4.6 Analysis

This section seeks to answer which strategies local governments use in inter-governmental lobbying. This is done, first, by mapping which strategies local governments use and how the strategies are performed. This part of the analysis is based on the results from the open coding. Second, the research question is answered by investigating which factors influence the choice of strategy. This part of the analysis draws on the closed coding and focuses primarily on discussing how the findings relate to the four propositions posed in the theory section, but also on discussing other factors suggested by the empirical analysis in this study to affect local government strategies. Before the analytical part of the section, the four municipal cases are presented with focus on context information and local government strategies in each of the four municipalities.

### 4.6.1 Case descriptions

The brief description of each municipality focuses on which strategies they use and on the arguments for choosing a given strategy. Key fiscal indicators for all four municipalities along with municipal averages are presented in Table 5. To keep the municipalities anonymous, the descriptions and tables

are provided in a general language without reference to exact numbers and specific situations or circumstances.<sup>13</sup>

Table 5. Key indicators for the four case municipalities. Nominal terms

	Municipality 1 (small, affluent)	Municipality 2 (small, disadv.)	Municipality 3 (large, affluent)	Municipality 4 (large, disadv.)	Municipal averages
2012					
Operating result (DKK pr. cap.)	Between 3,000 and 5,000	Less than 2,000	More than 4,000	Between 1,000 and 3,000	2,433
Long-term debt (DKK pr. cap.)	Less than 15,000	More than 20,000	Less than 15,000	More than 20,000	14,593
Liquidity (DKK pr. cap.)	Between 4,000 and 7,000	Less than 4,000	Between 4,000 and 7,000	Less than 4,000	6,194
2013					
Operating result (DKK pr. cap.)	Between 3,000 and 5,000	Between 3,000 and 4,000	More than 4,000	Between 1,000 and 3,000	2,827
Long-term debt (DKK pr. cap.)	Less than 15,000	More than 20,000	Less than 15,000	More than 20,000	14,988
Liquidity (DKK pr. cap.)	More than 7,000	Less than 4,000	Between 4,000 and 7,000	Less than 4,000	6,056
2014					
Operating result (DKK pr. cap.)	Between 3,000 and 5,000	Between 3,000 and 4,000	More than 4,000	Between 1,000 and 3,000	2,915
Long-term debt (DKK pr. cap.)	Less than 15,000	More than 20,000	Less than 15,000	More than 20,000	15,240
Liquidity (DKK pr. cap.)	More than 7,000	Less than 4,000	More than 7,000	Less than 4,000	6,045
Number of inhabitants (2014)	Between 20,000 and 40,000	Between 20,000 and 40,000	More than 50,000	More than 50,000	57,420

Source: KORA and The Ministry of the Interior (noegletal.dk).

Note: The categories are constructed to give as precise a figure as possible but still keeping municipalities anonymous. This means that the same categories are not used for each municipality.

<sup>13</sup> Since lobbying strategies can be a controversial topic, municipalities were offered anonymity to encourage interviewees to speak freely. Openness is very important in this situation, but the drawback is that some situations have to be described in more general terms than desired.

Municipality 1: small, affluent municipality:

Municipality 1 is a small municipality in terms of inhabitants. The fiscal situation in the municipality is good and improving; it has built up liquidity, plans to pay off municipal debts in the coming years and has an operating result above average. An important reason for the affluence is revenue from corporate taxes from a large company located in the municipality that has made substantial profits in recent years. In Denmark, corporate taxes are split between the central and the local level (the municipalities receive around 15 percent of the total revenue from corporate tax (BKG 680/2015, 2015)) and the municipal part of the corporate tax is equalized between municipalities. This means that a municipality receiving larger revenue from corporate tax than the average municipality must pay 50 percent of the 'above average' revenue to other municipalities (Ministry of the Interior, 2015). The equalization of corporate tax works separately from the general equalization scheme for municipalities.

According to the interviewees, the corporate tax is by far the most important issue in relation to intergovernmental grants, and in general the municipality does not do much lobbying for intergovernmental grants regarding any of the grant types discussed in the interviews. The primary reason for being passive is that they do not want to attract attention to the equalization of corporate taxes. As the mayor says: "To start complaining about a small part [of the grant system] seems very, very wrong to me, if one does not want the whole system examined. And we do not want that" (Mayor, Municipality 1, 2015).<sup>14</sup>

It is clear from the interviews that the passive approach to lobbying is a strategic decision that has been discussed in the municipality's leadership. Besides the strategic decision to keep a low profile in order not to attract attention to grants, the interviewees mentioned that they see no reason to complain about the system, since the municipality benefits from the present grant scheme. This indicates that strategy choice can also be influenced by the perceived benefits of the existing grant scheme.

In the few situations where the municipality has worked actively to influence grant decisions (see Table 8), the activity primarily consists of talking to the locally elected MPs or to ministers visiting the municipality. The mayor describes the municipality as attractive for ministers to visit and he uses these visits to discuss different issues, including grants, with the ministers. This way of '*going through the backdoor*' (Mayor, Municipality 1, 2015) is considered the most effective way of influencing national decision making. The two administrative interviewees describe that it would be very hard to

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<sup>14</sup> All quotations are translated from Danish by the author

influence grant decisions, if the municipality wanted to do so, since the municipality is small and lacks administrative capacity to do the analysis necessary for lobbying.

#### Municipality 2: small, disadvantaged municipality

Municipality 2 is small in terms of inhabitants and is in an unfortunate fiscal situation. However, in 2013-2015 the municipality has managed to improve the operating results and thereby its liquidity. According to the interviewees, the improved fiscal situation is a result of a municipal strategy, but is also caused by a demand from the Ministry of the Interior. In Denmark, the Ministry of the Interior can take over the administration of municipal fiscal decisions if a municipality is performing very poorly on certain fiscal indicators (Mau, 2013). To avoid this sanction, the municipality has worked hard to balance budgets, lower the municipal income tax rate and pay off some of its debts.

Despite the improvement of the fiscal situation and the effort to manage the municipal economy, the municipality faces significant challenges. The tax base is very small compared to other municipalities, meaning that a high tax rate must be maintained to keep revenue from income tax at an acceptable level. At the same time, the number of inhabitants is decreasing and the demographic structure trends toward more elderly and fewer young people who work and pay taxes.

The impression from the interviews is that the municipality is in general very active in lobbying for intergovernmental grants. As a reason for the activity, all three interviewees mention that the municipality depends highly on grants:

For [Name of Municipality] Municipality it is crucial to get these grants, since we have a very small tax base. That means that to deliver services to our citizens approximately at the same level as in other municipalities we need external grants (Mayor, Municipality 2, 2015).

The lobbying activity focuses on the short-term grants that change from year to year. According to the interviewees, the municipality is particularly dependent on the 'special grant', which is a discretionary grant allocated by the Minister of the Interior, and on the general financial grant negotiated on a yearly basis by the LGA and the central government.<sup>15</sup> Both grants are distributed in the fall (around August), when most municipalities are far into the budgeting process for the following year. This means that the municipali-

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<sup>15</sup> The so-called 'financial grant', categorized in this study as a short-term grant with weak re-distributional consequences (see Table 3).

ties receiving money from these grants do not know the size of their revenue until very late in the budgeting process. For Municipality 2 this is particularly problematic since it relies extensively on these grants. Moreover, these grants are negotiated on a one-year basis, which makes strategic planning difficult.

The lobbying for short-term grants goes through and bypasses the LGA. Municipality 2 has a yearly meeting with the Minister of the Interior and generally tries to build networks among politicians and bureaucrats at the central level. Moreover, they try to arrange a meeting with the Minister of Finance to present the municipality's view on the grant system. Unlike many other municipalities, Municipality 2 does not use locally elected MPs in their lobbying activity. Especially the mayor is very skeptical of the effect of using locally elected MPs to safeguard a municipality's interests.

Despite the recognized problems with dependency on one-year grants in terms of strategic planning, the municipality has not been very active in lobbying to attract more long-term grants. The perception in the municipality is that the long-term grants cannot be changed through lobbying, and that it has no effect if one (small) municipality tries to influence decisions about for example equalizing schemes.

Finally, Municipality 2 is active in establishing cooperation with other municipalities in the region. A coalition of municipalities in the region works together on a number of issues and has been established in an effort to support each other in development and attracting jobs to the area. This forum is also used for discussing grant issues: "Once you have established this collaboration and you have a good feeling about it, then you bring some of these [grant-related] questions into this group" (Chief Executive, Municipality 2, 2016)

The coalition has met with and tried to convince the Ministry of the Interior and the LGA to take the problems and positions of the municipalities in the region into consideration in their grant decisions.

Municipality 3: large, affluent municipality

Municipality 3 is in an advantageous fiscal situation. The municipality is large, has a large tax base and low unemployment. However, according to an index expressing how pressured a municipality is (after allocation of grants and equalization; see section 4.5.2 for further information) the municipality is under moderate structural pressure.

The interviewees see the structural pressure as a clear indication that the equalization scheme is disadvantaging the municipality significantly. Consequently, the municipality lobbies intensively to change the part of the grant system relating to equalization. As the mayor explains: "And in doing our

analysis we just realized that we are equalized harder than they are [other municipalities with same demographic structure]. And that made us say: We have to do something about that” (Mayor, Municipality 3, 2015).

The municipality is part of a coalition of municipalities working to change the equalization scheme. In contrast to the coalition of which Municipality 2 is a member, this coalition is established specifically to work with grants. All interviewees mention the pooling of resources as the main reason for working together with other municipalities in analyzing consequences of the present grant system and suggesting alternative equalizing models. It is a widespread notion among all municipalities that some work must be put into analyzing the grant system and its consequences to be able to influence grant decisions at the central level. Municipality 3’s cooperation with other municipalities has been going on for some years, but has recently been put on hold because it does not see any benefits from the lobbying activity. The experience of not being able to make a difference lowers motivation to keep lobbying.

The coalition has been active in trying to influence both the LGA, changing ministers, the bureaucracy in the Ministry of the Interior, locally elected MPs, members of the parliamentary municipal committee and members of the expert advisory committee. The activity has mostly focused on the equalization scheme (in this study conceptualized as a grant with strong redistributional and long-term consequences) but also other forms of grants.

In general, the municipality spends few resources on smaller grant programs allocated based on applications, because its fortunate fiscal situation often makes it ineligible.

#### Municipality 4: Large, disadvantaged municipality

Municipality 4 is a large municipality with an above average population and has for some time struggled to balance its fiscal situation, especially challenged by low liquidity.

The general impression from the interviews is that the municipality until recently has not focused on intergovernmental grants. The chief executive indicates that he and the economics department are planning to make a strategy for how the municipality should position itself in relation to intergovernmental grants in the future. The chief financial officer even has as a goal in his performance contract for the following year to develop a strategy for intergovernmental lobbying for grants.

The change from a very passive to a more active strategy seems to be initiated by the chief executive, who claims that the issue was ignored before he was hired. The chief financial officer supports that the assessment of how the municipality is affected by especially the equalizing grant has changed:

... so I think, until a couple of years ago, we thought that often when there have been changes to the system, then [name of municipality] has been very average. [...] But in the past few years, we have arrived at the conclusion that we are hit negatively by the equalization (Chief Financial officer, Municipality 4, 2015).

The exact reason for this change is never clearly formulated by the chief financial officer.

Besides the change in strategy regarding the equalizing grant scheme, the municipality has focused mostly on applying for one-year discretionary grant programs and has received some almost every year. The interviewees are unsure of the allocation criteria and do not seem to have attempted to affect them.

Since the municipality has been very passive in the past, a significant part of the interviews centered on discussing plans for implementing the future active lobbying strategy. The municipality seems to consider many different options, including talking to locally elected MPs, contacting the Ministry of the Interior and cooperating with municipalities in an established network.

A difference between the administrative and the political level is indicated in the interviews, since the mayor does not seem to be aware that the municipality is planning to develop a strategy regarding intergovernmental grants.

#### 4.6.2 Mapping strategies

Building on the case descriptions in the preceding section, this part of the analysis turns to the issue of mapping strategies using aggregated codes from the open coding process. The open coding resulted in several aggregated codes (see Appendix B1) that suggest a number of strategies relevant for lobbying: 'Not active', 'Contact to parliament', 'Contact to LGA', 'Contact to ministry', 'The media', 'Cooperation between municipalities', 'Individual capacity building' and 'Grants and citizens'. The codes fall in several groups: (1) 'Contact to Parliament'<sup>16</sup>, 'Contact to LGA' and 'Contact to Ministry' include activity directed at a specific actor. (2) 'The Media' and 'Grants and Citizens' suggest a more indirect strategy using media or public opinion (citizens) as a part of the lobbying activity. (3) 'Individual capacity building' and 'Cooperation between Municipalities' characterizes activity such as conducting analyses or discussing grant issues with other municipalities. (4) 'Not Active'.

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<sup>16</sup> This code was divided into the sub-codes: contacts to locally elected MPs, contact to national party leaders, contacts to the advisory expert committee and contacts to the parliamentary municipal committee (see Table 12 in Appendix B).

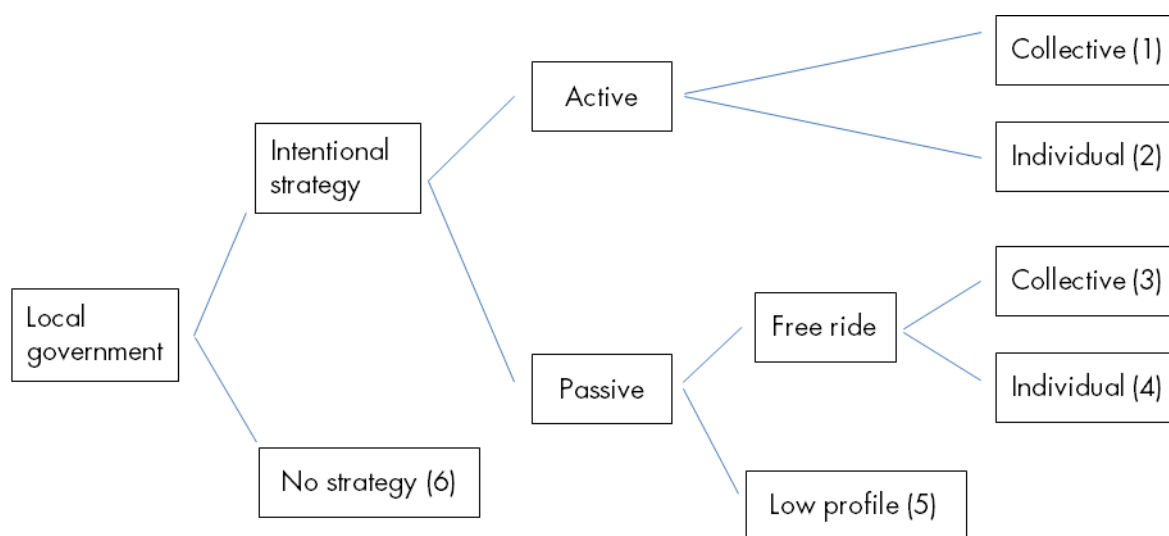
Relating these four groups to the initial conceptualization of strategies (see Table 2) indicates that the structure found in the data could support the idea of collective and individual lobbying. In the codes specifically directed at a certain actor, there is a clear divide between contacts to the Local Government Association (collective lobbying) and contact to the parliament and the ministry (individual lobbying). Thus, when the local government is actively lobbying, it seems reasonable to distinguish between a collective strategy and an individual strategy, though the individual strategy can be directed at several actors. When the local government is passive, however, a further exploration of the 'Not Active' code reveals that it is sometimes difficult to separate a passive collective and a passive individual strategy. According to the theoretical definition of strategies, a passive collective strategy is found when the local government indicates that it is not being active, *because* it relies on the LGA to represent its interests. A passive individual strategy is when the local government indicates that it is passive, *because* it relies on other local governments to safeguard its interests (bypassing the LGA). The argument for not being active is not always clear in the data. Similarly, situations occur where the local government is being passive not because it relies on either the LGA or on other municipalities to represent it, but for other reasons. Thus, the data indicates that local governments could be passive for reasons not anticipated in the initial conceptualization of strategies. First, a local government could have an intentional strategy to be passive because it does not want to draw attention to the grant issue. This strategy was exemplified by Municipality 1, which has actively decided to keep a low profile. Second, the open coding suggests that a municipality could have 'no strategy', not for strategic reasons, but because it does not devote attention to grants. This situation is exemplified by Municipality 4.

To accommodate this finding in the remaining analysis, the initial conceptual structure of strategies is supplemented by two categories. No strategy, i.e., instances where local governments do not pay attention to grants, and low profile, i.e., instances where local governments are intentionally passive because they wish to uphold status quo. The first strategy is not intentional, the second strategy is. The 'low profile' strategy differs from the two other passive strategies, since local governments using this strategy do not want the grant scheme to change, whereas local governments using the passive strategies do. Rather than being active, they free ride and hope that other local governments or the LGA lobby for them.

The refined conceptualization of strategies can be illustrated as a decision tree leading to 6 different strategies (see Figure 4). First, a local government can pay no attention to grants, which means that it has no strategy (6), or it can choose to have a strategy. If a local government has a strategy it

can choose between several strategies that are not mutually exclusive. One type is active strategies that can be either collective (1) or individual (2). These two strategies resemble Strategies 1 and 2 in the initial conceptualization of strategies (see Table 2). The other type of intentional strategy is a passive strategy. A local government can use one of two free rider strategies, where it relies on the local government association (collectively (3)) or on other local governments (individually (4)) to lobby for it. These free-rider strategies resemble the passive strategies in the initial conceptualization (Strategies 3 and 4 in Table 2) and will be referred to as passive collective and passive individual strategies. An alternative passive strategy is the low profile strategy (5), meaning that a local government decides not to do anything because it wants to uphold status quo. Summing up, strategies 1 through 4 closely resemble the initial conceptualization illustrated in Table 2. However, the findings from the open coding have added two strategies (5 and 6) to the conceptualization. These six strategies will be the primary focus of the analysis.

Figure 4. Revised conceptualization of local government strategies



Note: In addition to the strategies showed in Figure 4, local governments use indirect strategies and capacity building strategies.

The second group of strategies, ‘The Media’ and ‘Grants and Citizens’, indicates that strategies could also be more indirect using the media or the public opinion to influence grant decisions. This finding is in line with the distinction between direct and indirect strategies in parts of the interest group literature (Binderkrantz, 2005, pp. 62–70). Indirect strategies (sometimes referred to as outsider strategies) include a media strategy and a mobilization strategy (Berry, 1977; Binderkrantz, 2005; Gais and Walker, 1991; Hrebenar, 1997). The finding in the open coding suggests that a similar, but not identi-

cal conceptualization is relevant for intergovernmental lobbying. Similar to the media strategy discussed in the interest group literature (Hrebendar, 1997) and in relation to intergovernmental lobbying (Cammisa, 1995), the data in this study suggests that local governments use the media to attract attention to and gain support for more generous grants. The mobilization strategy discussed in the interest group literature refers to interest groups' attempt to mobilize members or supporters (Gais and Walker, 1991). This study finds evidence of a comparable strategy that involves citizens in intergovernmental lobbying. The involvement of citizens works through two mechanisms. On the one hand, citizen expectations regarding kind and generosity of services can put pressure on the local government to deliver more and specific services. If credit and blame for service delivery are shared among governmental levels (Cox and McCubbins, 2005; Sole-Olle and Sorribas-Navarro, 2008), local government leaders could use citizen expectations to pressure the central level for grants. On the other hand, earmarked grants from the central government could, if citizens are aware of them, create an expectation of higher service levels among citizens that the local politicians will have to respond to. In this way, citizens could also limit the freedom of the local governments to prioritize.

Finally, one group of strategies, found in the open coding, relates to the work a local government does to prepare lobbying activity, e.g. conduct analyses, prepare lobbying strategies etc. This capacity building can be done alone ('Individual capacity building') or in cooperation with other local governments ('Cooperation with other local governments') Such activities are regarded as elements in a lobbying strategy, since successful lobbying requires preparation.

In sum, it seems reasonable, based on the preliminary analysis, to suggest the classification of strategies illustrated in Figure 4. These direct strategies are supplemented by indirect strategies focusing on the media and involving citizens. Finally, steps to enhance capacity are seen as a prerequisite for lobbying and will be treated as a strategy.

In addition to codes relating directly to local government strategies, the open coding suggests a number of other relevant factors for studying intergovernmental lobbying. I will mention a few that seem particularly relevant for understanding strategy choice.<sup>17</sup> First, 'Limitations for influence' (including sub-codes), 'Power', 'Prospects for Influence' (including sub-codes), 'Party Politics', 'Political Network' and 'Administrative Network' relate to factors that limit or enhance potential influence. They capture factors that the local

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<sup>17</sup> The remaining aggregated open codes are listed in Appendix B1. The content of the codes is explained in Appendix B2, but are not further discussed in this study.

government perceives as conditions for lobbying and which, therefore, determine whether the lobbying is worth the effort. All these codes will be used in the focused coding. Second, 'Importance of Grants', 'Perception of own financial situation' relate a local government's dependence on grants from the central government. This category contains the local government's perception of how dependent it is on grants, which may affect its choice of strategy. These codes will therefore also be included in the focused coding.

Since the open coding supported the conceptualization in Table 2, the closed coding was based primarily on the four categories distinguishing between an active and a passive collective and individual strategy. Moreover, the focused code 'passive low profile' was used when the local government was intentionally passive, but did not refer to either the LGA or other local governments to safeguard its interests. The code 'no strategy' was used when there was no indication of an explicit local government strategy regarding grants. In addition to these codes of primary interest, the material was coded using the focused codes found in Appendix B2. All interviews were coded based on this coding list and according to a code book describing the content of all the codes.

#### 4.6.3 Understanding strategy choice

The first part of the analysis helped to clarify which strategies local governments use in intergovernmental lobbying. The analysis suggests that local governments use a number of strategies including a 'no strategy', active strategies (collective and individual), passive strategies (collective, individual and low profile), indirect strategies and capacity building strategies. The following section investigates whether some strategies are used more than others depending on grant type and local government characteristics and thereby evaluates the four propositions listed in the theory section. This part of the analysis is based on the results from the focused coding. The propositions involve the choice between an active and a passive strategy. Moreover, previous studies (Cammisa, 1995) and this study find that the active and passive strategies are by far the most common. Consequently, the analysis focuses on these strategies.<sup>18</sup> The 'no strategy' will be discussed when relevant, since this is a surprising finding that is important for understanding strategy choice.

Table 6 and Table 7 display the use of strategies dependent on grant type. The tables show, in condensed form, the findings from the focused coding. Based on the conceptualization in Figure 4, statements from the interviews

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<sup>18</sup> The indirect strategies are used by the local governments, but only to a very limited extent. The capacity building strategies are discussed at the end of this section.

indicating actions, descriptions or arguments that relate to local government strategies were categorized according to grant type and strategy. In accordance with the principles for creating displays, which are discussed in the methods section of this chapter, each statement was condensed, reflecting its content to the highest possible extent.

Proposition 1 – when intergovernmental grants have weak re-distributional consequences, local governments use a collective strategy – is supported if the collective strategy is used more extensively than the individual strategy for grants with weak re-distributional consequences. Proposition 2 – when intergovernmental grants have strong re-distributional consequences, local governments use an individual strategy – is supported if the individual strategy is used more extensively than the collective strategy for grants with strong re-distributional consequences. Tables 6 and 7 can be used to evaluate whether the two propositions are supported, since they illustrate the use of strategies dependent on grant type (ignoring information about which municipality uses which strategy).

Turning first to Proposition 2, the use of the *active strategies* (first and second column in Table 6) supports the proposition, since lobbying activity regarding strongly re-distributional grants (two bottom rows in Table 6) is based more on individual contact than on contact through the collective channel (the LGA). Even though the local governments are to some extent active in discussing grants with strong re-distributional consequences with the LGA, the individual contact is much more extensive. The individual strategy involves many channels such as contacts to several ministries, contact to locally elected MPs, contacts to leaders of parties in parliament, contact to the parliamentary municipal committee and contact to the expert advisory committee. The picture is less clear for passive strategies (Table 7). On the one hand and in support of Proposition 2, local governments seem to be thinking about individual strategies when they discuss possible lobbying activity related to strongly re-distributional grants. On the other hand, a significant part of the passive strategies regarding strongly re-distributional grants are low profile strategies. This category reflects the intentional passive strategy discussed in relation to Municipality 1 and cannot be taken as evidence in favor of Proposition 2. The least represented of the three passive strategies in regard to strongly re-distributional grants seems to be the passive collective strategy. This last finding supports Proposition 2.

Proposition 1 is supported if the collective strategy is used more extensively than the individual strategy regarding grants with weak re-distributional consequences. This seems to be the case for the grants with long-term consequences (first row in Tables 6 and 7). Related to both the active and the passive strategies, the findings suggest that the local govern-

ments think about their lobbying strategy in terms of acting (or not acting) through the LGA. However, regarding the grant with short-term and weak re-distributional consequences, some activity seems to take place as an individual strategy. Local governments report that they take contact to the Ministry of the Interior, the Minister of Finance and locally elected and other MPs to influence the general one-year 'financial grant'. This indicates that local governments believe that it is possible to influence the short-term grant, making them more willing to invest resources in individual lobbying. Empirically, this is supported by the change in the allocation of the 'financial grant', which is studied as an example of a short-term grant with weak re-distributional consequences. The grant used to be allocated based on a less re-distributional rule (number of inhabitants), but recently part of the grant has been allocated based on fiscal indicators. Thus, the grant now has a more pronounced re-distributional character, which might be reflected in the lobbying strategy. However, whether the individual lobbying related to this grant is a consequence of the change in allocation criteria, or whether the allocation criteria have been changed due to lobbying cannot be determined based on the data in this study.

Except for the rather extensive use of the individual strategy regarding the short-term, weakly re-distributional grant, the findings support Propositions 1 and 2. In general, local governments seem to use a much broader range of individual strategies to lobby the central decision makers when it comes to grants with strong re-distributional consequences than they do regarding grants with weak re-distributional consequences. Similarly, local governments make extensive use of the LGA as a channel for influence when the lobbying concerns grants with weak re-distributional consequences. Finally, the unintentional 'no strategy' discussed in relation to Municipality 4 is used moderately in relation to grants with both strong and weak re-distributional consequences. The use of the 'no strategy' supports neither proposition, since it does not refer to a collective or an individual strategy.

Table 6. Local government strategies dependent on grant type. Active strategies and 'No strategy'

Grant type (column)	Strategy		
	Active collective	Active individual	No strategy
Weak re-distributional consequences, long-term consequences	<p>Municipalities use formal fora for contact*</p> <p>LGA negotiates on behalf of municipalities → sometimes compromises must be accepted.</p> <p>Formal (e.g. consultation letters) and informal contact</p> <p>Municipality contacts individual persons in LGA (chief economist, president)</p> <p>Both the LGA and the municipality initiates contact</p> <p>Municipality delivers input to the LGA's negotiations with the government</p> <p>Municipality uses KKR president*** when contacting the LGA</p>	<p>Municipality contacts locally elected members of parliament</p>	<p>Municipality does not spend energy on negotiating grants</p>
Weak re-distributional consequences, short-term consequences	<p>Message from municipalities to LGA: as large grant as possible, just distribution</p> <p>Municipality takes initiative to contact LGA president</p> <p>Municipalities in collaboration ask for meeting with the LGA</p>	<p>Contact to the Minister of the Interior (at visits in the municipality, at meetings in the ministry)</p> <p>Contact to locally elected members of parliament</p> <p>Message: explains the fiscal situation of the municipality, uses analyses in argumentation</p> <p>Contact to Minister of Finance</p> <p>Effective strategy to talk to locally elected MPs and ministers ('use backdoor channels')</p>	<p>Municipality has not spent time on grant</p>

	Municipality contacts political network in the parliament		
Strong redistributive consequences, short-term consequences	<p>Municipality uses KKR president*** when contacting the LGA</p> <p>Municipalities use formal fora for contact**</p> <p>Municipalities' message to LGA: Controlling local governments using small funds is a bad idea</p>	<p>Contact to ministers via meetings in the ministry or via phone (The Minister of the Interior, The Minister of Finance, sectoral ministers)</p> <p>Contact to locally elected MPs</p> <p>Contact to party leaders</p> <p>Municipality has ongoing dialogue with ministry – necessary to get funds</p> <p>Message from municipalities: want part of the funds, influence criteria for allocation</p> <p>Municipality has yearly meeting in Ministry – perceived as effective</p> <p>Municipality negotiates with minister to reach long-term agreement about funds</p>	<p>Municipality has not discussed its position in the LGA or in the ministry</p>
Strong redistributive consequences, long-term consequences	<p>Municipality initiates informal contact at formal meetings</p> <p>Municipalities' message to LGA: uncertainty due to criteria for allocation is a problem</p> <p>Municipality delivers input to the LGA's work with grant reforms</p>	<p>Contact to locally elected members of parliament</p> <p>Contact to (centrally located) members of the parliamentary municipal committee</p> <p>Contact to party leaders (difficult to establish contact to party leaders from large parties)</p> <p>Contact to Minister of the Interior</p> <p>Contact to Ministry of the Interior (comments on proposed amendments to grant scheme, delivers analyses, sends formal letter)</p> <p>Contact to expert committee</p>	<p>Does not spend energy on lobbying</p> <p>Does not take stand on equalization</p>

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Municipality tries to use political network – difficult because equalization is complicated

Municipality wishes to establish contact to central decision makers

Municipality tries to influence newly elected members of parliament

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\* Meetings of the board of representatives; the LGA arranges yearly meetings with all municipalities; membership of LGA committees; formal yearly meetings for chief financial officers, chief executives of municipalities, and local politicians, respectively.

\*\* Meetings of the board of representatives; the LGA arranges yearly meetings with all municipalities; formal yearly meetings for chief financial officers, chief executives of municipalities, and local politicians, respectively; LGA summits.

\*\*\* KKR ('Kommune-Kontakt-Råd') is a Municipal Liaison Committee. One committee is established in each of the five regions in Denmark, and all municipalities in the region are members of the committee.

Table 7. Local government strategies dependent on grant type. Passive strategies.

Grant type (column)	Strategy		
	Passive collective	Passive individual	Passive low profile
Weak redistributive consequences, long-term consequences	<p>Municipality has given the executive board of the LGA mandate to negotiate on behalf of the municipalities</p> <p>On LGA's request, municipalities give LGA input to negotiations</p> <p>Municipality does not try to pressure the LGA</p>	<p>Municipality cannot propose individual points of view</p> <p>Municipality has not had meetings with the Minister of the Interior</p>	
Weak redistributive consequences, short-term consequences	<p>Municipalities have not discussed allocation criteria within the LGA</p> <p>On the LGA's request municipalities give input about expected future expenditure levels (sometimes via surveys)</p>	<p>No expected effect of talking to locally elected members of parliament</p>	<p>Municipality tries to avoid drawing attention to own advantageous situation → passive</p>
Strong redistributive consequences, short-term consequences	<p>LGA safeguards the interests of municipalities satisfactorily</p> <p>Municipality does not raise issue in LGA because it is not under fiscal pressure</p> <p>Municipalities have implicit expectation that the LGA negotiates special grants for the municipalities</p>	<p>No expected effect of talking to locally elected members of parliament</p> <p>Municipality has not had meetings at the minister-mayor level</p>	

Strong redistributive consequences, long-term consequences	<p data-bbox="236 1288 272 2065">Municipality leaves negotiations to the LGA</p> <p data-bbox="236 548 343 1160">Municipality does not want to spend time and resources on fighting for a change in the equalization scheme</p> <p data-bbox="357 548 427 1160">Municipality has not been involved in changes of grant scheme</p> <p data-bbox="442 548 512 1160">Municipality has lost motivation to fight individually for changes</p> <p data-bbox="526 548 596 1160">Municipality tries to 'ride in the slipstream of other municipalities'</p> <p data-bbox="611 548 647 1160">Municipality does not set the trend in the debate</p> <p data-bbox="662 548 746 1160">Municipality hopes that groups of municipalities can change the equalization scheme</p> <p data-bbox="236 179 343 533">Municipality keeps 'low profile' in order to maintain privileged fiscal situation</p>
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Aside from the analytical use of Tables 6 and 7 related to Propositions 1 and 2, they give an impression of the content of the strategies used in intergovernmental lobbying. The *active collective strategy* is characterized by the local government actively contacting the LGA to discuss grant issues that it believes to be in its disfavor. The LGA hosts meetings for all municipalities several times a year where chief executives, chief financial officers or the mayors gather to discuss issues relevant for local governments. These formal meetings are often used for informal contact (e.g. a local government contacts LGA leaders about its position on a grant issue). Moreover, the local governments, on their own initiative, supply the LGA with input to its negotiations with the government. The *active individual strategy* is characterized by many different forms of influence. Most pronounced across grant types is contact to the Ministry or the Minister of the Interior, which seems to take place regarding three of the four grant types. Also contact to locally elected MPs is widely used, whereas contact to MPs in general is less used. Finally, municipality strategies seem to be most diverse for grants with strong redistributive and long-term consequences. This could indicate that these grants are especially important to local governments.

The *passive collective strategy* contains the perception that the LGA safeguards the interests of the local governments. Surprisingly, also regarding strongly redistributive grants some local governments mention that they believe the LGA to satisfactorily handle the lobbying on behalf of the local government. Moreover, the local governments spend some time answering the LGA's request for information. This information primarily relates to local governments' expectations to future municipal expenditure levels. The information from the local governments is used in negotiations between the LGA and the government. The *passive individual strategy* mostly involves considerations of undertaking activities included in the 'active individual strategy'. For example, an argument for being passive is that contact to locally elected MPs is not expected to affect grant decisions. The content of the *passive low profile strategy* covers arguments relating to the wish to keep attention away from changing the grant system. Finally, *no strategy* covers instances where the local government does not pay attention to the grant in question.

Having discussed the content of the strategies and the importance of grant type for strategy choice, the analysis now turns to Propositions 3 and 4. These propositions relate to the importance of local government characteristics, but are much more explorative than the first two propositions. Proposition 3 argues that the size of a local government affects its strategy choice, and Proposition 4 states that fiscal stress affects local government strategy choice. This study is able to explore this question since the municipalities in

the case studies are selected based on size and fiscal situation. The analysis will examine how size and fiscal stress might affect strategy choice. The preliminary results can be used as a foundation for formulating hypotheses to be tested in further research. Tables 8 and 9 illustrate which strategies each of the four municipalities use, dependent on grant type. The tables are created by condensing statements from the focused coding about which strategies each local government uses in relation to each of the four grant types. For each municipality and grant type, a strategy is included in Tables 8 and 9 if evidence indicates extensive use of the strategy. If evidence indicates that the strategy is only moderately used, the strategy is included with parentheses. If no evidence is found for a given strategy, it is not included in the tables.

Table 8. Active strategies and 'no strategy' used by each municipality

		Grant type			
		Weakly re-distributional, long term	Weakly re-distributional, short term	Strongly re-distributional, short term	Strongly re-distributional, long term
Municipality	Municipality 1: Small, affluent		Active individual	Active collective	(Active collective)
	Municipality 2: Small, disadvantaged	Active collective	Active collective (Active individual)	(Active collective) Active individual	(Active collective)
	Municipality 3: Large, affluent	Active collective (Active individual)	Active collective		(Active collective) Active individual
	Municipality 4: Large, disadvantaged	(Active collective)		(Active collective) Active individual, (planned)	(Active collective)
		('no strategy')	('no strategy')	('no strategy')	('no strategy')

Note: strategies in parentheses are used less extensively than other strategies mentioned.

Turning first to Proposition 3, support in favor of this proposition is found if the two small municipalities systematically use different strategies than the large municipalities (possibly dependent on grant type). Moreover, this requires that the two small municipalities use similar strategies and that the two large municipalities use similar strategies. For the active strategies in Table 8, marked differences seem to exist between the two small municipalities (1 and 2) in terms of strategy choice. In general, Municipality 2 is much more active than Municipality 1 and when they are both active they seem to use different strategies. The two large municipalities also differ markedly.

Municipality 3 is more active than Municipality 4 and their activity is directed at different grants. From the case descriptions, however, it is clear that Municipality 4 is in a process of developing a strategy, which is supported by the finding that Municipality 4 relies partly on a ‘no strategy’ regarding all the grants and that some of the strategies used by Municipality 4 are only planned and not yet realized. This indicates that they might be more active in the future. Thus, since neither the two small nor the two large municipalities seem to have similar strategies, there is no evidence that the large and the small municipalities differ systematically in terms of strategy choice. On the contrary, Municipality 2 and Municipality 3 seem to be the most active. This is supported by the use of the passive strategies, since a comparison of the two large and two small municipalities does not produce systematic different strategies. Municipality 1 seems to be most explicitly passive.

Table 9. Passive Strategies used by each municipality

		Grant type			
		Weakly re-distributional, long-term	Weakly re-distributional, short-term	Strongly re-distributional, short-term	Strongly re-distributional, long-term
Municipality	Municipality 1: Small, affluent		Passive collective	Passive collective	Passive individual Passive low profile
	Municipality 2: Small, disadvantaged	Passive collective		(Passive individual)	(Passive individual)
	Municipality 3: Large, affluent	(Passive collective)			Passive individual
	Municipality 4: Large, disadvantaged				Passive individual (planning)

Note: strategies in parentheses are used less extensively than other strategies mentioned.

Proposition 4 is supported if the two affluent municipalities (Municipalities 1 and 3) use systematically different strategies than the two disadvantaged municipalities (Municipalities 2 and 4). No support for Proposition 4 is found regarding the two affluent municipalities. Only in two instances among all the passive and active strategies do the strategies used by Municipalities 1 and 3 coincide. Municipality 3 is more active than Municipality 1 regarding grants with both weak and strong re-distributional and long-term consequences. Municipality 1, in turn, is more clearly using passive strate-

gies. Regarding the long-term strongly re-distributional grants, the difference in strategies might be understood by drawing on the case descriptions. The two municipalities perceive the benefits from the long-term strongly re-distributional grants very differently, since Municipality 3 is very dissatisfied with the way it is affected by this grant, whereas Municipality 1 benefits significantly from the grant. This difference in how they are affected by the grant might be important for understanding their different choice of strategy.

The two disadvantaged municipalities seem to use largely the same strategies for each grant type. They mostly rely on the collective strategy, which supports the argument that they lack the resources to be active on an individual basis. Moreover, they only seem to be individually active on short-term strongly re-distributional grants. This indicates that the immediate need for revenue leads them to focus resources on lobbying for grants that can help their fiscal situation in the short run. Two exceptions are found to the similarity in strategy choice: The small municipality is much more active than the large municipality on weakly re-distributional, short-term grants, and only the large municipality uses ‘no strategy’.

In sum, Proposition 3 is not supported, since neither the two large nor the two small municipalities seem to use similar strategies. Consequently, it cannot be concluded that small and large municipalities use systematically different strategies. Proposition 4 finds more support due to the widespread similarity in strategies used by disadvantaged municipalities, which rely heavily on the collective strategies and invest resources in lobbying individually for short-term grants. This strategy choice is different from the strategies used by the affluent municipalities. The affluent municipalities, however, differ in terms of which strategies they use and their choice of strategy seems to depend more on the perception of their benefits from the grant than on wealth. Moreover, the use of the ‘no strategy’ does not seem to be accounted for by the local government characteristics discussed in Propositions 3 and 4. In turn, the shift in strategy from a ‘no strategy’ to an active strategy in Municipality 4 is more a result of a change in the leadership of the municipality. As discussed in the case descriptions, the main driver of the shift in strategy seems to be the hiring of the present chief executive of the municipality. These surprising findings are all discussed further in Section 4.7.

In addition to the active and passive strategies (collective, individual or low profile) analyzed above, the findings point to capacity building as an important part of a local government’s strategy. A capacity building strategy is defined as a local government’s effort to prepare for lobbying activity directed at the LGA or at central decision makers. Table 10 illustrates the local governments’ statements regarding capacity building for the four grant

types. The table shows a condensation of statements from the interviews coded as capacity building strategies and distinguishes between what the local government does individually and what it does in cooperation with other local governments.

Table 10 illustrates that local governments use resources in a number of ways to prepare their lobbying activity. Much of the individual work is concerned with analyzing how the local government is affected by specific grants and deciding which strategy to follow. The capacity building that is undertaken in cooperation with other local governments also involves analyzing how the local governments are affected by a grant and how a grant could be changed in favor of the local governments. Analyses conducted in coalitions of local governments are often more detailed and comprehensive than the analyses made by individual governments and are sometimes even conducted by staff hired specifically for that purpose. Moreover, the statements suggest that the cooperation between local governments ranges from establishing networks specifically focusing on grants, to using formal or informal networks, established for other purposes, to discuss grant-related issues. Finally, the findings suggest that by far the most resources are invested in building capacity to lobby for grants with long-term consequences (first and fourth row in table). The reason cannot be determined based on this data, but two possible explanations are suggested. First, local governments might spend the most resources on these grants simply because of the long-term consequences, i.e., the local government will be affected by the grant allocation for many years. An alternative (but not necessarily competing) explanation is that the long-term grants are the most complex ones, demanding local governments to do more preparatory work in order to influence these grants.

Table 10. Capacity Building Strategies

Grant type(column)	Individually	Strategy
Weak redistributional consequences, longterm consequences	<p>Finance department follows DUT* grants</p> <p>Finance department informs mayor about DUT-related issues that require attention</p> <p>Finance department assesses the consequences of DUT grants for municipality</p>	<p>In cooperation with other local governments</p> <p>Municipalities hold meeting about DUT issues* in KKR** context. KKR president is responsible for contact</p> <p>Large municipality in region does not always agree with small and medium-sized municipalities</p>
Weak redistributional consequences, shortterm consequences	Municipality puts effort in grant	<p>Municipalities in coalition distribute tasks between them</p> <p>Municipality talks to colleagues in other municipalities</p> <p>Municipalities within a region work together because they know each other through KKR** and other forums for municipal top leaders and politicians</p>
Strong redistributional consequences, shortterm consequences	Municipality puts effort in the 'special grant' aimed at 'municipalities in a difficult fiscal situation'	<p>Municipalities discuss grant issues in KKR**</p> <p>Municipalities within a region work together because they know each other through KKR** and other forums for municipal top leaders and politicians</p>

Strong redistributive consequences, long-term consequences	<p>Municipality makes analyses: do other municipalities face similar challenges, establishes own benefit from existing grant, proposes alternative model for allocation of equalizing grant</p> <p>Municipality contemplates its position in the equalization debate</p> <p>Municipality has discussed criteria for equalization internally</p> <p>Chief executive of municipality plays a major role in deciding on a lobbying strategy</p> <p>Municipality would spend resources if current equalization scheme was changed</p> <p>Planning lobbying strategy is part of performance contract for employees in municipality (internal control).</p> <p>Municipality develops strategy (level of activity, how offensive do they want to be).</p>	<p>Municipality supports established groups of municipalities that lobby for grant changes ('Danmark på Vippen' and 'RimeligUdligning.nu')</p> <p>Mayor talks to other mayors in committees in the LGA</p> <p>Municipality has established coalition with other municipalities directly focusing on equalization. Background for collaboration: similar interests regarding equalization, have more resources when working together</p> <p>The work of the coalition: conduct analyses, hold conference, deliver input to discussions about reforming the grant system (to ministry and expert committee), develop qualified arguments for grant distribution</p> <p>Cooperation initiated by the municipal administrations.</p> <p>Municipalities meet at administrative and political level</p> <p>Long-term cooperation</p> <p>Coalition has hired person to do analyses</p>
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\* DUT grants refer to the grants categorized in this study as weakly redistributive, long-term grants.

\*\* KKR ('Kommune-Kontakt-Råd') is a Municipal Liaison Committee. One committee is established in each of the five regions, and all municipalities in the region are members of the committee.

Finally, the analysis suggests that the context for performing lobbying activity plays a major role for which strategy is chosen and which instruments are seen as effective in gaining influence. Table 11 illustrates the factors identified in the interviews as important for whether lobbying activity is effective and consequently for whether it is worth spending resources on. The factors resulted from the open coding and were substantiated through the focused coding.

Table 11. Factors affecting potential for influence

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Administrative network
Party Politics
Political network
Power
Limitations for influence
- Complexity
- No influence possible (predictability necessary)
- Resources needed
- Small voice
Prospects for influence
- Qualified arguments
- Size
- Timing

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First, administrative and political networks are perceived as important in order to gain influence. Second, party politics understood as whether the local and central governments' political leaders are from the same party matters for potential influence on grants. This mechanism seems to work in two ways: A local government leader from the same party as the central government leader has easier access to the national decision makers. On the other hand, he must be more loyal to the central government because they are from the same party. This loyalty could for example result in the local government abstaining from using the media to complain about central government grant decisions. Third, all local governments mention their perception of who has the power to allocate grants and to control the grant decision-making process as important for whether it is possible to influence decisions. Sometimes the power structure is in favor of the local government, if for example the Minister of the Interior is very powerful and supportive of the local government's position. In other cases, the power structure can work against the interests of the local government. Fourth, a number of factors are

seen as always limiting the influence of local governments and making them reduce efforts to lobby, among them a highly complex grant structure, a general conception that grants cannot be influenced (for example because grants must be largely predictable for local governments), a high demand for resources to be able to influence grants and a feeling of being ‘a small player’ in a large game. Fifth, some factors are viewed as ways to enhance influence: to be able to rely on qualified arguments when suggesting changes to grants, to be a local government of considerable size and to pick the right time to lobby.

All these factors are mentioned by the local governments as important considerations when deciding whether to lobby for grants and which strategy to follow.

## 4.7 Discussion and conclusion

This study set out to investigate *which strategies local governments use to safeguard their interests regarding intergovernmental grants*. The answer to this question is twofold. First, the study has mapped strategies used by local governments to safeguard their interests. Second, based on the rather scarce literature the study suggested four propositions about which factors are important for local government strategy choice. These propositions were investigated in a case study design.

Turning first to the mapping of strategies, the findings in this study suggest, first, that local governments use both direct and indirect strategies, which corresponds to the findings in the interest group literature (see Binderkrantz, 2005). The *direct strategies* entail contacts to the relevant committees in parliament, contacts to locally elected MPs, contacts to advisory expert committees working on grant issues, contacts to the relevant minister (often the Minister of the Interior or the Minister of Finance) and to the bureaucracy in the corresponding ministries. All these strategies are considered ‘individual strategies’, since the local government(s) individually contact(s) (and not via an established local government association) relevant decision makers. Moreover, local governments use a collective strategy involving contacts to an established LGA. The *indirect strategies* primarily involve contacts to the media and the use of citizen expectations to put pressure on the central government. According to the findings in this study and corresponding to previous findings (Cammisa, 1995), the indirect strategies are much less used than the direct ones, but nevertheless exist as an option local governments are aware of.

Second, the findings indicate that, in line with the conceptualization of strategies suggested in the theory section, local governments can rely on both active and passive collective and individual strategies. However, the qualita-

tive character of this study revealed that a more nuanced understanding of strategies than the one initially suggested in this study is needed in order to capture local government strategies. The findings showed that local governments sometimes choose not to do anything, not because they expect others to safeguard their interests, as expected in the collective and individual passive strategies, but because they want to uphold status quo. Moreover, the study showed that some local governments do not have a strategy because they are not aware of the possibility to lobby. These findings underline the importance of paying close attention to conceptualizations of local government strategies. Moreover, the discovery that some local governments do not have a strategy suggests that local government agendas are important for local strategies related to grants. The finding from the interest group literature that government agendas affect lobbying at the national level (Leech, Baumgartner, La Pira, and Semanko, 2005) thus seems to be reflected in a slightly different way at the local level. While this study cannot explain why some local governments do not devote attention to lobbying for grants while others do, it suggests that explaining how the issue gets on the local government agenda is important for understanding local government strategies.

The third point relating to the mapping of strategies concerns what I have termed capacity building. From the analysis it seems clear that allocating resources to prepare lobbying is an important part of a local government's lobbying strategy regarding grants. Typically, the resources are used to analyze how a grant affects the local government or to develop alternative models for grant allocation as input to the central decision-making process. Moreover, resources are used to develop and formulate a strategy for lobbying for grants. Capacity building can be done internally in the local government or by pooling resources with other local governments. While capacity building was not a part of the suggested framework, it seems highly relevant for understanding strategy choice. The study suggests that capacity building is mostly used in regard to grants with strong re-distributional and long-term consequences. No firm conclusions can be drawn as to why this seems to be the case. Local governments in general have different interests regarding strongly re-distributional grants, meaning that it is harder for them to rely on the local government association. This means that they cannot use the administrative capacity in the local government association to do analyses and other necessary work for formulating a position. At the same time, grants with long-term consequences will affect the local governments for a long time and might, therefore, be considered more important. This combination could explain why capacity building is mostly directed at this type of grants. Further research is encouraged to investigate this in more detail.

Looking at potential explanations for why a given strategy is chosen, this study has explored the importance of grant type and local government characteristics. The aim of this part of the study is to use existing literature and the empirical case studies to suggest hypotheses that could be tested in future research. First, the explanatory analysis of whether strategies used for grants with strong and grants with weak re-distributional consequences differ is based on a fairly solid literature with rather clear expectations. The findings in this study broadly support the expectation that local governments to a higher extent use a collective strategy (lobbying through an established LGA) when grants have weak re-distributional consequences, whereas they tend to use an individual strategy (targeting central decision makers without the help of the local government organization) when grants have strong re-distributional consequences. However, the active individual strategy is also used to some extent in relation to weakly re-distributional grants with short-term consequences.

The second part of the explanatory analysis is much more exploratory since theoretical expectations as to how local government characteristics and whether a grant has long- or short-term consequences affect strategy choice are much weaker. The results of this part of the analysis are surprising in several ways. First, Proposition 3 was not supported, indicating that size does not affect local government strategy choice in a systematic way. Proposition 4 was partly supported, since disadvantaged local governments seem to rely more on the collective strategy and focus resources on lobbying individually for a few grants. More specifically, the analyses of Propositions 3 and 4 led to at least three findings that call for further discussion.

First, the argument that since Municipality 2 is small and disadvantaged it would be the least active of the municipalities is not supported. Further investigation of this puzzling finding suggests that the primary factor driving Municipality 2's extensive activity seems to be its strong dependency on grants. This finding resonates very well with the concept of the 'soft budget constraint' (Rodden, Eskeland, and Litvack, 2003). Local governments face a soft budget constraint if they can expect the central government to assist them financially in times of a local fiscal crisis (Rodden et al., 2003, p. 7). According to Rodden et al., the more difficult it is for local governments to increase own source revenue, the easier it is to pressure the central government for assistance if the local government faces a fiscal crisis. Municipality 2 has a very low tax base and a very high tax rate that is not easily changed due to central government regulations. This fixed situation might lead the local government to believe that it has a good chance of succeeding in lobbying for more grants compared to other local governments with more flexibility in local government revenue (for example if a local government has an ex

ante lower tax rate). Thus, perception of flexibility in own source revenue generation may affect lobbying strategy. While no firm conclusions can be drawn based on the limited number of cases in this study, further research is encouraged to explore this issue.

Second, the local government characteristics do not seem to explain the ‘no strategy’ found in relation to Municipality 4. Instead, the shift from ‘no strategy’ to an active strategy seems to be a result of a change in the leadership of the municipality, indicating that individual actors might be an important explanatory factor for whether a local government adopts an intentional strategy.

Third, the discrepancy between the strategies used by the small and large affluent municipalities seems not to be accounted for by size or fiscal situation. The explorative case design in this study allows for a further investigation of which factors might account for this difference, namely, how the municipality perceives itself to benefit from the intergovernmental grant scheme. Both municipalities signal that they have the resources to pursue an active strategy, but Municipality 1 has chosen not to with the argument that the current grant scheme offers them generous benefits. In contrast, Municipality 3 has been rather active, especially regarding the strongly redistributive, short-term grant arguing that this grant disfavors them significantly. This suggests that the active evaluation of a grant’s consequences may be a prerequisite for taking up individual intergovernmental lobbying.

Finally, the analysis points to a number of context factors that might be important for whether a local government chooses to be active or not. Generally, the decision to be active seems, not surprisingly, to be affected by the expected benefit of lobbying. The evaluation of whether it is worth the effort to invest resources in lobbying activity seems to depend on, among other things, political and administrative networking among central decision makers.

In sum, this study presents a conceptualization of local government strategies for intergovernmental lobbying regarding grants. Local governments use both indirect and direct lobbying strategies, but put much more weight on the direct ones. Among the direct strategies, a distinction can be made between active and passive strategies and between collective and individual strategies. Finally, capacity building seems to be an important factor in intergovernmental lobbying for grants. Moreover, the study points to factors influencing strategy choice. First, the analysis suggests that the characteristics of the grant (whether it has strong or weak re-distributive consequences and whether it has long- or short-term consequences) constitute an important explanatory factor. Second, objective local government characteristics (size and fiscal situation) seem to be less important in explaining strat-

egy choice. In contrast, the study points to the dependency on grants as a potentially important factor for lobbying strategies. Moreover, the evaluation of the consequences of a grant scheme should be included as an important factor in further research on this issue. Finally, the study points to a number of context factors that local governments might take into consideration when deciding whether to lobby the central government for grants.

To evaluate the generalizability of the conclusions drawn from this study, two points must be considered. First, the aim of the study was partly exploratory. Consequently, a case study of four different grant types and four local governments with very different characteristics was chosen. This research design has proved fruitful in terms of exploring arguments and logics in local government lobbying. While the research design has led to new insights about how to measure local government strategies and which factors to consider when exploring intergovernmental lobbying, no firm conclusions regarding causal *effects* can be drawn from this design. Thus, it is left to further research to profit from the findings in this study in testing the impact of grant type, dependency on grants and perception of grant effects on local government strategy choice.

Second, the study was conducted in Denmark using Danish municipalities and Danish grants as cases. While every study that focuses on a few cases must make these kinds of choices, some caveats are in place. For one, investigating only one municipality with a certain combination of characteristics obviously means that some idiosyncratic factor may play an overly large role in the analysis. To avoid this, municipalities that are on obvious grounds different (for example the capital, municipalities on islands etc.) were not included. The conclusions therefore concern local governments that are to some extent typical of the universe of local governments in Denmark, and the typicality of the local governments makes it more likely that the conclusions are also valid for local governments in other countries. Second, the study is limited by the empirical variation in both municipality characteristics and grant types in Denmark. Thus, it cannot be ruled out that local governments that deviate from the ones selected in this study (e.g. local governments with very few inhabitants) use different strategies. Likewise, the conclusions regarding grant types are limited to the empirical variation of grant types analyzed in this study. Thus, strategies might look different related to other grant types, such as matching grants. Third, the choice to study local governments in one single country has the obvious advantage that some factors such as macro-political and fiscal institutions are similar for all cases. On the other hand, this means that the conclusions might be specific to Danish fiscal institutions. Specifically relevant for this study is the role of the Danish LGA (KL). Since it has a very prominent role in the interplay between

the local and central governmental level in Denmark (Blom-Hansen, 2002), the use of the collective strategy might seem relatively more attractive in Denmark. The conclusions might, thus, be more valid for countries with strong established LGAs than for countries with less established LGAs.



## Chapter 5: Main results from the dissertation

This chapter presents the arguments and main results from the studies in the dissertation. The results relate to each of the three stages where political factors are expected to matter for intergovernmental grants (see Figure 1 in this monograph). Since an important argument in this dissertation is that political factors could matter at all three stages, it was prioritized to include at least one political factor at each stage. Figure 5 shows a reduced version of Figure 1, which illustrates for each stage the focus of the studies in this dissertation. Stage 1 focuses on intergovernmental lobbying; stage 2 on strategic allocation of grants based on party affiliation; and stage 3 focuses on local budget institutions and on the role of ideology for the effects of grants. While the empirical focus in the dissertation does not cover all instances of political influence on grants, the factors that are investigated are important examples of political factors that could affect grants.

Figure 5. Overview of the three parts of the dissertation

STAGE 1: INTRODUCTION OF GRANTS  Political factors:  Study 1: Intergovernmental lobbying	STAGE 2: DISTRIBUTION OF GRANTS  Political factors:  Study 2: Strategic allocation based on party affiliation	STAGE 3: EFFECTS OF GRANTS  Political factors:  Study 3: Local government budget institutions Study 4: Politics matters
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This chapter presents Studies 2, 3 and 4. The arguments and results from Study 1 are found in Chapter 4 in this monograph. The chapter presents an overview of the results and describes at some length the arguments and design of the individual studies. For a more detailed description of the exact findings, I refer to the studies.

### 5.1 Study 2: Strategic allocation of grants

Study 2 investigates strategic grant allocation in a multiparty system by testing how party-political considerations affect the distribution of grants to local governments. As discussed in Chapter 2, a growing literature argues that grants can be used strategically by the incumbent national executive to serve its electoral interests. Most of this literature, however, has focused on two-

party systems or on two-party characteristics of a system (see for example Arulampalam et al., 2009; Balla et al., 2002; Dahlberg and Johansson, 2002; Stein and Bickers, 1994; Veiga and Pinho, 2007; Wallis, 1996). Study 2 discusses on theoretical grounds how the hypotheses investigated in the literature on strategic grant allocation can be translated to a multiparty structure. Moreover, the study tests three standard hypotheses from the literature on strategic grant allocation in a multiparty context in order to investigate whether the mechanisms for strategic grant allocation can be generalized to other systems with a more complex party structure.

The underlying idea of strategic grant allocation based on party affiliation is that parties that are represented both at the national and the local level share a 'party brand' (Cox and McCubbins, 1993, 2005), meaning that the party's reputation is affected by actions taken by members of the party at all levels. Consequently, grants can be used strategically by the parties in the national government to win support both at the national and the local level. For example, grants could be used by a party to win elections at the local level, thereby enhancing the overall power of the party.

Following this line of argument, Study 2 tests, first, whether local governments with many voters supporting the party/parties in the national government receive larger grants than other local governments (the core voter hypothesis). Second, it tests whether local governments in which the share of votes for the national governments is close to the share of votes for the parties in opposition receive larger grants than other local governments (the swing voter hypothesis). Third, the study tests whether local governments where the leadership (the mayor) is from one of the parties in the national government receive larger grants than other local governments (the affiliation hypothesis).

Since strategic grant allocation has mostly been tested in two-party systems or using a two-party logic (see for example Arulampalam et al., 2009; Balla et al., 2002; Dahlberg and Johansson, 2002; Stein and Bickers, 1994; Veiga and Pinho, 2007; Wallis, 1996), it is unclear exactly which strategic effects should be expected if one takes into account that the national government consists of more than one party. Based on the suggestion by previous research that grants may function as an important part of coalition bargaining at the national level (Rodden and Wilkinson, 2004), this study discusses different ways strategic grant allocation could take place in a multiparty context. This discussion relates, first, to the role of center parties in multiparty governments. Center parties may be pivotal for the government in order to uphold a majority, but might also be a very risky investment in terms of grants, since they could switch to support the opposition party. Second, the discussion involves the role of extreme parties in multiparty governments.

These constitute a ‘safe’ investment since they would rarely support the opposition parties. On the other hand, it may not be necessary to grant the supporters of the extreme parties, since their best option is to support the incumbent government. The study investigates the importance of coalition politics at the national level for strategic grant allocation by testing the core, swing and affiliation hypotheses for four different conceptualizations of the national government that include and exclude center and extreme parties, respectively. While the data does not allow for a thorough test of all the theoretical arguments, the study takes a first step to unfold some of the mechanisms driving allocation of grants in multiparty systems.

Testing these hypotheses is demanding, since it requires that the same grant is allocated over a long period and that shifts in government at both the national and local level take place within this period. The paper uses a dataset with 275 Danish municipalities that was collected from several statistical sources. The dataset includes information about the allocation of a discretionary grant distributed to Danish municipalities from 1991 to 2006, electoral data from national and local elections and data on a number of control variables for the same period. Fixed-effects models are used to model how changes in government both at the local and central level over time affect the distribution of the discretionary grant.

In contrast to the findings in the existing literature, the study finds no evidence of strategic grant allocation related to any of the three hypotheses. These findings are similar across different conceptualizations of the national governing coalition. Thus, no evidence is found for strategic grant allocation in Denmark. The results indicate that political factors in terms of party politics are less important for intergovernmental grants at the stage focusing on distribution of grants (see Figure 5). However, these results differ from the results in most of the existing literature that has found substantial evidence of strategic grant allocation (Berry et al., 2010; Case, 2001; Dahlberg and Johansson, 2002; Larcinese et al., 2006; Litschig, 2012). This indicates that political factors in terms of party politics are sometimes, but not always, important for the allocation of grants. While this dissertation cannot make any final conclusions on this issue, the implications and possible explanations for the different findings are discussed further in Chapter 6 in this monograph.

## 5.2 Studies 3 and 4: Effects of grants

Studies 3 and 4 investigate effects of grants on local government expenditure and tax decisions and how political factors affect these decisions. The two studies contribute in different ways to our understanding of grants as they focus on different aspects of effects of grants and use different designs. The

presentation of the two studies is followed by a discussion of how the two different approaches supplement each other in broadening our understanding of effects of grants.

Study 3 investigates the *asymmetrical response hypothesis*, which suggests that local governments raise expenditures more in case of a grant increase than they lower expenditures in case of a grant decrease of similar size. Testing this hypothesis requires a design where exogenous variation in grants can be identified. A reform of the Danish intergovernmental grant scheme in 2007 comes close to this description, for one because the reform of the grant scheme coincided with a major structural reform, which made it very difficult for local governments to influence the reform process. Moreover, the structural reform limited central decision makers' ability to use the financial reform to target specific local governments. The reform thus constitutes a quasi-experiment that can be used to investigate effects of grants. The effects were estimated using a dataset with information about grant and expenditure levels for 98 municipalities before and after the reform (along with a number of control variables). Using a fixed effects estimation strategy, the changes in expenditure levels for local government exposed to a grant decrease were compared to changes in expenditure levels for local governments exposed to a grant increase. The study finds evidence in favor of an asymmetrical response since local governments exposed to a grant decrease on average did not lower expenditures in the following year, whereas local governments exposed to a grant increase raised expenditures in the following year proportional to the size of the increase.

Moreover, Study 3 explores the importance of budget institutions by looking at the difference in response to grant changes for budgets and for accounts. Local government budgets are a result of a relatively centralized decision-making process. Accounts, in contrast, are the implementation of the budget that is arguably a much more fragmented decision-making process. Previous research has found that fragmented budget institutions lead to less fiscal discipline (Poterba and von Hagen, 1999; Von Hagen, 2002). Based on these findings, expectations as to how budget institutions affect the response to grants can be formulated. In the case of the asymmetrical response hypothesis, the expectation is that a much weaker asymmetrical pattern is found when budget institutions are fragmented than when they are centralized. This is because local governments, which are exposed to a grant decrease, cannot be expected to show fiscal discipline when budget institutions are fragmented whereas this can be expected to a larger extent when budget institutions are centralized. Thus, if the pressure to increase service is high, fragmented budget institutions may make local governments increase expenditures even in case of decreasing grants. This leads to a weaker asym-

metrical pattern in terms of the aggregated local government response. In contrast to the expectation, Study 3 finds no difference in the asymmetrical response to changes in grants for budgets and accounts. This indicates that budget institutions have no moderating effect on the response to grant changes.

In sum, the findings from Study 3 suggest that local governments do respond asymmetrically to increases and decreases in grants. As will be discussed further in Chapter 6, this may be of special importance for policy makers trying to predict how changes in grant schemes will affect the macro-economic situation. Moreover, the findings suggest that local budget institutions do not matter for the response to grants. Due to data limitations, the study was not able to test this hypothesis using data on individual local governments. The findings relating to this part of the study should, thus, be taken with some caution.

Study 4 investigates the *flypaper effect*, which suggests that local governments raise expenditures more if an increase in local government revenue comes from grants than if the revenue increase comes from citizen income. Like Study 3, Study 4 also investigates the *asymmetrical response hypothesis*, which suggests that local governments raise expenditures more in case of a grant increase than they lower expenditures in case of a grant decrease of similar size. Finally, Study 4 investigates the equivalent hypothesis for changes in local government revenue stemming from increases and decreases in citizen income. This hypothesis is not based on the same extensive previous literature as the two first hypotheses, and it is, thus, more unclear exactly which effects should be expected. However, Study 4 hypothesizes, in line with the asymmetrical response hypothesis, that local governments raise expenditures more in case of increases in citizen income than they lower expenditures in case of decreases in citizen income of similar size.

The study was conducted as a survey experiment presenting individual local politicians with one of four vignettes explaining that their local government in the future would experience a permanent decrease or increase in grants or citizen income. The local politicians were asked to indicate how they would respond to the revenue change. The answers were given on a continuum ranging from solely adjusting tax rates to solely adjusting expenditure levels (see Study 4 for a detailed description of the survey experiment). The study finds statistically significant, but substantially weak, support for the flypaper effect hypothesis. In contrast to Study 3, the study finds no evidence on average for the asymmetrical response hypothesis related to grants. Instead, local politicians seemed on average to respond symmetrically to changes in grants. Finally, and contrary to the expectation, the study finds that local politicians are less inclined to raise expenditures when citizen in-

come increases than they are willing to cut expenditures when citizen income decreases. This suggests a reverse asymmetrical effect.

To investigate these rather puzzling results further, Study 4 looks at ideology as a political factor that may influence the response to grants. A well-known argument from the politics matters literature is that the ideology of the incumbent party matters for political outcomes (Blom-Hansen, Monkerud, and Sørensen, 2006; Boyne, 1996; Schmidt, 1996). Following this line of argument, the study investigates responses by individual politicians moderated by a variable indicating whether the politician is from a left-wing or a right-wing party. The results of these analyses suggest that left-wing politicians respond to changes in grants (and citizen income) in the way predicted by the asymmetrical response hypothesis. Thus, left-wing politicians are inclined to raise expenditures more in case of a grant increase than they are to lower expenditure in case of a grant decrease. Right-wing politicians show evidence of a reverse asymmetrical effect, since they are inclined to lower expenditures more in case of a grant decrease than they are to raise expenditures in case of a grant increase. A similar pattern is found for response to changes in citizen income. Thus, in line with the conventional notion in the politics matters theory, left-wing politicians seem to prefer adjustments that increase the size of the public sector by increasing expenditures and tax rates, whereas right-wing politicians adjust by cutting back expenditures and tax rates, which would expectedly in the long run lead to a smaller public sector.

In sum, Study 4 finds evidence (though weak) of a flypaper effect. When taking ideology into account, the study also finds evidence of an asymmetrical response to grants, since left-wing and right-wing politicians express different adjustment preferences. Finally, the study finds that the asymmetrical effect is also present for response to changes in citizen income. Local politicians tend to respond in the same way to changes in revenue whether it stems from changes in grants or citizen income. Thus, in contrast to the conventional notion in the literature, this study suggests that grants are not treated differently than other sources of revenue by local politicians. Moreover, the findings suggest that ideology is an important political factor to consider in studies of effects of intergovernmental grants.

As touched upon in the beginning of this section, Study 3 and Study 4 use different approaches to studying effects of grants in terms of questions and design. Study 3 follows the traditional approach by looking at real grants and local governments' actual fiscal decisions. Studying real fiscal decisions improves our understanding of what effects grants actually have on real outcomes. Such knowledge is important from a theoretical perspective, but certainly also for policy makers who design intergovernmental grant schemes.

However, a local government's tax and expenditure level is a result of a long and complex budget process involving several actors. Thus, looking only at the overall local government level could potentially blur the mechanism behind the flypaper effect and asymmetrical response hypothesis. The psychological mechanisms that potentially drive the response to revenue changes are not translated directly into a local government's tax rate and expenditure decision and may thus not be detected by looking only at the (local) government level. Study 4 uses another approach that focuses on individual local politicians' responses to changes in revenue, i.e., it focuses on preferences rather than actions. Studying individual politicians may give us a better understanding of the mechanisms driving decision makers' responses to revenue changes. Moreover, the use of the survey experiment in Study 4 allows for an investigation of additional hypotheses for which it could be difficult to find a suitable real-world design. The study is thus able to investigate the flypaper effect, the asymmetrical response hypothesis and the response to changes in citizen income at the same time.

### 5.3 Summary of results from Studies 2, 3 and 4

Summing up, Study 2 finds no evidence of strategic grant allocation based on party politics. Study 4 supports the evidence of a flypaper effect. Study 3 finds support for the asymmetrical response hypothesis, whereas Study 4 does not. However, when ideology is taken into account, an asymmetrical response to grants is found for left-wing politicians and a reverse asymmetrical response is found for right-wing politicians. A similar asymmetrical response dependent on ideology is found for response to changes in citizen income. Study 3 finds no evidence of an effect of budget institutions on the response to grants. Due to data limitations for this part of the study, this conclusion should, however, be taken with some caution. Since Studies 3 and 4 use very different approaches, they contribute differently to our understanding of how political factors matter for effects of intergovernmental grants.

The following chapter explains how these findings help to answer the overall research question of the dissertation and discusses the implications of the findings for future research and for policy.



## Chapter 6: Discussion and conclusion

This dissertation set out to investigate when and how political factors affect intergovernmental grant schemes. Based on the four empirical studies and the summary, the following chapter attempts to answer this question. As a general point and in line with research in the ‘second generation of fiscal federalism’ literature, the dissertation highlights that intergovernmental grant schemes are not neutral instruments to achieve efficiency in the public sector. Intergovernmental grant schemes are institutions in which many actors have interests that affect the design and effects of these systems. Moreover, the findings in the dissertation give rise to more specific conclusions that are outlined and discussed in the following.

First, the chapter discusses the findings from the studies in this dissertation and their implications for our understanding of the role of political factors in intergovernmental grant schemes. Based on these insights, it suggests avenues for future research and discusses relevant policy implications. Second, the chapter points out important lessons from the dissertation for the Danish intergovernmental grant system. Finally, the chapter discusses the implications of the dissertation’s approach for its conclusions.

### 6.1 Discussion

This dissertation has investigated when and how political factors affect intergovernmental grant schemes. To answer *how*, the dissertation has looked at political factors that influence intergovernmental grant schemes in various ways. The question of *when* is answered in light of the three stages presented in the dissertation (see Figure 1). These two perspectives are elaborated on in the following.

Turning first to the question of *how*, the dissertation has explored several political factors in relation to intergovernmental grant schemes. First, the dissertation has shown that intergovernmental lobbying is an important political factor for intergovernmental grants. While the dissertation has not studied the actual influence of lobbying, the findings from Study 1 underline that substantial effort is put into lobbying central decision makers for grants. The local governments mostly use direct strategies including active and passive strategies and to a lesser extent indirect strategies (e.g. media or use of citizens). This finding is in line with previous research that has found that local government organizations (LGAs) rely primarily on direct strategies,

since they have privileged access to decision makers (Binderkrantz, 2005; Cammisa, 1995). The dissertation suggests that this is also the case when local governments lobby individually for grants. One additional point from Study 1 is that not all local governments have a strategy related to intergovernmental grants. This indicates that it matters for local government lobbying whether intergovernmental grants get on the local government agenda. While this issue is not explored in more depth in the dissertation, it does suggest that integrating insights from research on agenda setting in local governments could be a fruitful approach to understanding when local governments decide to have a lobbying strategy. Finally, Study 1 offers some suggestions as to what influences a local government's strategy choice. Thus, the study indicates that the extent to which a grant has re-distributional consequences is important for which strategies local governments use. Local government capacity in terms of size does not seem to be important for strategy choice, whereas a local government's fiscal situation does play a role. It is left to future research to use these findings to develop specific hypotheses about the effect of local government characteristics on strategy choice and to explore whether the conclusions drawn from Study 1 can be generalized to a larger number of local governments and to other contexts.

Second, the dissertation indicates that party politics and ideology may affect intergovernmental grants. Study 2 on strategic distribution of grants did not find evidence of strategic grant allocation based on party political considerations in Denmark. Other studies of strategic grant allocation have found substantial support for the swing voter and affiliation hypotheses (Bonvecchi and Lodola, 2011; Case, 2001; Dahlberg and Johansson, 2002; Litschig, 2012; Sole-Olle and Sorribas-Navarro, 2008) and moderate support for the core voter hypothesis (Berry et al., 2010; Larcinese et al., 2006; Rodden and Wilkinson, 2004). This discrepancy in results suggests that party-political considerations may sometimes, but not always, influence the distribution of grants. The dissertation suggests that at least in some multiparty systems such effects are not present. While the dissertation argues that coalition bargaining in multiparty governments may be one explanation, it does not allow for firm conclusions as to what exactly causes these different findings. A better understanding of how strategic grant allocation is affected by the bargaining in multiparty coalitions requires more theorizing on this issue. Moreover, further research on the mechanism behind potential strategic allocation in multiparty systems is needed.

The role of ideology is investigated mainly in Study 4, which finds evidence of different responses to changes in grants depending on ideology. This finding suggests that taking ideology into account is important in order to understand the mechanisms explaining local government response to

changes in grants and citizen income. Moreover, the importance of ideology indicates that local government response to grants is not always predictable, since it depends on how the ideological preferences are translated into budget decisions at the local level. These conclusions suggest that ideology is an important factor to take into consideration when investigating effects of grants.

Third, the dissertation investigates how political and fiscal institutions at the central and local level are important for understanding intergovernmental grants. In line with previous research (Cárdenas and Sharma, 2011; Deller and Maher, 2006; Edward M. Gramlich, 1987; Lago-Peñas, 2008; Rattsø and Tovmo, 2002), Studies 3 and 4 find evidence of asymmetrical response to grants (and to changes in citizen income). Moreover, Study 3 argues that budget institutions at the local level could potentially affect how changes in grants from the central level affect local government response. While the empirical findings in the study do not support the theoretical argument, the character of the data for this part of the study requires that these conclusions are taken with some caution. Budget institutions are not easy to measure and it would, thus, be valuable if future research is able to provide better data in order to explore more thoroughly the impact of local budget institutions on the effects of intergovernmental grants.

Moreover, differences in informal institutions could be an explanation for the finding in Study 2 that strategic use of grants does not seem to take place in the Danish case, whereas previous research shows that it does in other countries. While the study does not empirically investigate the impact of norms, variation in political culture in general and more specifically related to grant allocation could explain the different findings regarding strategic grant allocation. In Denmark, the public debate about intergovernmental grants frequently refers to fairness and transparency, which indicates strong norms for how grants are distributed. If such norms could be installed, they may limit strategic use of grants also in other contexts. While no firm conclusion can be drawn about the impact of norms, it may be fruitful for future research on allocation of intergovernmental grants to incorporate also informal institutions.

The question of *when* political factors affect intergovernmental grant schemes is addressed through the distinction between three stages at which intergovernmental grants can be influenced by politics. The three stages illustrate that intergovernmental grants are a part of a complex policy process influenced by decision makers at different levels and over time. The three stages relate to the introduction, the distribution and the effects of grants. They are not a one-directional timeline for the design of a whole system, but

indicate that all intergovernmental grants are part of an ongoing process of change, distribution and response.

Summing up, the dissertation sheds light on important institutional and party-political factors at the central and local government level that influence intergovernmental grants. Moreover, it suggests that the strategic action by local governments in terms of intergovernmental lobbying is an important political factor to consider in terms of understanding intergovernmental grant systems. While the political factors discussed in this dissertation do not make up an exhaustive list, they represent important parts of the political side of intergovernmental grants. The differentiation in stages, moreover, stresses that intergovernmental grant schemes should be understood in a comprehensive way. Focusing narrowly on one part of an intergovernmental grant scheme will not adequately explain the importance of political factors for intergovernmental grants.

## 6.2 Lessons for the Danish system

In addition to our general understanding of intergovernmental grant schemes, the dissertation contributes to our understanding of the political side of the Danish intergovernmental grant scheme. Three main conclusions can be drawn about the effect of political factors on the Danish intergovernmental grant system.

First, the main influence of politics in the Danish grant system seems to be at the first stage representing the introduction and change of grants. The dissertation finds no effect of party politics in the distribution of grants and no effect of local budget institutions on the response of local governments to changes in grants. However, the study of intergovernmental lobbying shows that local governments lobby extensively to influence national decision about grants. We do not know whether and to what extent they succeed, but previous research suggests that local governments with a high dependency on grants have better conditions for pressuring the central government for grants (see for example Rodden, 2006). Over the past six years, Danish local governments have faced strong limitations on their freedom to set local tax rates (Blom-Hansen, Bækgaard, et al., 2014). This curtailment of alternative own source revenue streams available to local governments could enhance the potential for influence, since it is harder for the central government to require fiscally needing local governments to raise revenue from other sources than grants.

Second, as already discussed, the study of grant allocation does not find evidence that party politics matters for the distribution of grants, which indicates that party politics is less important for grant decisions at *the central*

*level*. Whether this means that strategic distribution of grants does not occur in Denmark remains an open question. The allocation of grants may serve other political interests, such as geopolitical interests or interests related to other policy dimensions than the traditional left-right dimension. In contrast, the finding that local politicians' responses to changes of grants vary depending on ideology indicates that party politics plays a role for intergovernmental grants at *the local level*. Whether the preferences of individual politicians translate into policy depends on who is in power at the local governmental level.

Third, the dissertation finds evidence that local governments in Denmark respond asymmetrically to changes in grants. This highlights that increasing unconditional grants to local governments may in the long run lead to an expansion of the local public sector. Moreover, ideology is found to moderate the response to grants by individual local politicians. This indicates that predicting the effect of installing a new grant or altering existing ones is not always straightforward, since it depends on the power constellation at the local government level. Moreover, the dissertation argues that budget institutions at the local level alter how grants are responded to. Even though the empirical evidence in the dissertation does not support this argument, it is worth considering whether other organizational characteristics of local governments affect the response to grants.

## 6.3 Strengths and weaknesses of the overall approach

Chapter 3 discussed the criteria for selecting a suitable research design to investigate when and how political factors influence intergovernmental grant schemes. This discussion emphasized three criteria: that it is possible to study all three stages where political factors are expected to matter; that intergovernmental grants are an important part of local government funding; and that it is possible to study different grant types. To fulfill the first criterion, the empirical approach in this dissertation has focused on investigating different grants in one country, since this allows for an investigation of all three suggested stages (see Figure 1). Moreover, the dissertation has chosen Denmark as the national setting to study intergovernmental grants. As discussed in Chapter 3, Denmark provides a good opportunity to study the research question since Denmark fulfills the three criteria.

This section discusses the implications of these choices for the validity and generalizability of the conclusions presented in Section 6.1 and 6.2. For a discussion of the strengths and weaknesses in terms of internal and external

validity related to the four specific studies, I refer to the individual papers and Chapter 4 in this monograph.

First, studying one single country is a fruitful approach to exploring different stages in an intergovernmental grant system where political factors can matter. Focusing on one country allows one to compare the influence of political factors at one stage with the influence at other stages. Moreover, the study of grants in one single country makes it possible to hold constant a number of factors that could potentially influence the conclusions drawn in the individual studies (e.g. overall political culture and the relationship between the central and local level). While holding other factors constant is an advantage in terms of identifying causal effects in the individual studies, it might also be a drawback in terms of generalizability. The fact that the conclusions in this dissertation are drawn from studies in one particular context limits the potential to conclude firmly on the importance of factors such as electoral system and the general interplay between the local and central level, since these factors do not vary for one single country. Such conclusions are, thus, based on analytical generalizability. Furthermore, studying one single country means that the individual studies are limited by the empirical variation in that particular country (e.g. grant types and the organizational structure of local governments).

Second, the dissertation has chosen Denmark as the national setting in which intergovernmental grants are studied. The choice of Denmark has obvious advantages, since the local governments in Denmark rely on revenue both from local taxes and from grants, and since a number of different grants exist for which political influence either in the introduction or distribution of these grants is possible. Moreover, Denmark provides a good chance to exploit several research designs that have turned out fruitful for studying the questions raised in the individual studies. For example, a large financial reform of the funding of local governments constitutes a shock-inducing exogenous variation in the allocation of grants. This kind of setting is not common but conducive to studying effects of grants. The choice of Denmark also puts some limitations on the generalizability of the conclusions in this dissertation. While the intergovernmental grant scheme in Denmark, as discussed earlier, covers many different grant types, the funding of local governments is based mainly on unconditional grants with a large equalizing component. Since fiscal institutions differ across countries, the specific conclusions about when political factors affect intergovernmental grant schemes may be mostly relevant for countries with a somewhat similar intergovernmental fiscal setup. The general argument to look at different stages in an intergovernmental grant scheme in order to determine the influence of political factors is, however, likely to be valid across countries.

Moreover, Denmark is a rich, developed country with a large public sector. While the conclusions that institutions, intergovernmental lobbying and ideology are important factors to consider when studying intergovernmental grants are likely to be valid for many countries, the weight that should be put on them may vary for other types of countries. For example, the strategic allocation of grants is likely to be much more pronounced in countries with more corruption. Also macro-institutional factors such as the electoral system may influence the conclusions. The part of this dissertation that investigates the importance of multiparty systems for the allocation of grants to some extent deals with such macro-institutional factors. However, since there is no variation on the institutional setup in the design, the conclusions remain implied as to the effect of these macro-institutional setups.



## Appendix A

The fiscal performance was measured using three criteria over a five-year period (2010-2014)<sup>19</sup>. The three criteria are long-term debt, liquidity and operating results<sup>20</sup>. The municipalities' position on these indicators was calculated in two steps: as an average for the period 2010-2013 and for the year 2014 to let the most recent fiscal performance have the greatest influence on the selection. For each municipality the number of standard deviations a municipality falls from the average was calculated for each of the three variables. The combined position of a municipality was calculated by averaging these three standard deviation measures. For example, a standard deviation of 1.5 for the debt variable, a standard deviation of 0.2 on the liquidity variable and a standard deviation of 1 on the operating costs variable would result in an average standard deviation of 0.9 for that municipality. Based on these average standard deviations, the municipalities were listed from the best performing to the worst performing. The best and worst 15 municipalities were selected both from the 2010-2013 list and from the 2014 list. Only municipalities that were on both top-15 lists were selected. For the final selection the population size was included, meaning that one large municipality was selected among the poorly performing municipalities and one large municipality among the well-performing municipalities. Likewise, two small municipalities were selected; one among the well-performing and one among the poorly performing. Satisfying both the fiscal criteria and the size criteria and at the same time excluding municipalities with obvious deviant characteristics (as discussed in Section 4.5.2) made it necessary to be somewhat less restrictive on one of the dimensions. This means that 'small municipalities' are categorized as being among the 33 percent smallest and 'large municipalities' among the 50 percent largest.

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<sup>19</sup> Using the years 2010-2014 allows inclusion of a whole election period since local elections were held in November 2009 and November 2013. This is important since studies have shown evidence of 'local business cycles', meaning that spending and fiscal performance vary with election years (Mouritzen, 1989; Veiga and Veiga, 2007).

<sup>20</sup> In Danish: langfristet gæld, likviditet efter kassekreditreglen samt skattefinansieret driftsresultat.



## Appendix B1

Table B1 presents the open codes and the aggregation of the open codes in broader themes.

Table B1. Aggregated open codes

Aggregated themes	Open codes
<i>Strategies</i>	
<u>Direct</u>	
Active collective	Contact to the LGA
Passive collective	Not active
Active individual	Contact to the parliament Contact to the ministry
Passive individual	Not active
Passive low profile	Not active
'No strategy'	Not active
<u>Indirect</u>	
Media	The media
Citizens	Grants and citizens
Capacity building	Individual capacity building Cooperation between municipalities
<i>Potential influence</i>	
	Power
	Party politics
	Political network
	Administrative network
	Prospects for influence
	Limitations to influence
<i>Dependency on grants</i>	Importance of grants Perception of own financial situation
<i>Other codes</i>	
Interests	Interests Fairness
Internal	Budget process Involvement of municipal council (grants)
The LGA	How the LGA works

	The role of the LGA
Managing local governments	Interplay between government and LGA
	The government's use of grants
	How the government manages local governments
	Unpredictability
	Applications
Others	Perceptions of other local governments

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## Appendix B2

Table B2 lists the content of the focused codes used to code all the data. Sub-codes are shown for each code and each sub-code/code is briefly described. The number of times the code/sub-code is used in all interviews is noted (references) and the number of interviews relating to the code (sources).<sup>21</sup>

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<sup>21</sup> The code 'other' from the open coding was left out of the focused coding since it does not relate to grants.

Table B2. Focused codes

Code	Sub-code	Code Content	References/ sources
<i>Direct Strategies</i>			245/12
Active Collective		When the local government has extensive contact with the local government association to make sure that the topics of relevance for the local government are being taken care of by the local government association.	64/12
Passive Collective		When the local government indicates that it does not do anything or only very little to safeguard its interests, <i>because it believes that the local government association handles relevant issues</i> without the local government contributing.	29/11
Active Individual		When the local government tries to establish contact to central-level decision makers, bypassing the local government association. The contact can be directed at one of the following actors:	105/11
	Contact with Ministry	Indications that the local government is active in establishing contact to the Ministry of the Interior	60/11
	Contact with local MPs	Indications that the local government is active in establishing contact to members of parliament elected in the local government's district	21/9
	Contact with municipal committee in parliament	Indications that the local government is active in establishing contact to the 'municipal committee' in parliament (in Danish: Kommunaludvalget)	9/5
	Contact to national party leaders	Indications that the local government is active in establishing contact to national party leaders	4/1
	Contact to advisory expert committee	Indications that the local government is active in establishing contact to the advisory expert committee	5/3
Passive Individual		When the local government is not being active <i>because it relies on other local governments' effort to safeguard its interests.</i>	30/8

Passive Low Profile	When the local government is intentionally not being active and no indication is given that it relies on others to safeguard its interests	17/2
'No strategy'	When the local government has no strategy	19/8
<i>Indirect Strategies</i>		26/9
Media	Indications that the local government uses the media to influence grant decisions	18/6
Citizens	Indications that citizens play a role for the lobbying strategy of a local government.	8/7
<i>Capacity building</i>		81/11
Individual capacity building	Actions taken by the local government alone to build capacity to lobby (e.g. conduct analyses, hold meetings)	49/10
With other municipalities	Actions taken by the local government in cooperation with other local governments to build capacity to lobby (e.g. conduct analyses, hold meetings)	32/10
<i>Potential Influence</i>		133/12
Prospects for influence	Factors that in the eyes of the local government enhance influence on grant decisions.	32/10
	Timing	8/5
	Qualified arguments	19/8
	Size	4/4
	Indications that large local governments are believed to be better able to influence decisions.	
Limitations to influence	Factors that in the eyes of the local government limit influence on grant decision.	51/11
	Can't influence	23/10
	Small voice	5/4
	Indications that the local government believes itself to be only a 'small voice' with limited influence on grant decisions	
	Resources	11/4
	Complexity	7/6
Power	Indications that lack of resources limits the potential influence of local governments	
	Indications that the complexity of the grant system limits the influence of local governments	
	Indications that the power constellation around grant allocation is considered important for influence	10/4

Political network	Indications that political networks are considered important for influence	13/6
Administrative network	Indications that administrative networks are considered important for influence	6/4
Party Politics	Indications that party politics is considered important for influence	6/3
Dependency		128/12
Importance of grants	Descriptions of how dependent the local government is on intergovernmental grants.	66/12
Perception of fiscal situation	Descriptions of the perception of the local government's fiscal situation.	62/12
<u>Other focused codes not used in this study</u>		
<i>The working of the LGA</i>		
The role of the LGA	Descriptions of the role of the local government organization in terms of for example organizational interests, conflict of interests within the organization and position in the debate about grant issues.	33/11 22/9
The working methods of the LGA	Descriptions of how the local government organization works (e.g. organizes meetings, involves local governments etc.)	11/7
<i>Managing local governments</i>		
Perspective on management	Interviewees' opinion on the way local governments are managed and controlled by the central government	160/12 67/12
Unpredictability	Descriptions of how unpredictability in grant allocation from the central level affects the internal management of local governments	40/9
Interplay between government and LGA	Descriptions of the relationship between the government and the local government association for example related to negotiations	11/5
Applications	Descriptions of how the local government applies for grants	26/8
Strategic use of grants	Descriptions of how the local governments think the central government uses grants strategically to serve specific (political) interests	16/8

<i>Interests</i>		118/12
Self-interest	Descriptions of which changes to the grant scheme the local government wishes.	83/12
Fairness	Arguments referring to an allocation of grants being fair.	35/10
<i>Internal issues related to grants</i>		101/11
Budget Process	Descriptions of the internal budget process and how issues related to grants are handled in the budget process	68/11
Involvement of Municipal Council (grants)	Descriptions of how the municipal council is involved or not involved in decisions about grants and/or grant strategies	27/8



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## English summary

Intergovernmental grants are transfers from one level of government to another, or between governments at the same level. They are important instruments for securing, controlling and influencing the delivery of public services and transfers in a multilayered government structure. How intergovernmental grant schemes function is a core question for policy makers in many countries and for economists and political scientists trying to understand the fiscal side of the public sector. Intergovernmental grants transfer huge sums between governments and thus have substantial distributional and re-distributional consequences both in terms of service level, tax rates and equity.

Traditional approaches to the study of intergovernmental grants focus on efficiency gains that could be reaped from designing optimal intergovernmental grants schemes. This ‘first generation of fiscal federalism’ literature assumes that intergovernmental grants are instruments used by a benevolent social planner to achieve allocative efficiency, macroeconomic stability and equity. The ‘second generation of fiscal federalism’ literature rejects the assumption of a benevolent planner and argues that intergovernmental grants are subject to decisions made by politicians and bureaucrats that have and pursue their own interests. Consequently, this literature focuses on how political and fiscal institutions shape such interests and create incentives for policy-makers’ behavior. Many questions relating to the role of politics for intergovernmental grants, however, remain unanswered.

Within the framework of the second generation of fiscal federalism, this dissertation contributes to our understanding of intergovernmental grants by investigating *when and how political factors affect intergovernmental grant schemes*.

The contribution of the dissertation is twofold. First, it suggests a framework for analyzing when political factors affect intergovernmental grants focusing on three stages: 1) the introduction, 2) the allocation, and 3) effects of grants. The dissertation builds on a comprehensive understanding of how politics may affect intergovernmental grants and argues that all three stages must be considered in order to understand the political side of intergovernmental grant schemes. Second, the dissertation contributes to three specific literatures on how political factors affect intergovernmental grants: intergovernmental lobbying, strategic allocation of grants, and effects of grants (the flypaper effect). The dissertation finds that *intergovernmental lobbying* is an important political factor for understanding intergovernmental grants, since local governments use substantial resources to lobby the central gov-

ernment for grants. The dissertation sheds light on which strategies local governments use and explores potential explanations for a given strategy choice.

*Strategic grant allocation* is investigated with a focus on how it unfolds in multiparty systems. Relatively little is known about this aspect of strategic grant allocation, since the existing literature has been mostly focusing on two-party systems. The dissertation discusses on theoretical grounds how strategic grant allocation in multiparty systems and two-party systems may differ. Empirically, the dissertation finds no evidence of strategic allocation, suggesting that political factors are less important for the distribution of grants. Regarding the *effects of grants*, the dissertation finds that local governments respond asymmetrically to changes in grants and in citizens' income. The response, however, depends on ideology, which suggests that political factors are important to consider when studying effects of grants. Moreover, the dissertation finds no effect of local budget institutions of the response to changes in grants.

The dissertation points to important ways political factors affect inter-governmental grant schemes. While the dissertation does not cover all instances of political influence it highlights that considering political factors are important for understanding the fiscal side of the public sector.

Finally, since the empirical studies of the dissertation are conducted in Denmark, the dissertation provides new insights about the Danish intergovernmental grant scheme which are useful for policy-makers at all governmental levels in this country.

*Intergovernmentale tilskud* er tilskud fra et regeringsniveau til et andet eller mellem regeringer på same niveau. Sådanne tilskud er vigtige instrumenter for at sikre, kontrollere og påvirke leveringen af offentlig service og overførsler i systemer med flere regeringsniveauer. Hvordan intergovernmentale tilskudssystemer fungerer, er et centralt spørgsmål for politiske beslutningstagere i mange lande og for økonomer og politologer, der er interesserede i at forstå den økonomiske side af den offentlige sektor. Intergovernmentale tilskud overfører betydelige summer mellem regeringsniveauer og har således store fordelings- og omfordelmæssige konsekvenser for både serviceniveau, skatteniveau og lighed.

Den traditionelle tilgang til studiet af intergovernmentale tilskud fokuserer på de efficiensgevinster, der kan høstes ved at designe optimale tilskudssystemer. Denne 'første generation' af litteratur om fiskal føderalisme antager at intergovernmentale tilskud er instrumenter, der bruges af en 'benevolent planner' til at opnå fordelingsmæssig efficiens, makroøkonomisk stabilitet og lighed. Den 'anden generation' af litteratur om fiskal føderalisme afviser antagelsen om en 'benevolent planner' og argumenterer for, at intergovernmentale tilskud er genstand for beslutninger taget af politikere og bureaukrater, som har og forfølger egne interesser. Derfor fokuserer denne litteratur på, hvordan politiske og fiskale institutioner former sådanne interesser og skaber incitamenter for politiske beslutningstageres adfærd. Mange spørgsmål, relaterede til politikens betydning for intergovernmentale tilskud, er dog stadig ubesvarede.

Denne afhandling bygger på den anden generation af litteratur om fiskal føderalisme, og bidrager til vores forståelse af intergovernmentale tilskud ved at undersøge, *hvornår og hvordan politik påvirker intergovernmentale tilskudssystemer*. Afhandlingen bidrager på to måder. For det første præsenteres en ramme til at analysere, hvornår politik påvirker intergovernmentale tilskud. Rammen fokuserer på tre stadier: indførelse, fordeling og effekter af tilskud. Afhandlingen bygger på en bred forståelse af, hvordan politik kan påvirke tilskudssystemer, og argumenterer for at alle tre stadier er vigtige for at forstå den politiske side af intergovernmentale tilskudssystemer.

For det andet bidrager afhandlingen til tre specifikke litteraturer om, hvordan politik påvirker intergovernmentale tilskud: intergovernmental lobbyisme, strategisk fordeling af tilskud og effekter af tilskud (the flypaper effect). Afhandlingen finder, at *intergovernmental lobbyisme* er en vigtig politisk faktor for at forstå intergovernmentale tilskud, eftersom lokale regeringer bruger betydelige ressourcer på at påvirke den centrale regering for at få

tilskud. Afhandlingen kaster lys over, hvilke strategier lokale regeringer bruger og undersøger potentielle forklaringer for strategivalg. *Strategisk fordeling af tilskud* er undersøgt med fokus på, hvordan dette foregår i flerpartisystemer. Vi ved relativt lidt om dette aspekt af strategisk tilskudsfordeling, da den eksisterende litteratur mest har fokuseret på topartisystemer. Afhandlingen diskuterer på et teoretisk plan, hvordan strategisk tilskudsfordeling kan være forskellig i henholdsvis flerparti- og topartisystemer. Empirisk finder afhandlingen ikke tegn på strategisk fordeling. Politiske faktorer ser således ud til at have mindre betydning for fordeling af tilskud. I forhold til *effekter af tilskud* finder afhandlingen, at lokale regeringer responderer asymmetrisk på ændringer i tilskud og i borgeres indkomst. Responsen afhænger dog af ideologi, hvilken antyder, at politiske faktorer er vigtige at inkorporere, når man undersøger effekter af tilskud. Desuden finder afhandlingen ingen effekt af lokale budgetinstitutioner for tilpasninger til tilskudsændringer.

Afhandlingen peger på en række vigtige måder, hvorpå politik kan påvirke intergovernmentale tilskudssystemer. Afhandlingen afdækker ikke alle tilfælde af politisk indflydelse, men fremhæver vigtigheden af at inddrage politiske faktorer i forståelsen af den økonomiske side af den offentlige sektor.

Da de empiriske studier i afhandlingen alle er udført i Danmark, bidrager afhandlingen desuden til forståelsen af det danske tilskuds- og udligningssystem. Denne viden er relevant for politiske beslutningstagere både i staten og kommunerne.