Tackling Bureaucracy Growth in Time of Crisis: The Case of Czech Statutory Cities
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Abstract: In times of economic crisis, municipalities have faced serious fiscal stress and had to implement responsive measures such as lowering operational costs, hiring freeze or layoffs. Yet some cities even bloat their bureaucratic apparatus. Based on empirical results of Czech statutory cities, it is argued, that the main cause of bureaucratic growth is party fragmentation, government alternations and lack of strong leadership, because post-communist administrations are affected by widespread patronage and corruption. Decline or cutbacks strategies are linked to fiscal stress, though in time of elections are determined by political context rather than economic environment.

1. Introduction

With an economic crisis that arrived to the Czech Republic beginning of 2009 and was preceded by spectacular economic boom the politicians on central and local level were pushed for budget reforms to cut overall spending. Despite central government pledge, the reform of public service was not adequately tackled and the total number of bureaucrats employed remained unchanged between years 2008-2014. But that was not the case of local government’s authorities of which some were able to appropriately accommodate to the time of economic crisis and take respective measures in response.

Yet, we observe a great variation in bureaucracy size change (total numbers of municipal employees) as some cities have managed their apparatus to shrink and some not. What have caused such different paths in “bureaucracy” growth between years 2008-2013 across Czech cities? Municipalities are once again facing significant levels of fiscal stress, but we know very little about the factors that influence government responses to such conditions (Maher and Deller, 2007, 1549). On case of Dutch municipalities Overmans and Noordegraaf (2014, 104) did not “find any significant patterns regarding decisions and size, level of fiscal stress, political structure, economic base or center fiction.” It remains unclear how local features affect the deployed responses.

This paper argues that the main cause of bureaucratic growth lies within a political context. Politicians assert influence over bureaucratic apparatus and are responsible for implemented decisions and responses. Because civil service on both central and local level is

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highly politicized (Kopecký, 2012) in the post-communist region (e.g. Kopecký, 2006; O’Dwyer, 2006; Grzymala-Busse, 2007; Meyer-Sahling and Veen, 2012), the structure of party competition and government alternation thus primarily influence the bureaucracy growth. Rent-seeking and patronage strategies are employed for party building in terms of organizational strength. This behavior is more likely in cities with fragmented governments where decision making is not effective (e.g. Roubini and Sachs, 1989; De Haan et al., 1999; Borge et al., 2008), and also because the clear responsibility before voters diminishes. All parties then want to secure job positions for their members and supporters what is frequently subject of quarrels during coalition bargaining. Moreover, political elites assert control over the bureaucratic apparatus; therefore with alternation in power, a bureaucratic apparatus is more likely to reshuffle (Meyer-Sahling and Veen, 2012).

This was particularly true before the economic crisis, the economy was growing steadily, and there was abundance of resources to outspend. However, in the time of scarcity, fiscal stress and austerity measures, the city government had to accommodate to a newly hostile economic environment. Resources have been dwindling and cities had to lower operational costs by decline responses such as hiring and salary freezes or even layoffs (Levine, 1978). As figure 1 shows, we can see decline in the number of employees in 2010 even thought the economic crisis hit the economy previous year. It was just before the elections in 2010 and politicians did not want to lose voters among municipal employees. Some cities even raised their salaries and bonuses (see p. 12). However, after the election we can see substantive decline in number of employees among Czech statutory cities and subsequent stabilization in 2012. Yet, not every city took the same path (see Appendix C) as some cities irresponsibly hired new employees and were overstaffed compared to equal cities.

**Figure 1: Total number of employees of Czech statutory cities between years 2006-2014**

![Figure 1: Total number of employees of Czech statutory cities between years 2006-2014](image)

*Source: Number of employees. Requested from municipal authorities.
Notes: Only statutory cities without Prague are included.*

The effect of political context (municipal government fragmentation and degree of alternation of power) on bureaucracy growth/decline is tested on twenty-five Czech statutory cities over the period 2007-2013, covering thus two electoral cycles and time of economic crisis. As control variables serves measures of fiscal stress – tax revenues and overall indebtedness of cities. The cities facing fiscal stress should be more responsive and should implement cutbacks and decline strategies (Levine et al., 1981; Raudla et al., 2013; Overmans and Noordegraaf, 2014). Finally, we have to control for leadership style of a mayor. We can
suppose that strong leader will push for more coherent austerity measures. Similarly, it is tested whether right-wing mayors push for decline or if ideological attitudes are rather rhetorical one when facing everyday reality of governing a municipality.

In the first section, the basic outlines of Czech local politics are presented along with perils of post-communist state building that have affected both central and local levels of administration. The theoretical part proposes testable hypothesis based on party competition literature (O'Dwyer, 2006; Grzymala-Busse, 2007; Meyer-Sahling and Veen, 2012) and control alternative explanation such as fiscal stress (Levine et al., 1981; Maher and Deller, 2007; Bozeman, 2010; Overmans and Noordegraaf, 2014) and leadership role of a mayor (Getimis and Hlepas, 2006). The analytical section describes the research design and tests the theoretical implications. Paper concludes with suggestions to managing decline literature (Bozeman, 2010) as well as with further discussion on local government studies.

2. The Czech system of local government and politics: rebuilding the state after communism

The basic territorial self-governing units are municipalities. They are divided into three groups according to delegated state power. Statutory cities which are the most populous cities in the Czech Republic belongs the category of third type municipalities. They differ only in an authority to grant a status to city districts or city parts, which serves as quasi-municipalities endowed with a limited range of independent and transferred responsibilities. Having a title “statutory city” and a post of city mayor (primátor) is perceived prestigious by politicians; therefore since 1990 the number of statutory cities has doubled from thirteen to twenty five. All municipalities have directly elected assembly that approves a municipal council and mayor among its members. Elections are held under proportional electoral system with 5% threshold (Illner, 2010), what makes results highly proportional and leads to higher party fragmentation. This given institutional structure thus affects the position of a mayor, whose power, role and leadership style derives from a party’s position in a city assembly and, most of all, derives from a position within his or her own party. The city government could be describe as collective and mayor’s role is mostly facilitating, more precisely, according to Heinelt and Hlepas (2006, 34) the Czech case belongs to “collective form” of local government and mayor is “collegial leader”.

With the collapse of the communist regime, CEE countries have to rebuild not only modern democratic institution, but also rebuild civil service on both central and local level. It has been argued that Weberian bureaucracy defined as public administrative organizations characterized by meritocratic recruitment and predictable long-term rewards is more effective at facilitating capitalist growth than other forms of organization (Evans and Rauch, 1999, 749). Former communist countries were highly centralized and the division of power between the communist party apparatus and state organs was not clear-cut. During the early 90s the Czech Republic have experienced local government changes and reforms that were pushed internally as former merged municipalities sought independence (Illner, 2010; Ryšavý and Bernard 2012); and externally, in anticipated accession to the EU. The EU played

2 First type municipalities have only basic responsibilities executed only within their administrative territory. Almost 90% of all municipalities belong to this category. Municipalities of the second type with “commissioned municipal office” execute some basic powers over surrounding areas of smaller first type municipalities. The third type municipalities with “extended powers” have wider scope of authority executing it over its administrative territory (Illner, 2010, 511).

3 However, if a mayor’s position within his own party is strong and that particular party holds absolute majority in a city assembly, the role and leadership type mirrors one in an institutional setting where a mayor is directly elected, and in which has “presidential” powers. This is, though, seldom and empirically it applies only to two or one out of twenty-five statutory cities.
fundamental role, however, post-communist states, despite seeking European integration, rather altered EU conditionality for their own purposes, proving that the Commission’s influence over the course of reform was limited (Marek and Braun, 2002). In the Czech Republic tangible outcomes of the reforms were primarily an immense fragmentation of local government (Ryšavý and Bernard, 2012), with approximately 10 millions of inhabitants, there are 6253 municipalities\(^4\), and creation of 14 regions, some of them redundant and not following historical, traditional and cultural border. To manage EU funds, some small regions (NUTS3)\(^5\) were merged to create so-called “cohesion regions” to follow NUTS2 requirements (there are 8 NUTS2 as total) which are responsible for redistributing EU money on development projects. As anywhere else in the post-communist regions, those reforms were misused to create more fragmented civil service, with plentiful opportunities of patronage and state exploitation by inflating the number of subnational units (O’Dwyer, 2006, 112; Grzymala-Busse, 2007). Fourteen regional government with large regional offices means more job positions for patronage than only eight regions, which would have been better suited for distributing EU funds according to former EU Commission preferred desires, moreover not mentioning the economy of scale as larger regions would have been more effective because they naturally need less employees for the same scope of authority as less populated regions (Gehlbach, 2008, 1194). Summed up, the Czech regional reform is mirrored by high fragmentation, meanwhile on the municipal level the driven force was spontaneous and unintentional thus distinctive to the regional level, where nested interested of politicians played substantive role.

In respective years after the reforms, both municipal and regional level of administration experienced massive staffing, though it was promised, that decentralization does not necessarily mean growth in bureaucracy. However, we see variation across cities and regions what lead us to an assumption, that rapid growth in some municipalities was primarily caused by political environment of patronage and corruption, which has been reported to be widespread among post-communist states.\(^6\) Politicization of municipal civil service is not inherent only to post-communist countries, though. Widespread patronage was common in the USA in 19\(^{th}\) century among American cities (Shefter, 1994) and it is also frequently associated with southern Europe (Golden, 2003). Interestingly, it is still recent phenomenon in the USA as the Philadelphia Democratic chairman warned thousands of city employees in August 2003 that their jobs would be given to Republicans if the Republican candidate was elected mayor (Kitschelt and Wilkinson, 2007, 20). Widespread patronage and corruption reportedly causes bad government in Italy, where so many jobs in the public bureaucracy were filled on the basis of partisan rather than meritocratic criteria, many more lengthy and detailed laws were adopted than in comparable countries leading to prevalent political and bureaucratic corruption (Golden 2003, 190).

Differently from the experiences of postwar Italy (Golden, 2003) or the United States during the age of the party machines (Kitschelt and Wilkinson, 2007, 20; Shefter, 1994), patronage politics in the Czech Republic has not been driven by the maximization of vote share to protect incumbency advantage by buying votes, but to distribute selective incentives to party elites in exchange for organizational loyalty or similarly, in the coalition building when influential position within municipal authority are distributed to coalition members.\(^7\) A

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\(^5\) The Nomenclature of Territorial Units for Statistics.


\(^7\) An example was establishing a new completely redundant position for “Celebrating the 950th Anniversary of the Origin of the Town”, when a mayor admitted that: “I am not going to conceal the fact, that one of the reasons was to make coalition personally stabilized”. Šťastný, O., 2010. Novi radni vymýšlejí funkce pro své lidi, řeby
recent expert survey shows that local and regional level administration is somewhat more affected by patronage than institutions on central level (Kopecký, 2012, 83). Clearly, regional and local politicians have an absolutely free hand in making appointments into municipal administration, in no small part because regional politics is less scrutinized in the media than national politics (Kopecký, 2012, 84).

According to the law, the Municipal Authority and its employees are independent from political pressures. Although formally protected, the easiest way to dismiss a higher rank official is to reorganize the departments. Politicized employment decisions are not limited to senior officials as was revealed through informal discussions with some employees. The lower rank staff is not well protected either. Firing the employees is sometimes as simple as in the city of Znojmo, where an employee was forced to resign because of her refusal to sign transactions uniquely disadvantageous for the city. The insufficient institutional framework, which is supposed to protect employees, thus provides ample opportunities for administrative growth driven by politicized decisions. Such features clearly does not represent Weberian mode of bureaucracy (Evans and Rauch, 1999).

3. Theorizing effect of political context on bureaucracy growth

Now we know that post-communist states on every level of administration were predisposed for patronage, corruption, clientelism and rent seeking strategies which lead to administrative growth during the period of state building after the collapse of the communist regime, however, not every state experience rampant growth (Grzymala-Busse, 2007), and we can assume that not every city on local level experienced it either. There is great variance in a bureaucracy growth among Czech statutory cities (see Appendix C), some of them experienced modest growth in time of economic growth and managed to accommodate to economic crisis in time of austerity. Conversely, there is a group of cities experience rampant growth and no administrative response to fiscal stress. Due to this variance, we can assume substantive role of politics on diverging strategies that have been put in practice. Bureaucracy growth, in general, indicates mismanagement and low quality government. Bureaucracy growth in terms of staffing and operational costs is intrinsically part of government performance. Therefore, we can embark on theories dealing with good governance outcomes more broadly, and afterwards, adjust those theories to local level of politics and administration, where the mechanisms should operate in pretty much the same way.

Discussion on democracy and government performance is not new. In a book from 1896 of Lawrence Lowell it is stated: “the lower house of a national parliament must contain two parties, and two parties only… in order that the parliamentary form of government should permanently produce good results” (cited in Taylor and Herman, 1971, 28). In other words, the government and opposition should not be fragmented to produce effective and stable government and subsequent smooth alternation of power. Similarly, Maurice Duverger (1954) argued that opposition parties in highly fragmented setting behave carelessly because they do not tend to anticipate possible government responsibility. Generally, that fragmentation negatively influences government performance was empirically tested on cases of Norwegian (Borge et al., 2008, 487) and Czech municipalities (Šťastná and Gregor, 2010, 28), however,
without deeper theoretical background and complex discussion about why it should be so. These studies simply followed “weak government” hypothesis (Roubini and Sachs 1989, De Haan et al., 1999, 163) that basically stipulates that the more parties the more complicated policy making.

Yet Conor O’Dwyer (2006) and Anna Grzymala-Busse (2007) have presented the most coherent theoretical framework on party politics affecting government performance in various areas (bureaucracy growth and its effectiveness, politicization of state apparatus etc.) up to date. Strong and robust party competition is characterized by the existence of a clearly identifiable opposition, which is critical, vigorously monitoring and publicizing government wrongdoing, and being a serious and plausible future alternative to the current government. Though they differ in conceptualization and measurement used in their analysis (for a review see Hanley, 2008), the argument behind is principally the same. Strong party competition ideally comprises of two ideologically coherent and concentrated blocs competing for power, how to properly measure this truly multidimensional concept is a matter of methodological disputes, not theoretical. Both claim that strong party competition of two competing blocks should curb the bureaucracy growth.

Additionally, the number of parties plays crucial role in coalition bargaining. More stable governments are those consisting of two or three parties. After municipal elections in 2014 journalists became aware of situations, when new coalition creates and subsequently distributes paid functions to deputies and councilors which were not present in former electoral period.10 Number of functions usually varies positively with the number of forming parties, though no empirical study was conducted yet in the Czech Republic to prove and determine how prevalent that phenomenon is. Supposedly, the same mechanism applies to city office, which should have been ideally independent from political pressures; however, a creation of functions and redundant agendas is prevalent as well – according to unofficial interviews with officials. For all this reasons the subsequent hypothesis is put forward and tested.

Hypothesis 1: The rates of administrative growth vary positively with the fragmentation of city council government.

That the presence of robust competition, including coherent governments and critical oppositions are said to reduce the potential for state politicization was recently challenged by Meyer-Sahling and Veen (2012). Based on the insights of agency theoretic approaches to executive politics, they argue that the politicization of the senior civil service is driven by concerns of governments over the political control of the bureaucracy. That problem occurs in political contexts that are characterised by regular wholesale alternations of ideological blocs of parties in government. By contrast, political contexts that are characterized by partial alternations and the relative dominance of one ideological bloc over an extended period of time are typically characterised by less senior civil service politicization (Meyer-Sahling and Veen, 2012, 5).

From a different point of view, long permanence in executive power of the same politicians is the manifestation of an opposition that is not only a credible governing


alternative but also not a feasible one. Government alternation should not be automatically considered as a problem for state politicization and administrative growth. Rather where the city council consist of two opposite dominant parties, in the case of the Czech Republic Social Democrats and right-wing Civic Party, the cartelization of power might produce widespread corruption and politicization of administration bodies (Grzymala-Busse, 2007). In this political context a wholesale alternation is rather desirable.

There might be thus two opposite arguments for bureaucracy growth regarding government alternation. The one is that government alternation cause bureaucracy growth because newcomers want to distribute functions to its supporters what servers as party building strategy as it was discussed in previous section. But following Mayer-Sahlklink and Veen (2012), and implications derived from principal-agent problem, a new city government will more likely lay off those bureaucrats with allegedly doubt loyalty. Sometimes official who was too much linked to a former city government and its allegiance is tight-knit with particular politicians, even notice to leave a job immediately after the elections. This applies mostly to the highest ranks, e.g. managers of departments and sections.

In some cities a new government might want to reform administration, conduct staff redundancies and lower operational cost to have more financial means for investments. When this topic was discussed with a personal manager of a statutory city Jablonec nad Nisou what caused post-elections decrease in number of employees, she explained that “primarily the city conducted austerity measures due to the economic crisis in order to safe on operational cost and overall debt, and last but not least the decrease was also caused by an alternation of government after the municipal elections in 2010.” Without specifying how this alternation effect actually works, she indirectly admits it. Therefore, and in a line with above theory, the next hypothesis is proposed.

_Hypothesis 2: The rates of administrative growth vary inversely with the government alternation in city council._

4. Alternative theories

Every administrative unit is affected by both political and economic environment (Bozeman, 2010, 559; Maher and Deller 2007, 1562). Therefore, when studying administrative growth and responses to changing economic environment, we have to take into account whole series of factors, which might lead to certain adopted strategies. Every municipality is dependent on financial resources it has. When income declines, there are two basic options how to response, lowering overall spending on services or take loans to finance deficits while the amount of services remains unchanged (Levine, 1978). To run large set of services, a municipality has to maintain a proper bureaucratic apparatus. Some cities are economically better off than others, and they simply can sustain such an apparatus even in time of crisis regardless of political context which is largely accompanied by corruption practices and clientelism.

We can suppose that political elites are constrained by amount of resources they operate, therefore even in a political and social context which is predisposed to corruption and patronage strategies in use for a party building, the economic situation in certain city may also affect the size of bureaucratic apparatus and a degree to which patronage is still sustainable

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and justifiable before voters. In time of economic crisis, local self-governments should be forced to adopt strategies to deal with the considerable cuts in resources transferred from the central government and decline of own revenues. However, even without contribution of economic crisis, some cities had been already highly indebted due to the irresponsible decision of former rulers. Generally, while fiscal health may not be the ultimate measure of success for local governments, a fiscally unhealthy local government will not be able to provide the level and quality of public services that are required for a high quality of life and an effectively functioning government (Maher and Deller 2007, 1551). Public organization, in contrast to private enterprises, cannot simply reduce unprofitable services or expand profitable markets (Levine, 1978). They are particularly vulnerable because they usually lack market generated revenues to signal a malfunction and to pinpoint responsibility.

In the literature of fiscal stress diverse terms were employed, some used the term “retrenchment,” others “scarcity,” and still others “decline” (Bozeman 2010, 557). There are many other concepts used in a literature as austerity, budgets, budgetary process, cutbacks, compressing, deficit, downsizing, downshifting, fiscal balance, reallocating, retrenchment and slimming down. Overmans and Noordegraaf (2014) have developed more precise understandings of responses to austerity. There are four strategies the public organization can pursue in order to cope with dwindling financial resources during economic crisis: decline, cutback, downsizing and retrenchment (Overmans and Noordegraaf, 2014, 191). Decline is generally attributed to Levine (1978) and it is defined as the reactive response predominantly aimed at the temporary reduction of expenditures. Decline has thus serious negative consequences as it has dominant focus on reducing organizational activity and public services. Cutbacks are the second response to austerity and it means managing organizational change toward lower levels of resource consumption and organizational activity (Levine, 1979, 180). Cutbacks are, likewise decline, short-termed oriented and reactive, mostly consists of adjustments to restore fiscal balance (Weitzel and Jonsson, 1989; Cepiku and Bonomi, 2012; Overmans and Noordegraaf, 2014). Cutbacks was also the option the Czech central government opted for, however, as Pollit (2010) states financial crisis are sometimes managed with straight cutbacks, but no fundamental reforms.

Differently, retrenchment strategies are those that in some way response to diminished effectiveness or as proactive measures focusing on generating new resource by taxation or redistribution of existing resources (Overmans and Noordegraaf, 2014, 102). Finally, downsizing is rather complex approach, aiming at improving organizational efficiency and performance (Cameron, 1994; Bozeman, 2010; Overmans and Noordegraaf, 2014). Complex set of responses are employed such as optimizing processes, merging units and departments, simplification or electronization of public administration to have substantive efficiency gains.

The municipalities, however, can adopt one or another, or combination of all approaches. Consistent with the fiscal stress literature, the decision making strategies should be function of socio-economic factors, fiscal conditions and management structure (Maher and Deller 2007, 1562). Based on empirical evidence of Dutch cities Overmans and Noordegraaf (2014, 104) shows that the most common measures were cutbacks (33.5 %) followed by rentrenchment measures (31.5%), decline (22.5%), meanwhile downsizing made the least contribution (12.6%). That’s quite understandable as downsizing is more demanding on complex approach driven by strong leadership. Municipal governments commonly employ (politically) safe short-terms measures aimed at necessary fiscal gains with minimal public opposition (Levine et al., 1981; Raudla et al., 2013; Overmans and Noordegraaf, 2014). Similarly, on 119 small and medium-size municipalities in Wisconsin, Maher and Deller (2007, 1653) show that the more severe a community’s environment, the more likely they will be forced to respond to fiscal stress by reducing services and cutting spending and less likely they will be able to focus on actions such as productivity improvement, service delivery
changes or revenue increases. These findings are convenient for testing hypothesis regarding bureaucracy growth without controlling for overall performance of municipalities. Hiring freezes or layoffs are short term strategies falling thus to cutbacks and decline category.

*Hypothesis 3*: The cities in wealthy regions do not have incentives (fiscal stress) to pursue austerity measures due to the higher tax revenues. Conversely, cities facing serious fiscal stress will adopt hiring freeze and layoffs.

Not all cities in the Czech Republic were affected by the economic crisis at the same level. Some cities are constantly facing fiscal stress due to the wrong and irresponsible policy decisions that had indebted certain municipality for a long period of time. These pressures request long-term strategies such as downsizing or retrenchment. To curb debt, city needs to gain new financial revenues and enhance effectiveness of provided services. It is reasonable to hypothesize that highly indebted municipalities must have to downsize their bureaucratic apparatus.

*Hypothesis 4*: Highly indebted municipalities will be pushed to maintain relatively small (effective) bureaucratic apparatus.

Managing fiscal stress requires extraordinary leadership and carefully chosen responses (Carmeli and Scheaffer, 2009; Overmans and Noordegraaf, 2014). Sometimes strong leadership might success even in a hostile environment such as economic crisis or political context framed by corruption and patronage, as that is the case of post-communist states. Although the Czech system of local government is not a friendly institutional environment to produce strong leaders, given the use of PR electoral system and subsequently coalition bargaining, and given the weak executive power of mayor, who is rather a representative of municipality *primus inter pares*. Some mayors of statutory city, however, might possess a great informal power. They are popular among voters, serving not only for a city government but frequently also as members of House of Deputies or Senate with strong position within their party on national level. Statutory cities are the largest municipalities in the Czech Republic and mayors of cities, such as Plzeň (Pilsen), České Budějovice (Budweis), Brno and Ostrava, are commonly known across whole country. Not only the size matter, there are mayors who come from middle size statutory cities and have distinctive influence over central policy making, though. Making use of the literature on leadership style in local politics (Getimis and Grigoriadou, 2005; Getimis and Hlepas, 2006), we can assume that strong leader should not only manage to rein bureaucratic apparatus, but should manage austerity with real response to economic crisis.

*Hypothesis 5*: A strong leader, with powerful position within his/her party, will pursue stronger austerity measures, than a mayor who is rather facilitator with weak position in a municipal government.

One should not neglect ideological affiliation of a mayor. Certain political strategies are the outcomes of ideological belief of political elite. Even though it has been frequently argued, that local politics is “unideological” (Barber, 2013), we can assume that ideology plays substantive role in political decisions. The New Public Management reforms originate from a conservative rule in the UK (Loughlin, 2007), what have been inspiring many central-right parties across Europe. In the Czech Republic, Civic Democrats and newly created conservative party “TOP09” were loud proponents of cutbacks and austerity. These themes
along with deterrent Greek “case” were used during national electoral campaign in 2010. Right-wing mayors should thus be more willing to enhance effectiveness via NPM reforms such as contracting services, privatization and downsizing of a bureaucratic apparatus, meanwhile left wing mayors will tend to sustain the level of services provided having the bureaucratic apparatus unchanged. If this argument holds true or if it is rather rhetorical statement tests following control hypotheses.

Hypothesis 6: A right-wing mayor will pursue stronger austerity measures, number of employees should decrease.

5. Data and research design

The hypotheses are tested on twenty-five statutory cities in the Czech Republic employing OLS regression. Prague is excluded because it has status of a region and its size does not match other statutory cities. Statutory cities were chosen because they matters in terms of their size. Politics is more scrutinized than in smaller municipalities, and they account much for employment in local administration. Finally, their share on tax revenues and overall redistribution is significant. Statutory cities share 60 % of overall debt of all municipalities in the Czech Republic. Comparing large set of cases has further advantages to qualitative study of a selected city. In some periods, there were transfers of competences from central state bodies of administration to municipalities of third type with extended powers. Or, in the opposite direction, withdrawals of some competencies back to the detached bodies of central state administration as was the case of labor offices to where former municipal officials dealing with social benefit payments were redeployed from a municipal office in January 2012. This can be disregard because the effect is constant and because we are interested in variation between cities.

4.1. Dependent variables

It might have seemed easy to measure numbers of officials working for a municipal office of a city. Officials with discreet power are defined in Act No. 312/2002 Coll: On Local Government Officials, in practice there are disputes among officials and practitioners on a definition who to count as an official conducting state service with discreet power. Broadly speaking, all employees of municipal council are considered by public to be bureaucrats even though they might not have discreet power to make a decision. Have in mind this conceptual misspecification, and given that we are interested in overall operational costs, we can easily include all employees of a municipal office. Municipal office is intrinsically a bureaucratic organization, though it also employs various professions such as drivers, gatekeepers or cleaners.

It is a matter of disputes, what is in the end more important, the number of personnel or overall wage costs? Have an example of two cities of same size, one has more employees but spend less on wages; other might have less employees but with skyrocket salaries. For this reason, the second dependent variable is aggregated salaries of municipal employees. Salaries

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14 There were two large reforms that had substantial impact on overall numbers of employees: in the 2003 when counties were abolished and officials were transferred to regional and municipal offices, and already mention reform of social benefits payments in 2012. All other possible reforms had no substantive effect according to correspondences with personal managers of municipal offices when requesting the data.
and number of officials are perfectly correlated across time within a city and serves as proxy to control for bureaucracy growth, both in terms of staff and their costs.

4.2. Independent variables

Based on the theory of politicization of civil service (Meyer-Sahling and Veen, 2012), party patronage (O’Dwyer 2006) and rent-seeking strategies (Grzymala-Busse, 2007) employed by political parties in the post-communist region as organizational resources in the process of party building (Biezen, 2003, 33; Kopecky and Mair, 2012; Kopecký, 2012, 83), the main independent variables are those mirroring the patterns of party competition and city council alternation. It has been assumed that mostly political parties which are operating either in competitive or uncompetitive settings are primarily responsible for staffing municipal authority due to the lack of respective paragraphs securing officials from political pressures (note that the Czech Republic is still lacking civil code even for the central level of administration in time of writing) and because regional politics is less scrutinized in the media than national politics. Additionally, post-communist countries report low level of civic participation in the vast empirical literature on social capital (Siaroff and Merer, 2002; Howard, 2003; Kostadinova, 2003).

To account for inter-temporal stability within the city council across elections and alternation of power, the overall turnover rate is measured as a percentage of newly elected councillors on the total number of councillors. Other indexes might have been used, and indeed had been considered, however, this measure is straightforward and has serious advantages to indexes such as volatility (Birch, 2003, 123) or party inflows/outflow ratio given the unstable structure of municipal assemblies where local parties often split or merge and their political affiliation remains still. Similarly, the categorical coding of the variable could have been employed (Meyer-Sahling and Veen, 2012, 15). Chosen approach, however, better suits local politics and it is more convenient in analysing large set of cases.

Another feature of party competition is fragmentation of the government. Build upon the literature on “weak government hypothesis” (Roubini and Sachs, 1989; Volkerink and De Haan, 2001; Ashworth et. al., 2005), highly fragmented city councils will more likely to produce ineffective and unsatisfactory policy outcomes (Borge et al., 2008: 487). To measure fragmentation, a simple total number of governing parties enter further analysis, what is preferred to using Laakso and Taagepera’s (1979) index of effective number of parties. Even a small party can have a blackmail power so the index, though frequently used in political science literature, would have underestimated the fragmentation when a coalition government consists of a large dominant party.

4.3. Control variables

Statutory cities are not operating itself in an inert environment. It would be naïve to assume, that bureaucracy growth or cutbacks are only affected by a structure of party competition. There are plenty of third variables that we have to control for. Although previous studies (O’Dwyer, 2006; Grzymala-Busse, 2007) points to that the bureaucracy growth was primarily driven to secure organizational source for party building as political elites misuse patronage and discrentional hiring that was allowed by politicization and weak civil service in post-communist region, the timing of economic crisis which arrived to Europe in 2009 serves as an ideal prospect for further research of bureaucracies.

After decade of robust economic growth, inflow of investments as a result of EU accession in 2004 and given EU cohesion policy serving as abundant source for spending, the economic crisis presents a new unfamiliar challenge to local elites and politicians. Municipal finance is primarily drawn from taxes, exclusive taxes which goes directly to the municipal coffin (the real estate tax), and shared taxes with state (income taxes and VAT) (Illner, 2010,
515). Shared taxes have a lion share on total municipal revenues. Municipalities have other sources of revenues such as proceeds from municipal property and profits from municipal activities. The second largest shares of revenues are donations and subsidies from state budget as well as from regions. To control for fiscal constraints, several variables are employed. Regarding hypothesis 3 and 4, the total debt per capita and percentage change in tax revenues are employed.

A role of a mayor cannot be underestimated even in a collegial system of local government steering such as in the Czech Republic. To quantitatively measure mayor’s leadership style, we have to employ given contextual factors such as party system, institutional setting etc. (Getimis and Hlepas, 2006; Getimis and Grigoriadou, 2005). A leadership style derives from a position of a mayor within his party and the position of his party in a city government (measured as a vote share of mayor’s party). Popular and successful mayor is either reelected (dummy variable), or if not incumbent, had high proportion of preferential votes (in %). Those two variables mirror the increasing personalization of mayors during electoral campaigns. From all variables, subsequently, the composite index is constructed (using z-scores transformation). A leadership style derives from a position of a mayor within his party and the position of his party in a city government (measured as a vote share of mayor’s party). Popular and successful mayor is either reelected (dummy variable), or if not incumbent, had high proportion of preferential votes (in %). Those two variables mirror the increasing personalization of mayors during electoral campaigns. From all variables, subsequently, the composite index is constructed (using z-scores transformation). Ideology affiliations than indicates a dummy variable coded 1 if right-wing mayor is in power, 0 otherwise (left or independent).

6. Analysis

Figure 2 represents the growth or decline of personnel and their salaries between two consecutive years compared with rewards for city representatives (deputies and councilors).

Figure 2: Percentage growth of municipal office employees and their salaries compared to rewards for politicians

Note: percentage change within two subsequent years. Have in mind that these lines are overall patterns (mean values); a “spaghetti” graph would show all the cities and different variations across time points. Data are available from 2003. Data requested from municipal office and were double-checked with an information portal of Ministry of Finance of the Czech Republic, available at: http://monitor.statnipokladna.cz/en/2014/

There is a clear correlation between overall costs and numbers of employees, however, the spread between these two lines is decreasing in time. This almost certainly means that

---

15 Surprisingly, when scores sorted descendant, on the top were indeed popular and wide-known mayors. On the bottom were mayors who are not familiar to people across the Czech Republic.

16 In the Czech terminology politicians are not taking salaries but “rewards”.

12
some cities made cuts in operational costs (salaries) but not in total number of employees. This indicates imperfect value of a correlation coefficient (r=0.59***). Additionally, a clear pattern is visible as rewards peak in electoral year repeatedly (2006 and 2010). Therefore, we can presuppose political context influencing spending on administration, both the rewards and salaries. That was, after all, a topic for journalist as ruling coalition of city Olomouc cashed bonuses for administrative officials, or as some cities raised amount of public tenders just before the elections 2010.

How this argument holds true while controlling fiscal stress and political leadership shows main regression models including whole period of economic crisis. Dataset consists of 25 cities (cross sections) and 7 panels (2007-2013). Panels are strongly balanced. In total there are 175 cases. Due to the panel structure of data, panel corrected standard errors regression is used as proposed by Beck and Katz (1995).

Table 1: Effect of political context and fiscal stress on employees’ salaries growth

<table>
<thead>
<tr>
<th>Regressor</th>
<th>Model 1</th>
<th>Model 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Council fragmentation</td>
<td>0.721**</td>
<td>0.488</td>
</tr>
<tr>
<td></td>
<td>(0.324)</td>
<td>(0.321)</td>
</tr>
<tr>
<td>Turnover</td>
<td>0.025</td>
<td>0.011</td>
</tr>
<tr>
<td></td>
<td>(0.018)</td>
<td>(0.018)</td>
</tr>
<tr>
<td>Revenues change in %</td>
<td>0.141***</td>
<td>0.140**</td>
</tr>
<tr>
<td></td>
<td>(0.055)</td>
<td>(0.056)</td>
</tr>
<tr>
<td>Debt per capita</td>
<td>-0.188**</td>
<td>-0.229**</td>
</tr>
<tr>
<td></td>
<td>(0.101)</td>
<td>(0.105)</td>
</tr>
<tr>
<td>Leadership score</td>
<td>-1.936**</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.946)</td>
<td></td>
</tr>
<tr>
<td>Constant</td>
<td>0.167</td>
<td>2.280</td>
</tr>
<tr>
<td></td>
<td>(1.795)</td>
<td>(1.701)</td>
</tr>
<tr>
<td>R²</td>
<td>0.140</td>
<td>0.152</td>
</tr>
</tbody>
</table>

Note: Panel-corrected standard errors in parentheses, *p < .1, **p < .05, ***p < .01, two-tailed test. STATA12.

Table 1 presents the results of a main effects model. The dependent variable is employees’ salaries growth, if number of employees is used as dependent variable; coefficients have generally lower values and are statistically insignificant (see Appendix B), however, this doesn’t alter our findings (see previous Figure 2). Following the first hypotheses, with increased fragmentation of a government coalition by one extra party is on average expected to increase employees’ salaries by 0.7 % (Model 1). This shows prevalent patterns of staffing by persons linked to a certain political party as patronage strategy for party organizational loyalty or as a coalition building bargain (“jobs for the boys”). Model 2 includes variable Leadership score (measured as composite index of preferential votes, mayor’s party vote share, and incumbency) which indicates strong influential and popular

17 If there was a perfect correlation between number of employees and their salaries across time, the value of a coefficient would be 1. ***p < .01.

mayor. If a city is governed by strong popular mayor (frequently an incumbent) whose party was successful in the elections, it decreases spending almost by 2% on average. The variable is highly negatively correlated with party fragmentation and turnover of city council as strong mayors more likely rule to a coherent government consisting of one or two parties, and are usually more likely to be reelected (what logically decreases council turnover). Therefore the score downplays the value of coefficients attached to government fragmentation and turnover variables. In both model, council turnover (degree of alternation) is not a good predictor as it has low value and it is statistically insignificant. The explanation might be that turnover is much more influential in years of the elections (see below). It also seems that fiscal stress control variables are very good predictors for quite a period of time. As tax revenues increases by 1%, the salaries increase on average by 0.14%. Similarly, in quite indebted cities, the growth of expenditures on running office has not the same pace in cities with healthy fiscal conditions. With every 1 000 Czech crowns (roughly $50) per capita increase of municipal debt, the salaries decrease on average by 0.18% or 0.23%, respectively (Model 2).

As was previously said, the influence of government alternation might be operational immediately after the municipal elections. As was outlined by an official of city Jablonec nad Nisou, decline was also due to the new city government who was allegedly keen on operationalization of the municipal office’s costs. Figure 3 shows a percentage change in the number of employees in years of graduation of the economic crisis 2010 and 2011. This period has also the highest standard deviation in tracked years. This indicates certain effect of the elections and the economic crisis, because spending cuts was natural topic during electoral campaign in highly indebted cities.

Figure 3: Percentage change in the number of employees between year 2010 and 2011.

[Diagram showing percentage change in the number of employees between year 2010 and 2011.]

Note: requested from municipal offices, figure created by datawrapper.de.

What explain such a variation in percentage change of number of employees? The best predictor in period immediately after the elections is government alternation. However, as figure 4 shows, the direction is different that was hypothesized. The more government renewed, the more employees were hired. This indicates prevalent politicization. As new parties come, they want to secure jobs for their loyal. It is easier and faster to create new positions than to dismiss. How this argument holds true against control hypotheses regarding fiscal stress shows table 2.
Figure 4: Percentage change in number of employees between 2010 and 2011 on turnover in city council.

Note: Number of employees change in % between 2010 and 2011. Turnover is measured as share of newly elected councilors on total number of councilors in %. Cities České Budějovice (high growth rate and high turnover) and Mladá Boleslav (decline and low turnover) excluded from visualization as outliers. They both significantly strengthen the relationship, so the figure is rather conservative one.

Table 2: Effect of turnover on bureaucracy growth

<table>
<thead>
<tr>
<th>Regressor</th>
<th>Model</th>
</tr>
</thead>
<tbody>
<tr>
<td>Council fragmentation</td>
<td>-0.039</td>
</tr>
<tr>
<td></td>
<td>(1.272)</td>
</tr>
<tr>
<td>Turnover</td>
<td>0.144**</td>
</tr>
<tr>
<td></td>
<td>(0.059)</td>
</tr>
<tr>
<td>Revenues change in %</td>
<td>-0.084</td>
</tr>
<tr>
<td></td>
<td>(0.087)</td>
</tr>
<tr>
<td>Debt per capita</td>
<td>-0.083</td>
</tr>
<tr>
<td></td>
<td>(0.230)</td>
</tr>
<tr>
<td>Constant</td>
<td>-12.025**</td>
</tr>
<tr>
<td></td>
<td>(4.215)</td>
</tr>
</tbody>
</table>

Note: Dependent variable percentage change in number of employees between 2010 and 2011. All twenty five cases included. Standard errors in parentheses, *p < .1, **p < .05, ***p < .01, two-tailed test. STATA12

While controlling for fiscal stress and the degree a city is indebted, the most influential variable is turnover of councilors. Even on a sample of twenty five cities the variable is statistically significant. The leadership score was not included because it is highly correlated with both fragmentation and turnover, there was no relation found and coefficient was
statistically insignificant. We can confirm that cities which conducted staff redundancies were ones where the government partly renewed or remain still, regardless of fiscal health of municipality. That holds true for the year succeeding the elections in 2010. Based on results of the main effect regression models, it seems that in a long run politicians facing fiscal stress need to conduct optimalization and austerity measures. If employees’ salaries were used as dependent variable, the correlation would be lower and insignificant. That might be due to redundancy payments because there is no perfect correlation between percentage change in number of employees and their salaries across cities (r=0.47***).

Finally, it has been hypothesized, that cities ruled by right-wing mayor will pushed for stronger austerity measure. A right-wing politician is supposed to fight prevalent bureaucracy and sees state only as a watchdog. From data it seems that it is mostly a rhetorical statement. There is no difference between cities ruled by right or left mayors (comparing means using t-test). Therefore, the variable was not included into a regression models and secondly because as dummy variable would be rather fixed effect for certain city rather than a variable measuring ideological stance.

7. Conclusion

Findings strongly support the statement, that Czech civil service on local level is highly politicized and servers for loot-seeking political parties (O’Dwyer, 2006; Grzymala-Busse, 2007; Meyer-Sahling and Veen, 2012, Kopecký, 2012). With higher fragmentation of the municipal council, there is higher growth rate of personnel. This is accompanied by salary growth as well. In the long period of time (tested on panel data from 2007 to 2013), the government alternation doesn’t seem as a good predictor of bureaucracy growth. However, in the time immediately after the election, the high turnover has positive effect on personnel growth. This relationship is particularly strong in the time of economic crisis after the election in 2010 and holds true also for the elections 2006 (see Appendix D). The growth is caused by party’s desire for political control by staffing the municipal office with loyal bureaucrats rather than layoffs of disloyal ones. The later seems time costly. Another explanation points to a coalition building bargain as new parties demand positions for their members or supporters in exchange for vote confident for a city government.

All organizations are affected by both political and economic authority (Bozeman, 2010). The economic crisis gave us an opportunity to empirically test responses to fiscal stress as resources dwindle, what is more, in a political context of the post-communist country framed by widespread corruption and patronage. Even Czech largest (statutory) cities had to employ decline or cutbacks strategies such as hiring freeze, layoffs or salary freezes. In highly indebted cities the growth of personnel was lower than in cities without considerable debts. Similarly, when municipality has enough tax revenues, wage increases as well. That proves that leaders are aware of real fiscal threat (cf. Maher and Deller, 2007, 1657). Interestingly, strong popular mayors who had been reelected can keep a tight rein on expenditures. However, there is no prove that right-wing mayors spend less on salaries and hire less municipal employees compared to socialist mayors. This can be viewed only as a rhetorical statement before elections, not mirrored by real response to economic crisis.

Employment and wage growth regarding municipal offices does not tell us about how much effective the municipal office works and how well the city is actually governed. There is interesting case of a statutory city Teplice in Northern Bohemia, which has been ruled over twenty years by a popular conservative mayor, who vigorously criticizes the European Union and refuses to create department for managing EU structural funds and other “redundant”
services. Statutory city Teplice thus has the smallest number of employees per capita, even compared to smaller district cities. Although the city is the only one completely without debt, the city has privatized all its property and is anticipating deficits in upcoming years. This case shows limits of quantitative analysis, therefore further research and more qualitative approaches are also needed.

Implications can be drawn not only for the local level, but also for the central governments, and for the European Union as well. If responses to fiscal crisis were driven primarily by political context, the European states should focus on reforming the quality of civil services both on local and central level. This can be achieved by stressing the importance of anticorruption laws, civil codes and all features of Weberian bureaucracy (Evans and Rauch, 1999) than on stressing just short-term cutbacks strategies. This would help to resist political pressures and might improve effectiveness of bureaucratic apparatus which would lead to higher economic growth.

### Appendix A: Summary Statistics

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage change in the number of municipal employees</td>
<td>-0.17</td>
<td>-19.35</td>
<td>15.44</td>
<td>4.39</td>
</tr>
<tr>
<td>Percentage change in municipal salaries</td>
<td>2.42</td>
<td>-16.35</td>
<td>20.08</td>
<td>6.42</td>
</tr>
<tr>
<td>Council fragmentation</td>
<td>2.86</td>
<td>1</td>
<td>5</td>
<td>0.94</td>
</tr>
<tr>
<td>Turnover</td>
<td>62.72</td>
<td>27.27</td>
<td>100</td>
<td>19.93</td>
</tr>
<tr>
<td>Revenues change in %</td>
<td>0.23</td>
<td>-39.73</td>
<td>62.24</td>
<td>14.28</td>
</tr>
<tr>
<td>Debt per capita</td>
<td>7.61</td>
<td>0.00</td>
<td>22.71</td>
<td>5.79</td>
</tr>
<tr>
<td>Leadership score</td>
<td>0.12</td>
<td>-0.80</td>
<td>1.07</td>
<td>0.46</td>
</tr>
</tbody>
</table>

Note: all 175 cases included, 95 mayors were right-wing, and 65 were incumbents.

### Appendix B: Main effects model

<table>
<thead>
<tr>
<th>Regressor</th>
<th>DV: Salaries</th>
<th>DV: Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Model 1</td>
<td>Model 2</td>
</tr>
<tr>
<td>Council fragmentation</td>
<td>0.721** (0.324)</td>
<td>0.488 (0.321)</td>
</tr>
<tr>
<td>Turnover</td>
<td>0.025 (0.018)</td>
<td>0.011 (0.018)</td>
</tr>
<tr>
<td>Revenues change in %</td>
<td>0.141*** (0.055)</td>
<td>0.140** (0.056)</td>
</tr>
<tr>
<td>Debt per capita</td>
<td>-0.188** (0.101)</td>
<td>-0.229** (0.105)</td>
</tr>
<tr>
<td>Leadership score</td>
<td>-1.936** (0.946)</td>
<td>-0.759 (0.575)</td>
</tr>
<tr>
<td>Constant</td>
<td>0.167 (1.795)</td>
<td>2.280 (1.701)</td>
</tr>
</tbody>
</table>

| R²              | 0.140        | 0.152        | 0.043        | 0.047        |

Note: Panel-corrected standard errors in parentheses. *p < .1, **p < .05, ***p < .01, two-tailed test. DV stands for dependent variable. STATA12.

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19 For this mayor Kubera was awarded by a think-tank, which is personally linked to right-wing Civic Democrats (ODS). “Czech anti-bureaucratic prize to go to critic of EU.” Available at: &lt;http://www.estat.cz/zpravy/estat-v-mediich/czech-anti-bureaucratic-prize-to-go-to-critic-of-eu/&gt;
Appendix C: Percentage growth (or decrease) of employees of municipal offices 2005-2014

Graphs by City

Notes: STATA12

Appendix D: Percentage change in number of employees between 2006 and 2007 on turnover in city council.

Note: data obtained from municipal offices. Elections were held in 2006 at the end of the year.
Appendix E: Statutory cities map


References


