

## Municipal Size and Efficiency in Romania: Larger is Better?

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Veröffentlichungsversion / Published Version

Zeitschriftenartikel / journal article

### Empfohlene Zitierung / Suggested Citation:

Tara, S. (2024). Municipal Size and Efficiency in Romania: Larger is Better? *Perspective Politice*, 17, 197-208. <https://doi.org/10.25019/perspol/24.17.0.19>

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## How to cite this paper:

Țâra, S. (2024). Municipal Size and Efficiency in Romania. Larger is Better? *Perspective Politice*. Pages [197-208].

<https://doi.org/10.25019/perspol/24.17.0.19>

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## Article

# Municipal Size and Efficiency in Romania. Larger is Better?

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**Abstract:** Territorial reforms took place in several countries of Western Europe beginning with 1950 and of the Central and Eastern Europe after 1990. The theoretical premises of these reforms were those that larger local authorities will be more efficient in delivering public services to citizens, tailor made for local needs. Unfortunately, the reality proved a little much more complex; the reforms determined different administrative and economic outputs, so the 'economies of scale' and 'democracy' arguments remained without a definitive answer and the debates are still dividing specialists and political leaders.

*The paper analyses those territorial reforms and their relevance in the context of Romanian current debates and realities. The findings from the case of other countries are compared with data of the Romanian municipalities (by municipality understanding any local administrative unit), and implication on the optimal municipal size, cost-efficiency improvements, impact on local democracy and political participation are discussed. The conclusion is that any ter-*

*ritorial reform should be done looking to all the possible outputs (in terms of size, but also of the density of population, availability and costs of public services, decentralization and local democracy, participation in political life, protection of the ethnic minorities, etc.) and how these will affect citizens. More than that, the data regarding Romanian municipalities shows there is no evident correlation between some financial indicators and population size. This means that an up-scaling will*

*have the impact of reducing the number of municipalities but will not change the performance of that local authorities.*

**Keywords:** decentralization, economies of scale, municipal size, public services, territorial reforms.

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## 1. Introduction. Decentralization and territorial reform

Decentralization and territorial reform are two related concepts intensely used in the debates regarding local democracy. Decentralization has been seen as an instrument to bring people closer to political

institutions and leaders, a way to protect individual liberties, stimulate innovation, economic development and efficiency or to avoid societal tensions (between central and local interests, between majorities and minorities, especially ethnic groups, etc.).

The process of decentralization is closely related to that of local governments, and involves discussions about population, responsibilities, range, quality and costs of public services provided, budgetary issues, territorial size, economic and social issues, historical evolution, etc. This means that the size of territorial structures of local governments should be discussed at some moments to determine the most suitable size for them.

In the next sections we will analyse ‘economies of scale’ arguments and then will discuss the main ways of restructuring the local authorities and territories: mergers (*up-scaling*) or demergers (*down-scaling*) that implies changes of the administrative boundaries, but also co-operation between municipalities, i.e. pooling public services into larger inter-municipal entities (the so-called *trans-scaling*). A section will be dedicated to the European experiences of territorial reforms (from both the ‘old’ and ‘new’ Europe). A separate discussion will be focused on the Romanian situation and the ways of improving local authorities’ activities.

## 2. Does an ideal size for municipalities exist?

### Theories and realities

The debate related to an ideal size for a territorial entity comes from the ancient times till nowadays: Plato and Aristotle, for instance, debated the optimal population for a polis, that, in their opinion, requested a small territory and population to work properly; Plato, in *Laws*, went so far as to calculate the ideal number of citizens (heads of family) at 5,040. As in the case of the concept of ‘people’ from the democratic theory, the debate related to the size of a municipality has problems of identifying the categories that should be taken into consideration: inhabitants, citizens, voters, etc. The use of population seems to be problematic *per se*.

In a book dedicated to the relation between size and democracy, Dahl and Tufté (1973: 17) argued that a territorial entity has several dimensions: population, area, density, distribution of population, topography, etc., all of them being equally important. In their opinion, focussing only on population is not sufficient, population being, as already seen, a very ambiguous concept; today, we have a very wide range of experiences related to the size of territorial entities (democracy is used in states with large populations or cities with millions of inhabitants), with different kind of advantages and disadvantages, at the same time. Even a definition of what is ‘small’ and ‘large’ is a very long and delicate theoretical and practical discussion, and we are moving on quicksand when doing that.

Then, why do we discuss about territorial reforms? The Organisation for Economic Co-operation and Development-OECD (2017: 58) identifies four major drivers for the process: political changes (changes in the multi-level governance system, such as decentralization or recentralization); demographic changes (migration, urbanization, population aging); socio-economic changes (changes in services, transport, new ways of using information and communication technologies, mismatches between functional areas and administrative boundaries); local management and finance (need for fiscal consolidation, determined by lack of financial resources or by overlapping/duplications of public services).

Local finances and the ‘economies of scale’ are the two most debated issues in connection with consolidation of territorial entities that are supposed to allow local governments to be

more financial sustainable, efficient or to provide better quality public services. Larger areas and population offer bigger possibilities for economic development, competition that favour innovation, large municipalities being much more attractive for investments and offering better economic opportunities for the inhabitants.

Analysis made after municipal consolidations in different countries (Boyne, 1995; Blom-Hansen, Houlberg, Serritzlew and Treisman, 2016) showed that the ‘economy of scale’ is not always a result of the reforms as it was expected; on the contrary, even if economies of scale could be observed in some local services after consolidation, these are not related to population size, being more correlated with population density. One conclusion is that even if the two aspects should be analysed together, the correlations between the efficiency and size of population are not relevant.

One explanation for that is brought by Treisman (2007: 56-57) who shows that each service provided has a U-shaped cost per capita: the cost drops when the number of beneficiaries is increasing, but after a certain threshold begin increasing directly connected with the increase of the size of beneficiaries. Each public service, on the other hand, have its own U-shape optimal scale, being impossible to have efficiency at the same number of beneficiaries for all services. This means that any generalization related to optimal scale is impossible and the discussion of the ideal size of population futile.

Another conclusion is that local spendings are not always dropping, being higher immediately after amalgamation. Reforms from Denmark also showed, as Blom-Hansen (2010) showed that a phenomenon of ‘pooling’ tends to appear in the municipalities before consolidation: the local authorities are tempted to spend irrationally financial resources before the amalgamation, transferring these costs/debts towards the new administrative ones in a free-rider type of behaviour.

Following the above-mentioned arguments, OECD (2017: 68) consider that member countries should have no common minimum thresholds for population or geographic area, the decision being adapted to each country particular conditions. The ideal size of a municipality should rely on the evaluation of several factors, such as: the costs of providing public services (determined by topography and accessibility for the population); demographic characteristics (density, socio-economic structure and ageing of population); general environment (rural or urban); economy (economic sectors, financial resources, etc.); type of services and the responsibilities conducted by local authorities (education, health, water supply, etc.).

### **3. Fragmentation and consolidation in ‘old’ and ‘new’ Europe**

The main argument in favour of territorial reforms was and still is the problem of fragmentation: that is why, in the past decades, a lot of the developed countries have implemented territorial reforms, consolidating municipalities, some of the reforms changing in a radical way the landscape of the lowest tier of administration.

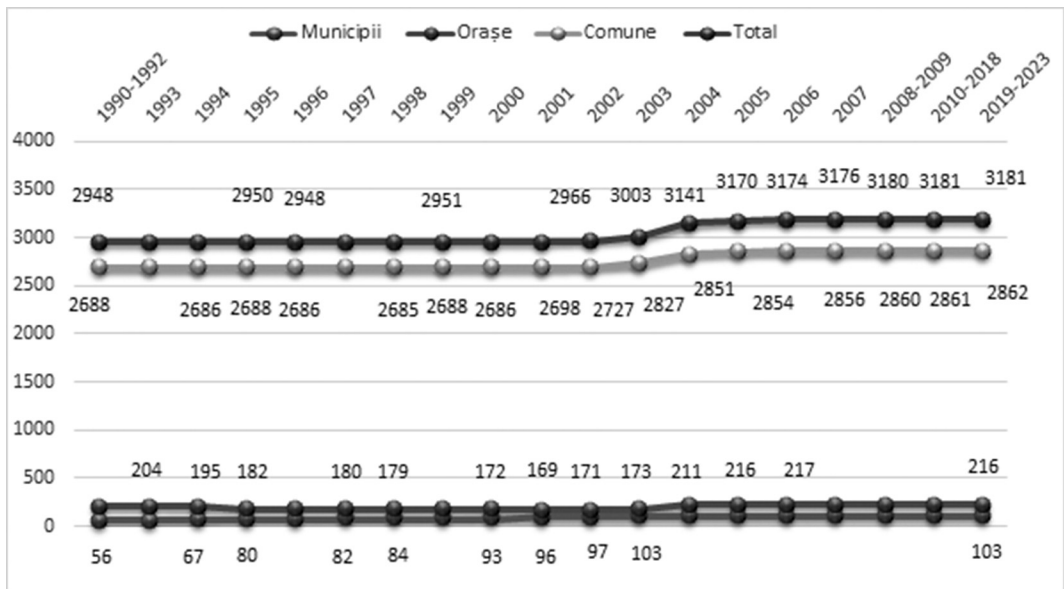
According to OECD (2014: 271) the merger policies started with Austria and Sweden in the fifties: the first one reduced to half the number of local authorities, the latest divided them by more than eight. The process continued rapidly in the sixties and seventies with other countries: Denmark divided the number of municipalities with five in 1970, West Germany also reduced the number in 1960s and 1970s, Belgium in 1975 (divided by four), Lithuania in 1994 (divided by ten), Greece in 1997 (divided by six). More recently, Denmark reduced the num-

ber of municipalities from 271 to 98 in 2007, Latvia from 524 to 119 in 2009, Turkey reduced the number from 3,225 to 2,950 in 2008 and again to 1,395 in 2014.

On the other hand, in the nineties, in some Central and Eastern European countries can be observed an opposite tendency, a down-scaling process. Swianiewicz and Herbst (2002) shows an increase of nearly five times of the number of municipalities compared to 1989: for instance, in Croatia, 543 municipalities in 1998, compared to 115 in 1989 (an increase of 472%); in Macedonia, there are 123 municipalities in 1995, compared to 30 (410%); in Slovenia, in 2006, there were 210 municipalities, compared to 62 (339%); in Hungary, in 1992, there are 3,133 municipalities, compared to 1,368 (229%). Illner (1997) concludes that this spontaneous, politically determined fragmentation, was the answer of the local communities to the forced consolidations during the Communist period and that municipalities in the region deal either with an insufficient or with an excess of decentralization, both having negative effects.

Romania followed a similar path with countries from our region: after a decade of pressure in the direction of urbanization and consolidation in the communist regime, the post-revolution governments wanted to repair the communism abuses towards local communities. *Figure 1* shows the down-scaling process of Romanian municipalities after 1990, that increased the number of municipalities with almost 10%:

Figure 1. Evolution of Romanian municipalities (1990-2023)



Legend translation	Romanian	English
	Municipiu	Town
	Oraș	City
	Comună	Commune

Source: TEMPO online, ADM101A.

A first trend observed refers to the evolution of local authorities from rural areas: we had a down-scaling process that increased the number of communes from 2,688 in 1990 to 2,862 at this moment. The peak of the process was between 2000-2004: the number of communes increased from 2,686 in 2001 to 2,851 in 2005. The explanation is mainly political: social democrats, ruling party at that moment, wanted to offer a compensation to their local clientelles, especially from rural areas.

A second trend was in the direction of urbanization: some communes became towns, and a significant number of towns were transformed into cities (the number of cities doubled, from 56 in 1990, to 103 in 2003, number maintained till today). The process was, in some cases, artificial: that is the reason why, for instance, Băneasa commune (Constanța county), was declared town and after several years decided to rebecome a commune. That is also the reason why some small towns or cities have similar financial problems like rural municipalities, with difficulties in providing good quality public services.

Regarding the situation from our region, recent studies (Baldersheim and Rose, 2010; Swianiewicz, 2010a; Swianiewicz, 2010b) consider that consolidation of the small municipalities should have the role to prevent inefficiency, overlapping or unjustified multiplication of some services. The small municipalities provide services to a limited number of persons, which means that they deal with an increased cost per inhabitant, especially for some services with high fixed costs. In some cases, they lack human, technical and/or financial resources and that determine some external effects (citizens and businesses may shop around the neighbouring jurisdictions, increased tax competition between local authorities, inequalities in accessing local services, etc.).

Comparative data from *Table 1* shows the number and size of municipalities from European countries members of the OECD, including a comparison with the current situation of Romanian municipalities:

The data presented in the *Table 1* gives us some valuable information regarding current situation from different European countries: the average municipal size (number of inhabitants) for Romania is over 62% of the OECD 34 countries average, and larger than in countries such Austria, Czech Republic, France, Iceland, Hungary, Luxemburg, Slovak Republic, Spain or Switzerland. When we look to median municipal size and to the percentage of the municipalities with less than 2,000 inhabitants, used as indicator of fragmentation, we observe that Romania has 2,892 inhabitants median municipal size, respectively 31% of municipalities with less than 2,000 inhabitants, showing less fragmentation as in the above-mentioned countries, but also better than in case of Estonia, Germany, or Italy, countries that have a higher average number of population per municipality than our country. Similar situation can be observed related to average municipal areas, the data showing a moderate degree of fragmentation, at least compared with most of the European countries.

Another important indicator of fragmentation is municipal fragmentation index that reflects the number of municipalities per 100,000 inhabitants, a smaller number meaning a low degree of fragmentation. According to the OECD (2014: 269), the average for the members of the organization is 11 and 17,6 for UE27. If we calculate the municipal fragmentation for Romania we obtain 16,7 municipalities per 100,000 inhabitants, almost 1% less than UE27 average, again close to that of countries as Spain, Estonia, Germany, Italy, and under other European states like Luxemburg, Iceland, Austria, Switzerland, Hungary (with 20-30 municipalities) or Slovak Republic, France and Czech Republic (with 50-60 municipalities).

Table 1. Number and size of municipalities in different European countries

Country	Number of municipal entities	Average municipal size (number of inhabitants)	Median municipal size (number of inhabitants)	Average municipal area (km <sup>2</sup> )	% of municipalities with less than 2,000 inhabitants
Austria	2,100	4,090	1,790	39	55%
Belgium	589	19,030	12,045	51	1%
Czech Republic	6,258	1,640	420	12	89%
Denmark	98	58,155	42,850	438	1%
Estonia	213	6,165	1,710	204	54%
France	35,885	1,855	435	16	86%
Finland	313	17,530	6,060	971	14%
Germany	11,092	7,320	1,710	32	54%
Greece	325	33,410	n.a.	403	n.a.
Hungary	3,178	3,125	815	29	76%
Iceland	74	4,445	880	1,355	72%
Ireland	31	149,530	122,900	2,206	0%
Italy	8,047	7,545	2,430	37	44%
Luxemburg	105	5,360	2,520	25	37%
Netherlands	390	43,540	26,515	86	1%
Norway	428	12,185	4,715	711	22%
Poland	2,478	15,530	7,540	126	1%
Portugal	308	33,400	14,380	299	2%
Slovak Republic	2,927	1,850	655	17	85%
Slovenia	212	9,730	4,730	95	12%
Spain	8,119	5,605	565	62	72%
Sweden	290	33,890	15,435	1,405	0%
Switzerland	2,294	3,590	1,370	17	61%
Türkiye	1,397	53,940	8,595	550	7%
United Kingdom	389	166,060	132,240	623	0%
<b>OECD 34</b>	<b>132,888</b>	<b>9,570</b>	<b>n.a.</b>	<b>251</b>	<b>31%</b>
<b>Romania</b>	<b>3,181</b>	<b>5,989</b>	<b>2,892</b>	<b>74</b>	<b>31%</b>

Sources: OECD (2017: 60-61); author's analysis on Population and Housing Census, 2021a; 2021b (Tab1.22\_RPL2021).

But the argument of fragmentation was not always important for reformers: Hlepas (2010) shows that, in Greece, the radical reform of their local authorities was made under EU pressure for modernization and absorption of EU funds. In the '90s, there were 5,774 Greek rural municipalities, of which more than 80% had less than 1,000 inhabitants. The demographic changes, the geographic mobility, the migration towards the urban environment, determined a

constant depopulation of the rural communities, so in consecutive waves of reforms the number of municipalities dropped to 1,033 local governments and, in the end, to 325.

The different experiences of European states regarding local governments' reforms and fragmentation show that there is not a unique solution and that models need to be adapted to the national context at one moment.

#### 4. Optimal size and efficiency in Romania

As we discussed in the previous chapter, an important issue concerns the degree of fragmentation, but also of efficiency of the public services and the possibilities of accession by the population. The set of data available show that following distribution of the Romanian municipalities in population range categories, according to national legislation:

Table 2. Municipal size on population range categories

Communes			Towns			Municipalities		
No	Population	Avg. size	No	Population	Avg. size	No	Population	Avg. size
Under 1,000 inhabitants								
141	104,299	739	-	-	-	-	-	-
Under 1,500 inhabitants								
465	513,121	1,103	1	1,372	1,372	-	-	-
1,501-3,000 inhabitants								
1,188	2,605,891	2,193	7	16,377	2,339	-	-	-
3,001-5,000 inhabitants								
810	3,056,872	3,773	30	121,546	4,051	-	-	-
5,001-10,000 inhabitants								
354	2,277,456	6,433	108	792,523	7,338	2	18,251	9,125
10,001-20,000 inhabitants								
40	494,396	12,359	59	768,207	13,020	23	371,610	16,156
20,001-50,000 inhabitants								
4	114,402	28,600	10	297,973	29,797	38	1,124,473	29,591
50,001-100,000 inhabitants								
1	52,735	52,735	1	53,431	53,431	22	1,490,404	67,745
100,001-200,000 inhabitants								
-	-	-	-	-	-	10	1,403,366	140,336
200,001-400,000 inhabitants								
-	-	-	-	-	-	7	1,762,426	251,775
2,862	9,114,873	3,184	216	2,051,429	9,497	102	6,170,530	60,495
Including Bucharest						103	7,887,513	76,577

Source: Population and Housing Census, 2021a; 2021b (Tab1.22\_RPL2021).



From the presented data we can see that the population of Romania is distributed relatively equally between the urban and the rural areas. As concerns the average population, this is of 5,989 inhabitants per municipality, with an average of 3,184 inhabitants in the case of communes, 9,497 inhabitants for towns, respectively 60,495 in the case of cities (76,577 inhabitants if we include Bucharest). As we discussed on the data presented in *Table 1*, Romania presents moderate fragmentation of municipalities, partially determined by de-scaling made in 2004-2005, but also by depopulation, migration and aging of the rural population.

The situation in the rural areas deserve a more detailed discussion: Romania does not have an extreme polarization as that from Greece before territorial reforms, France, Spain, etc. Only 141 communes (0,05% of the total number of communes) are under 1,000 inhabitants, with a population of 104,299 inhabitants (0,01% of the Romanian rural population); 465 (16,2%) are under 1,500 inhabitants (0,05%) and 888 (31%) are under 2,000 inhabitants, with a population of 1,269,418 (13,9%).

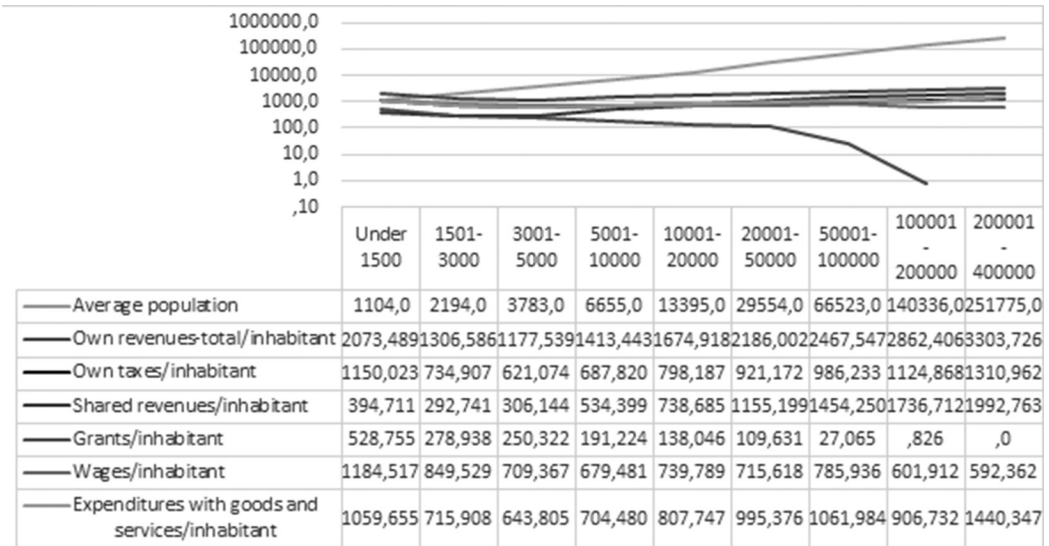
One conclusion is important to be outlined at this moment: the population from the municipalities under 2,000 inhabitants (rural municipalities) represents only one third of the communes and have about 14% of the rural population. They became insignificant when we look at the entire population of Romania. It is obvious that this type of municipalities has some problems of service delivery and efficiency, but the merger will not solve those problems. These communes are mainly situated in isolated areas (mountains, Danube Delta, etc.), with rapidly aging population, migration and depopulation.

The average size of the smallest category of Romanian municipalities is 739 inhabitants; the extreme cases are Bătrâna, Hunedoara County, with 88 inhabitants and Brebu Nou, Caraș-Severin County, with 166 inhabitants. If we look to cities, the average size is over 60,000 inhabitants that is showing the rapid economic development of the urban areas, especially after EU accession. But in the case of cities, as already mentioned, we have a polarization between small and large cities, one quarter of cities (25) having less than 20,000 inhabitants.

Swianiewicz (2006), and more recently Ilyniak (2024), offered new insights on countries in the region: Romania has smaller local authorities in terms of population and surface as Poland, but larger on both indicators as Ukraine; recently, the latest made a consolidation reform that changed the situation: between 2014-2019, approximately 12,000 villages were reformed in 1,469 new amalgamated territorial communities (ATCs), in two steps (first, a voluntary association with incentive, in the second period a forced one, determined by a reduction of 25% of their income tax revenues), but it is too early to conclude about positive/negative impact of the consolidation from Ukraine.

As the data in *Table 2* show, Romania has a significative number of municipalities under 3,000 inhabitants: these count 1,661 municipalities (1,653 communes and 8 towns), half of the total number of local authorities, with a total number of populations of 3,136,761 inhabitants, almost one six of the Romanian population; number of municipalities with less than 5,000 inhabitants is 2,501 (2,463 communes and 38 towns), almost 80% of the total number of local authorities, covering one third of the Romanian population. The average population of these municipalities is 2,500 inhabitants, less than half of the next population range category of local authorities.

Figure 2. Revenues and expenditures of municipalities, on population range categories



Source: Population and Housing Census, 2021a; 2021b (Tab1.22\_RPL2021); MLPDA, 2022.

If we consider only the number, the conclusion is that there are too many municipalities, with too little inhabitants, especially in rural areas; but when we look to their own taxes revenues, we see that these small municipalities, especially those under 1,500 inhabitants, have this indicator per inhabitant with an average similar with cities over 100,000 inhabitants. And, in the case of the shared revenues from the Personal Income Tax, this small municipalities perform better than the category of municipalities of 1,500-5,000 inhabitants. At this specific source of revenues, we can see the main difference between Romanian municipalities: cities over 100,000 inhabitants perform five times better than the municipalities under 1,500 inhabitants that shows the gap of economic development and offers an explanation regarding the extreme polarization among urban and rural areas.

The *Figure 2* also shows an obvious reality: in the case of small municipalities, the cost of the public administration is high, like those of cities, but they provide, at least according with legal provisions, similar services for the population. What deserve to be pointed out at this moment is the fact that many municipalities spend half on goods and services category than the cities over 200,000 inhabitants.

One final remark concerns the high level of wages in the case of municipalities under 1,500 inhabitants. Data from *Figure 2* shows a positive correlation between size and costs per inhabitant with wages of local administration personnel. On this specific situation some adjustments should be made in the future: the cost of democracy is high, but it should not be prohibitive (this category of rural municipalities has, for instance, nine local councillors, that determines high costs and over-representation). The cost for functioning of that municipalities should be resized: one option is inter-municipal cooperation systems, where some administrative functions and costs may be shared (finance, control activities, auditing, services delivery, etc.). So, trans-scaling allows economies of scale, where are possible, but also preserve the local identity and services are delivered directly to citizens.

Analysing the relation of size and efficiency of municipalities in different countries of Europe, Baldersheim and Rose (2010: 4) concluded that the smaller is the average size of a municipality in a country, the fewer are the tasks assigned to be fulfilled and therefore, the smaller are local expenditures as a percentage of gross domestic product (GDP). This general conclusion should be amended, especially if we analyse the case of Romania. Using statistical data from South-East Europe and Balkan countries, a study of the Network of Associations of Local Authorities of South-East Europe (NALAS) offers comparative data regarding the situation of local governments expenditures as % of GDP: EU 27 (11,3%), Romania (8,7%), Croatia (7,3%), Bulgaria (7,2%), South-East Europe (6,0%), Austria (5,5%), Western Balkans (5,3%), Slovenia (4,7%).

Table 3. Local Governments Investments

2021	in Million €	in € per capita	in % of GDP	% of local Government Spending	% of Total Public Investment
Austria	3,387	483	0,8%	15,1%	23,9%
Bulgaria	919	134	1,4%	18,7%	41,3%
Croatia	929	240	1,6%	22,0%	34,0%
Romania	5,863	302	2,4%	28,0%	48,7%
Slovenia	889	422	1,7%	36,4%	45,4%
Western Balkans	1,264	77	1,2%	22,9%	24,5%
South-East Europe	16,982	142	1,5%	24,5%	34,1%
EU 27 (2020)	209,045	533	1,4%	14,5%	43,2%

Source: NALAS – Local Government Finance Indicators in South-East Europe. Statistical Brief 2023

Romanian municipalities have a high level of local investments as percentage of GDP, almost double then EU average, and more than other countries from the region, as it can be observed from the data presented in *Table 3*. The investments made by Romanian municipalities represent 48,7% of the total public investments, showing the range of the activities of local authorities and their efforts to develop their municipalities. Even if we see that the percentage of wages are high in local governments spending, similar levels (almost 30%) are also used for local investments, that contributes to the development of local infrastructure, local public services and economic development.

## 5. Conclusions

The experience from the countries that had territorial reforms shows that flexibility is needed regarding thresholds for the size of municipalities, when the geographical conditions (mountain areas, islands, isolated areas, etc.) are considered, but also linguistic and/or other cultural characteristics. The merger process in rural areas, for example, should consider the accessibility of public services, topography, roads and other existing infrastructure, etc. Forced mergers seem to be inappropriate and they transcend the constitutional framework of our country.

The de-mergers of Romanian municipalities after 1990 increased the number of municipalities and the degree of fragmentation; other social trends (migration, aging of the population, reduced birth rate, etc.) determined the depopulation of some municipalities. But when we look to the performance of this newly created municipalities, we can observe some success stories regarding the EU funds absorption, for instance.

Romania do not have an extreme fragmentation; the fragmentation index is close to the EU27 average, the average population, median population and average surface of municipalities are situated over a lot of other European countries, that means that we are in a similar historical trend. The reform of municipalities determined an artificial process of urbanization, with almost a quarter of cities having less than 20,000 inhabitants and with half of towns situated between 5,000-10,000 inhabitants.

The data regarding Romanian municipalities shows there is no correlation between financial indicators and the number of populations. This means that an up-scaling will have the impact of reducing the number of municipalities but will not change the performance of that local authorities. The available data show that a change is necessary in the economic environment of those areas to offer new job opportunities, reduce the migration and ageing trends, and determine new source of income that will positively affect the performance at the local level.

More than that, we should be aware that bigger municipalities will not have more money, but they will have more expenses to make; the surface of bigger municipalities will mean a larger territory to manage; that means additional costs related to distance. That costs will be supported by local population or by transfers from central level, that means the situation will not differ from today.

Analysis of OECD (2017: 70) on the municipal reforms of some countries (Greece, Ireland, France), showed that they kept the former municipal administration as a sub-municipal structure. This strategy is thought to counterpart the increase in the municipal size, to overcome critics related to lose of identity and proximity to the citizens and to gain population and local representatives support or acceptance. These sub-municipal entities have a legal status with a deliberative body, a delegated executive body (mayor, council) elected by the population, an independent budget, consultative committees, e-government, one-stop shop, municipal Ombudsman, etc. The main problem for this kind of territorial reforms is the costs of the reform, having too many local institutions, higher costs, bureaucracy and overlapping.

The arguments in favour of up-scaling have been put under question lately, considering the experience from different countries with territorial reforms. The expected positive benefits did not always materialise, economies of scale being inconclusive. There is not clear evidence that the economies of scale will always appear; on the contrary, studies showed that the results are incongruent, and the results tend to be related to better quality of services, than lower costs.

## Conflicts of interest

The author declares no conflict of interest.

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