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Part 1: Introduction

What developments caused the Financial Crisis since 2007, and how did it evolve? What were the implications for citizens, private companies, and nation states, and how did these change over time? Were some countries more affected than others, and what are potential explanations? These and other questions are briefly addressed in the first part of this study. Overall, this part serves as an introduction and gives an overview of the recent Financial Crisis as well as the research intentions.

Apart from general observations and the development in Western countries, the local level is introduced as the main object of research. Previous publications regarding the impact of and responses to the recent Financial Crisis are briefly mentioned, and the limited research at the local level is pointed out. This circumstance is also one of the aspects put forward to highlight the overall relevance of this study by providing quantitative insights into the implications of the Crisis at the local level in particular. The introductory chapter closes with a presentation of the overall structure of this study.
1. The Financial Crisis since 2007 and its consequences

“Risk comes from not knowing what you’re doing.”
- Warren E. Buffet

The history of the Financial Crisis since 2007 began with the end of a previous crisis and a subsequent period of recovery, which can be considered to be a typical development in a global economy characterised by boom and bust cycles. Increased speculation, mainly regarding securities linked to companies with Internet business-related activities, along with the attraction of many private traders hoping for large profits, led to a market environment of careless investing, an ensuing sudden plunge in prices, and the burst of the so-called Dot-com bubble in the late 1990s, which primarily affected the United States. However, similarly to most modern-day economic and financial crises, the impact was not limited to a single nation state, since almost all of today’s markets are highly globally interwoven. The U.S. Federal Reserve System reacted to the economic troubles with lower interest rates in the following years, and the U.S. government lowered regulatory standards to stimulate the economy. In this environment, speculators moved into the growing real estate market, where house prices increased sharply, while building costs were generally declining since the early 1980s (Shiller, 2008, p. 33). Especially the trading of sub-prime mortgages took place with few concerns about the underlying value of the securities within a generally increasingly liberal market environment. With the first doubts regarding the basis of the returning economic growth, interbank interest rates, which can also collectively be considered as an indicator of trust by banks in one another’s business activities, began to rise in late 2007.

Increasing interest rates led to refinancing problems and credit defaults, especially in the housing market, and next to private banks and financial services companies, the real economy was affected in a short time. Also, institutional weaknesses became evident in areas such as credit rating and equity requirements. More generally, it can be argued that international financial institutions as well as national counterparts failed in their roles as supervisors of financial market developments (Bermeo & Pontusson, 2012b, p. 2 f.). Mainly originating in the United States, the Crisis spread across the globe, primarily hitting industrial countries. However, because of factors such as the size and international linkage of the national financial sector, as well as contractual terms and notice periods, the Crisis followed an increasingly uneven development across different nation states and economic sectors. Ireland, for example,

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3 As cited in Rasmussen (1994).
4 Defining the exact beginning of a financial crisis is relatively difficult, since some relevant indicators, such as economic growth, change gradually over time, and a time delay might occur before events affect some countries. As a consequence, analyses might differ in their conclusions depending on the periods of time under investigation. This study dates the general beginning of the Financial Crisis on August 9th, 2007, when the first problems with sub-prime loans were recognised. Similar problems occur when defining the end of a financial crisis.
5 Also known as the Internet bubble.
was among the first countries affected, and Sweden was among the last (Bermeo & Pontusson, 2012b, p. 2 f.). While some companies went bankrupt, others – predominantly large private banks – were bailed out by national governments for reasons of systemic risks. In the meantime, many people lost their jobs. As a further consequence of the economic downturn, government debt generally increased as a result of higher welfare spending and liabilities in the context of rescue packages. Private sector failure thus affected not only countless individuals and their employment situation, but also the public sector and its financial situation (Hodges & Lapsley, 2016). Regarding economic growth, by early 2009, most industrial countries were in recession, which is generally defined as two consecutive quarters of economic contraction (Cameron, 2012, p. 91).

Even though governments are accustomed to dealing with crises of different types, crises are often largely unpredictable and represent major administrative challenges for all actors involved (Saliterer et al., 2017, p. 1 f.). When the recent Financial Crisis threatened the financial system, caused corporate revenues to decline, and resulted in citizens losing their jobs, various governmental and non-governmental organisations, such as international financial institutions, national governments, and central banks, began to act. Unfortunately, at least in the early phases of the Crisis, “many governments did not even know what was [exactly] happening in their banking sectors or in the economy more generally” (Peters, et al. 2011, p. 14). Coordinating the reactions at the international level – since global problems cannot be solved merely at the national level – was a complex and time-consuming task (The Guardian, 2012; The Telegraph, 2011; BBC, 2012; European Commission, 2009; van Ewijk & Teulings, 2009, pp. 11-51).

Apart from the frantic bailouts of private banks, political leaders took decisions on other types of largely national countermeasures based on negotiation processes away from usual routines. In practice, these measures often consisted of two consecutive steps, the first of which involved arrangements to moderate the impact of the Financial Crisis on citizens and to stimulate the economy. While the former was mainly achieved in the area of social policies, additional investments in infrastructure are an example of the latter. Aiming to rebalance the public budgets, austerity measures across various levels of government as well as policy areas usually followed at a later stage (Kickert & Randma-Liiv, 2015; Kickert et al., 2015; Wagschal & Jäkel, 2010; Armingeon, 2012; Hörisch, 2013).

However, there is clearly not one correct way in which to react, with the intention to solve a financial crisis, since each crisis is different. Historical experiences and economic theories provide a certain understanding of the underlying mechanisms; however, attempts to implement countermeasures to a financial crisis in a sustainable manner can be considered to be a process of trial and error. In other words, all measures were taken under relatively high uncertainty regarding their impact and success, which are typical characteristics of crisis management in the context of a financial crisis in general.

In line with the financial troubles in many countries, partly in combination with previous financial imbalances, the solvency of several members of the eurozone, especially southern European states and Ireland, deteriorated considerably in 2009. To counteract these developments, bailout packages were arranged by the European Union (EU) and the International
Monetary Fund (IMF), with support from the European Central Bank (ECB). To institutionalise the euro rescue policies, the European Financial Stability Facility, which is a special purpose entity, was established in 2010. Then, in 2012, the function was taken over by the European Stability Mechanism, a likewise newly founded intergovernmental organisation. The pure necessity of these exceptional measures illustrates the severity of the Financial Crisis in Europe (European Stability Mechanism, 2018; International Monetary Fund, 2009a; Stiglitz, 2016, p. 3 ff., 177 ff.; Teulings et al., 2011; Borger, 2018).

Concerning the impact on the global financial and monetary system, the Financial Crisis since 2007, including the Eurozone Crisis, partly came to an end in 2013, when the last rescue packages for eurozone members, with the exception of Greece, were arranged (The Guardian, 2012; The Telegraph, 2011; BBC, 2012; European Stability Mechanism, 2018). Around that time, a return to positive economic growth rates could also be observed in a number of industrial countries (World Bank, 2017a).\(^6\)

Regarding the question as to whether these developments are the consequence of measures taken to fight the Crisis or a relatively independent and natural process of economic recovery as a part of an economic boom and bust cycle, it can be argued that both aspects contributed to the improvement of the situation. As is natural for the state of the economic situation and its changes, a combination of multiple interactive factors of influence are responsible for the overall trend. However, the sustainability of the current trend is yet to be seen.

Apart from positive economic developments in most industrial countries in more recent years, it should not be forgotten that some countries, especially Greece, are still facing ongoing socio-economic and financial problems, implying systemic financial risks, at least for the eurozone (European Stability Mechanism, 2018). In addition, central banks around the globe still did not return to pre-crisis monetary policies. As another aspect of the Crisis, the repayment of debts in the context of bailout packages that some European countries received is scheduled to take several decades. The Sub-prime Mortgage Crisis in the United States, on the other hand, was chiefly limited to the period 2007 to 2009. Regulatory actions as well as stimulus packages were among the measures initiated by the United States government to address the Crisis. However, more recent financial difficulties of some private companies in different industrial countries, especially in the financial sector, are partially still a late consequence of the financial turmoil starting in 2007.

Similarly to many other industrial countries, the Netherlands also experienced a period of recession in 2008 and 2009 (Cameron, 2012, p. 96; Bartelsman, 2009, p. 39). During this time, the Dutch government rescued a number of private banks and insurance companies from bankruptcy. Overall, more than 300 billion euros of financial securities were provided to prevent the country’s financial sector from collapsing (de Vries & Degen, 2015, p. 156; de Kam, 2009a, p. 89 f.; Bijlsma et al., 2009, p. 58 f.; de Haan, 2009, p. 95 ff.; van Ewijk & Teulings, 2009, pp. 169-189).

\(^6\) See also footnote 121 in chapter 8 on the difficulty in defining the beginning and the end of a financial crisis.
Next to the rescue measures for banks and insurance companies, the Dutch central government aimed to stimulate and support the national economy, which faced the economic consequences of the recent Financial Crisis, from 2009 onwards (Ministerie van Algemene Zaken, 2009; Kickert, 2012d, p. 440 f.; Kickert, 2012e, p. 53; Kickert, 2015, p. 542; de Vries & Degen, 2015, p. 158). This was followed by austerity and consolidation measures in order to rebalance the public budget. Starting in 2010, budget cuts were characterised by political consensuses, and they experienced various changes in terms of scope and focus areas in line with changing political majorities (Kickert, 2015, p. 541 f.).

Taken together, the Financial Crisis since 2007 developed into “one of the most important and urgent challenges” (Kickert, 2012a, p. 300) for Western governments in comparison with other issues on the political agenda, such as terrorism (European Commission, 2018). The Crisis’ multi-faceted impact and in parts unconventional countermeasures were hardly thinkable just a few years earlier. From a public finance perspective, the rescue and stimulus packages entailed the highest increase in debt in times of peace (Wagschal & Jäkel, 2010, p. 295). As a consequence, the crisis was a dominant topic in the last decade. In retrospect, the global financial and monetary system was highly endangered during this period of time, and alternative decisions, such as denying external help for several European countries in enormous financial difficulties, might have led to an even larger crisis. On the other hand, national bankruptcies might have been educative to illustrate the necessity to lower risks by improving the financial management. However, these counterfactual scenarios are difficult to assess.

More generally, it should be taken into account that events such as the recent Financial Crisis, or other occurrences of a similar dimension, can represent critical junctures for nation states. Previous paths, for example in relation to a country’s long-term economic development, might be left. Prevailing views on major questions such as the preferred economic system and other major consensuses in the area of societal cohabitation might consequently experience changes. Windows of opportunity might also emerge for policy reform and policy innovation (Bermeo & Pontusson, 2012b, pp. 1, 27). Furthermore, a crisis can also lead to changes in political majorities, in particular as a consequences of public satisfaction or dissatisfaction with the reactions to the Crisis. In other words, a crisis or a similar event can imply various societal, political, and economic changes – in both the short and long term – beyond direct impacts, such as job losses and declining stock market prices. These circumstances make crisis research even more important.

Overall, the Financial Crisis since 2007 raised many questions for individuals and firms concerned. Citizens asked themselves for new opportunities when losing their jobs, and private companies explored potential new markets or business ideas after sales figures declined. In addition, nation states, represented by politicians and civil servants, searched for suitable measures to address the Crisis and consequences thereof. In other words, extensive reflection and adaption processes emerged as a result of the fundamental changes to the global economic situation.

For scholars, many new or partially recurring research questions emerged as well. As a result of the large scale and high complexity of the recent Financial Crisis, the Crisis gained attention
in various academic disciplines. In the areas of public administration and political science, suitable reactions to the developments mark a central part of the discussions. In economics, the question of how a crisis of this extent could emerge with hardly any prediction, including doubts regarding existing theoretical assumptions, was part of the debate. While these examples already illustrate the importance of, as well as the challenge in, connecting the insights from different academic disciplines in order to understand the recent Financial Crisis and its accompanying developments as a whole, they also apply to many separate aspects of the Crisis, such as the consequences for public finances.

Taken together, the Financial Crisis since 2007 created much room – or even a necessity – to reconsider existing theories and generally accepted relationships by critically reconsidering previous assumptions as well as addressing emerging research questions based on new insights. This study will focus on the aforementioned developments in the context of the Financial Crisis since 2007 at the local level of government in the Netherlands. This will be done by exploring the impact of the Crisis on local government, the municipalities’ reactions to the Crisis, and the factors explaining variation in both the impact and the responses.

The further parts of this introduction are structured as follows. The first sub-chapter addresses the Financial Crisis and its consequences more closely, focusing on varying effects and local government, and it introduces the overall research question of this study (1.1). In the next sub-chapter, the relevance and the objectives of this research are discussed (1.2). The introduction closes with an outline of the overall structure of the study in a final sub-chapter (1.3).

1.1. Variation in the impact of the recent Financial Crisis and its consequences at the local level of government

When reflecting on the Financial Crisis since 2007, which can be considered to be the largest crisis since the Great Depression (Reinhart & Rogoff, 2009, p. 248 ff.; Reinhart, 2010), the various direct and indirect consequences should not be forgotten. Not only were massive governmental efforts necessary to prevent the financial system from failure, but millions of people also lost their jobs within the financial industry and in many other sectors because of bankruptcies and an economic downturn. In the United States, the unemployment rate reached its recent peak level of 10% in 2009 (United States Bureau of Labor Statistics, 2016), and the EU recorded its recent high of 11% in 2013 (Eurostat, 2016). Similarly to many other economic developments in the last decade, the Financial Crisis had a negative impact on the employment rate, but it was certainly not the only factor of influence. Greece’s budgetary problems, for example, already existed long before the Crisis, which partially explains why Greece is still facing some difficulties, while other countries are not. The same applies to private companies: companies with poor business models are regularly forced to terminate their activities – this was always the case and will remain so. Therefore, a financial crisis is not necessary for such terminations; however, it can certainly speed up the process. The above-mentioned examples also illustrate the difficulty in assessing the impact of the Financial Crisis separately from other developments. This also applies to identifying the effects of responses to the Crisis.
Furthermore, the recent Financial Crisis did not affect all countries to the same extent and at the same time (Saliterer et al., 2017, p. 8; Steccolini et al., 2017b, p. 231). It mainly hit industrial countries; most developing countries were affected to a lesser extent, but they were partially concerned with other economic problems independent of the Crisis during the same period. Overall, the general impact of the Financial Crisis since 2007 is mostly explained by the size of the various economic sectors within a state. Economies mainly based on agriculture and local manufacturing are seldom directly involved in the turbulences of global financial markets. However, second-round effects, for example because of lower development aid, might occur. Within the group of industrial countries, temporal variation can be observed in the case of the recent Financial Crisis as well. While the United States was the country in which the initial financial problems originated in 2007, the Crisis – better known as the Sub-prime Mortgage Crisis in a U.S. context – largely came to an end in the US in 2009, at least partially as a result of the economic policies meant to address the Crisis. There was a time delay before Europe’s real economy and national budgets faced the Crisis, whereas worldwide financial institutions were hit in real-time as a result of the globally interlinked nature of the financial sector. The Financial Crisis since 2007 certainly affected all European countries; however, southern European countries were hit much harder, as the realisation of bailout packages illustrates (The Guardian, 2012; The Telegraph, 2011; BBC, 2012; European Commission, 2009; European Stability Mechanism, 2018). Apart from all the negative impacts, one can argue that some economies, such as Germany, temporarily benefited from the Crisis on the basis of low interest rates on public debt (Leibniz-Institut für Wirtschaftsforschung Halle, 2015). As these remarks illustrate, the time frame is crucial when analysing the effects of the recent Financial Crisis or any other crisis. In this context, the appropriate period under investigation is not necessarily the same for all countries under review.

The varying impact and duration of the Financial Crisis since 2007 in different countries leads to the question of the reasons for these differing developments. Apart from reactions to address the Crisis, structural economic problems and government debt levels that are incompatible with the economic performance are the most common explanations, implying a certain path dependency. While both factors are determined within a country, they are sometimes influenced by supranational agreements, such as the Economic and Monetary Union of the EU.

However, while geographical characteristics might limit the economic possibilities within a certain area, government debt depends on a country’s deliberate decisions. Therefore, different approaches regarding the acceptability of debt and debt policies, also based on political motives, can be distinguished. While some countries are able to deal with relatively high levels of government debt, especially if they are in a strong economic position, others follow a more stable path by avoiding such high levels. Overall, critical debt levels are usually the result of excessive state spending regardless of public revenues over decades, sometimes combined with an inefficient administration. In the case of the eurozone, the single currency\(^7\) further enables some countries, particularly in southern Europe, to finance their debt less expensively

\(^7\) See Stiglitz (2016) for a comprehensive discussion of the structural problems of the euro as a single currency, along with possible solutions.
than it would probably be possible with separate currencies (Reinhart & Rogoff, 2011; Reinhart & Rogoff, 2013; Reinhart et al., 2015; Mauro, 2011).

In general, the complexity of economic mechanisms implies a variety of factors contributing to the emergence and course of financial crises. Socio-economic factors, institutional arrangements, and many other conditions can potentially moderate or intensify financial problems. The financial sector and corresponding employment, for instance, are more relevant in some countries compared to others. Furthermore, the interactions of factors are of importance; small differences can have major consequences.

National legislation, for example in the banking sector, can be the major reason a country is more or less affected by a certain crisis. The case of Iceland – a country with a comparably large and internationally oriented banking sector – during the Financial Crisis since 2007 illustrates this argument: In the early 2000s, legal changes were implemented in the country to deregulate banks. These conditions led to higher debt levels of Icelandic private banks in comparison with those of other European countries (Carey, 2009). After the financial turmoil began in the United States, Iceland was clearly more affected in the early years of the Financial Crisis than other European countries and was forced to nationalise its largest banks. While Iceland is generally comparable with other industrial countries in terms of its stage of economic development, the highly deregulated banking system is the generally accepted explanation for the recent Financial Crisis’ relatively strong impact next to the substantial size of the banking sector itself.

Not only is the impact of the Financial Crisis since 2007 subject to variation from a cross-country perspective, but the measures taken in response to the Crisis also differ. In particular, the extent of national arrangements, such as economic growth packages and governmental guarantees for private companies, largely depended on a country’s respective situation. While a link between the impact of and reactions to the Crisis is given in the case of effective countermeasures, measures might also have been taken based on the mere anticipation of an impact. Pressure in this respect might also have arisen from various interest groups worrying about certain potential consequences. Overall, these circumstances enable an analysis and comparisons of factors with a fortifying or moderating effect on the types and scope of measures implemented to address the Crisis. Furthermore, crisis management from a procedural perspective might lead to different decisions on how to react.

While any crisis of a certain scope affects all levels within a system of multi-level governance, the types and time of impacts and responses can vary extensively. The dependence on certain types of taxes, such as corporate and income taxes, and the mechanism of financial compensation are two main explanations. The fragmentation of competences, including regulatory powers, as well as information between the different levels of government, makes efficient crisis reactions even more complicated (Peters, et al. 2011, p. 14 f.). In the context of the Financial Crisis since 2007, the situation at the nation state levels was widely reported both in the news and in the content of public and political debates, whereas regional and local levels of government received much less attention (Saliterer et al., 2017, p. 2 f.). While revenues at the local level usually predominantly consist of financial allocations from upper levels of government, next to own taxes, the composition largely depends on the design of the political-
administrative system. On the expenditure side, the distribution of tasks among the administrative levels within a country is also subject to broad variation. Local authorities in different countries might consequently be affected by the same financial crisis differently on both sides of their budgets. In this context, especially major responsibilities in the area of social affairs can lead to a noticeable deterioration of the financial situation. From a practical perspective, local officials were confronted with many questions in the context of the recent Crisis, as were the politicians and civil servants in charge at the national level: What can be done to alleviate the consequences for the local population and local businesses? Should the funding of certain initiatives be continued, or should expenditures be cut? Should the spending in a one policy area be reduced rather than in another one, or should costs be cut equally? Are there alternative ways in which to generate revenues?

Depending on the local policy decisions made by the competent bodies, the course of a crisis can largely differ across the local level within a country, and the understanding and interpretation of the developments from an economic perspective, as well as the overall perception of the crisis apart from financial facts, might thus cause further variation. Following the results of recent comparative studies focusing on national levels of government (Kickert & Randma-Liiv, 2015; Wanna et al., 2015; Kickert, 2012a), the developments of the Financial Crisis since 2007, including the responses to it, differed considerably. While some public authorities, for example, focused on austerity measures in certain policy areas, others aimed to stimulate the economy with support and rescue activities for the private sector and related labour market policies.

In line with the observations at national levels of government, variation regarding the impact of and responses to the Financial Crisis since 2007 is also likely across regional and municipal levels of government. Certain industries affected by the Crisis, for example, are traditionally more relevant in one region than in another, thereby leading to higher tax losses as well as higher increases in unemployment. Based on the local impact of the Crisis, in combination with political preferences, policy decisions on how to address the Crisis are likely to vary as well.

Overall, variation across territorial entities implies additional complexity for the general challenge in understanding the mechanisms behind the recent Financial Crisis. While some theoretical assumptions might still appear valid in the context of one country or a municipality within a country, this might not be the case for another country or municipality. Again, the approach to combine insights from multiple academic disciplines, including public administration, political science, and economics in particular, appears to be the most promising strategy to understand the partially dissimilar developments of the recent Crisis. In this context, from a methodological perspective, a comparison of entities at the same governmental level within a country is generally encouraged by identical or at least similar political-administrative framework conditions, originating from uniform legal requirements, in contrast to country comparisons.

As already mentioned, this study will focus on the Netherlands, and it analyses the situation of the country’s municipalities in the context of the Financial Crisis since 2007. The aims are
to retrace the impact at the local level and responses by local government, as well as to understand why some municipalities were more affected than others and why they selected different countermeasures. As a decentralised unitary state subdivided into 12 provinces, with a relatively limited role in the political-administrative system, and 380 municipalities in 2018 (Centraal Bureau voor de Statistiek, 2018a), with relatively extensive tasks, including the provision of most social services, the country is a particularly suitable research object for two reasons. First, the municipalities can be considered as relevant actors within the political-administrative system of the Netherlands with a certain leeway regarding the organisation and performance of public tasks and services within their areas of responsibilities. Second, the number of municipalities enables a full census.

In the context of a financial crisis, three additional reasons make the Netherlands a relevant case. First, the country is an open economy that largely depends on international trade, which implies a high likelihood of both positive and negative spillover effects linked to global developments. Second, the financial service and insurance sector is comparably large and internationally oriented. Third, a relatively liberal approach existed towards financial regulation in the years before the Crisis. These reasons suggest a relatively large impact of the recent Financial Crisis in the case of the Netherlands as well as a great necessity of governmental measures to address the Crisis.

While this study will be mainly comprised of quantitative analyses of the municipalities' budgets, qualitative analyses will also be conducted, especially when trying to understand why certain decisions in the area of public budgeting were taken. Based on official statistics and primary data from three consecutive surveys amongst mayors, as the political-administrative leaders at the local level, this study will be guided by the following research question:

*How did the Financial Crisis since 2007 have an impact on Dutch municipalities and their financial situation, how did local authorities respond to the Crisis, and what factors explain variation?*

### 1.2. Relevance and objectives of this study

The local level possesses two characteristics, which illustrate its advantages as an object of research: propinquity and numerosity. Propinquity refers to the relatively small territories with limited numbers of relevant actors, which are able to interact frequently because of small distances between them. Considering the policy process, those who make decisions are also close to those who are responsible for the implementation. Therefore, a small number of interviews can provide broad insights. The numerosity of research objects makes the use of certain methodological approaches possible at the local level; these are not always feasible at

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8 In addition, local officials are considered to be more easily accessible as contact persons or as participants in academic surveys, compared to officials at other levels of government (John, 2009, p. 22).
other levels of government. The relatively large number of local entities with uniform framework conditions enables quantitative research, for example with a focus on variation between the municipalities (John, 2009, p. 21 f.).

Ten years after the beginning of the Financial Crisis, the literature on the topic is still growing. While a final assessment, especially regarding the partly still ongoing Eurozone Crisis, remains a task for future research, studies on the Financial Crisis and various aspects thereof were published in recent years. The complexity of events explains the attention from different academic disciplines, namely public administration, political science, economics, law, psychology, and sociology.

While the causes, implications, and appropriate reactions, as well as regulative issues, in the context of the Financial Crisis are mainly questions to be addressed from an economic and partially also a jurisprudential perspective, the impact on public finance and reactions by governmental entities, including their crisis managements, are aspects mainly in the fields of political science and public administration. The latter is also the focus of this study.

In line with the generally low attention that local government, as the main provider of public services in many countries (Page, 1991, p. 1), receives in supra-regional media coverage because of a limited number of people affected, as well as in academic debates, the impact of the Financial Crisis since 2007 at this level of government and the reactions to it have not been widely discussed yet. This circumstance is presumably also caused by central government’s larger number and scope of potential policy reactions in the context of a financial crisis, especially in the areas of financial market regulation – as a policy domain typically within the competences of the national level – as well as extensive fiscal stimuli. More generally, “key decisions about powers and finances get taken at other levels [than the local one]” (John, 2009, p. 19). However, since the Financial Crisis can be considered as one of the most important events in recent history, and given that early studies on the crisis suggest an impact particularly on municipal finances (United Cities and Local Governments, 2009, p. 9), the intended analysis will investigate relevant questions. Furthermore, local decisions can still “illustrate issues of power and collective action problems” (John, 2009, p. 19).

Academic literature on the Financial Crisis since 2007, with a focus on implications at different levels of government from a political-administrative perspective, is also growing. Research on the impact of the Crisis has mainly focused on the national levels of government. In this context, some studies have had a comparative approach (European Commission 2009; International Monetary Fund, 2009b; Organisation for Economic Co-operation and Development, 9 Next to purely academic publications on the recent Financial Crisis, some economists wrote best-selling books on the topic also addressed to the general public. Those include Shiller (2008), Krugman (2008), Stiglitz (2010), and Blinder (2013).

10 In general, it can also be argued that “it does not matter what to study, but how to do it [from a methodological perspective]” (John, 2009, p. 20). In some cases, particularly in basic scientific research, studies can be rather explorative and a certain relevance might become apparent at a later stage. In this context chance might play an important role as well.

11 See appendix 1 for an overview of publications on the recent Financial Crisis at the local level of government in the Netherlands.
2011; Organisation for Economic Co-operation and Development, 2012; Organisation for Economic Co-operation and Development, 2015; Marer, 2010; van den Noord, 2011; Staehr, 2010), while others have analysed the situation in a certain country in detail (Financial Crisis Inquiry Commission, 2011; Massey, 2011; Lane, 2011; Gavilan et al., 2011). Moreover, while some of the early publications have combined the investigation of crisis impact and crisis reaction, more recent studies have often focused on the response side. Research on the latter aspect of the Crisis at the national level has been published both from a comparative perspective (Kickert & Randma-Liv, 2015; Kickert et al., 2015; European Commission, 2009; Kickert, 2012a; Wagschal & Jäkel, 2010; Armingeon, 2012; Hörisch, 2013; Pontusson & Raess, 2012; Cameron, 2012; Ansell, 2012; Armingeon & Baccaro, 2012; Lindvall, 2012; Bideleux, 2011; Kattel & Raudla, 2013; van den Noord, 2011; Peters, 2011) and as single-country studies or as two-country comparisons (Posner & Fantone, 2015; Good & Lindquist, 2015; Wanna, 2015; Horie, 2015; Jensen & Davidsen, 2015; Zapico-Goni, 2015; Pereira & Wemans, 2015; Arghyrou, 2015; Boyle & Mulreany, 2015; Kickert, 2012b; Kickert, 2012c; Kickert, 2013a; Kickert, 2013b; Schelkle, 2012; McCarty, 2012; Barnes & Wren, 2012; Di Mascio et al., 2013; Di Mascio & Natalini, 2014; Kickert & Ysa, 2014; Financial Crisis Inquiry Commission, 2011; Lane, 2011).

An edited volume regarding the Financial Crisis and the budget impacts at the national level in a number of industrial countries, including some of the aforementioned country studies, has been presented by Wanna et al. (2015). In addition, Bermeo and Pontusson (2012a) have published an edited volume on the responses by national levels of government, including various comparisons. Beblavy et al. (2011) have presented an edited volume focusing on the Crisis primarily from an economic perspective, and an edited volume by Kates (2011) also has an economic perspective and has further emphasised the general lessons of the Crisis. Another edited volume on the Financial Crisis, with a focus on the economic situation in various eastern European countries, was prepared by Jungmann and Sagemann (2011).

As pointed out before, studies on the effects of the Financial Crisis and the reactions to it at regional and local levels of government are relatively limited, compared to the national level. Some researchers have analysed the impact on local government from a comparative perspective (Organisation for Economic Co-operation and Development, 2015; United Cities and Local Governments, 2009; Council of European Municipalities and Regions, 2009a; Council of European Municipalities and Regions, 2009b; Blöchliger et al., 2010; Bailey & Chapain, 2011b; Paulais, 2009; Dethier & Morrill, 2012; Canuto & Liu, 2010; Vammalle & Hulbert, 2013; Wolman, 2014; Wolman & Hincapie, 2014). The ways in which local government reacted to the Crisis have also been the focus of a number of comparative analyses in recent years (Organisation for Economic Co-operation and Development, 2015; Nunes Silva & Bucek, 2014; Blöchliger et al., 2010; Bailey & Chapain, 2011b; Meneguzzo et al., 2013; Vammalle & Hulbert, 2013; Wolman, 2014; Wolman & Hincapie, 2014), and some of these studies have addressed both aspects. Studies on the situation in individual countries, mainly focusing on local responses, have been published as well (Barbera et al., 2016; Cepiku et al., 2016; Bolgherini, 2014; Ladner & Soguel, 2015; Chapain & Renney, 2011; Champagne, 2011; Beer, 2011). General suggestions on how to address the Crisis at the local level are also part of the recent literature (Dethier & Morrill, 2012).
Three edited volumes on the impact of and responses to the recent Financial Crisis at the local level are also worth mentioning. One by Bailey and Chapain (2011a) has mainly focused on the impact and the situation in the UK, and it has also included chapters on France, Canada, and Australia. A second one by Richardson (2010) has also explored the impact of the Crisis at the local level in the UK and the implications for public services. Lastly, an edited volume by Steccolini et al. (2017a) has focused on crisis responses and crisis resilience, which is conceptualised as the capacities and capabilities to absorb and react to financial shocks, as well as variation at the local level in various countries, including the Netherlands.

Wagschal and Jäkel (2010), Armingeon (2012), and Hörisch (2013) have focused on the variation in fiscal response strategies at the national level. The question regarding economic, political, and administrative factors determining variation in the financial situation of local government has previously been analysed both from a cross-country comparative perspective (Guscina, 2008) and within certain countries (Bogumil et al., 2014; Boettcher, 2013; Boettcher, 2012; Holtkamp 2007). However, all these studies have largely attempted to explain variation in government debt without a specific focus on changes in municipal finance caused by the recent Financial Crisis.

To date, compared to other European countries, the number of studies on the Financial Crisis since 2007 and the situation in the Netherlands is relatively limited, which can be explained by the larger impact in southern Europe in particular. However, a number of studies have addressed the developments at the Dutch national level (Kickert, 2015; Kickert, 2012d; Kickert, 2012e; de Vries & Degen, 2015; Kickert, 2012a), predominantly focusing on the decisions by central government and the related decision-making processes. Studies of the situation at the local level (Overmans & Timm-Arnold, 2016; Overmans & Noordegraaf, 2014; Engelen & Musterd, 2010; Overmans, 2017; Weske et al., 2014; Centraal Planbureau, 2016; Kattenberg et al., 2016; Allers & Bolt, 2010; Allers & Hoeben, 2010; van der Lei, 2015) have often followed qualitative approaches, with either a small number of municipalities included in the examinations or work with preliminary financial data. Further insights into the impact of the Financial Crisis on municipal land development in the Netherlands have also been published by two consultancies (Deloitte, 2010; Deloitte, 2011; Deloitte, 2012; Deloitte, 2013; Deloitte, 2014; Deloitte, 2016; Deloitte, 2017; Ernst & Young, 2015).

An extensive empirical understanding of financial developments at the Dutch local level is still missing from the research on the Financial Crisis since 2007. That understanding is the main aim of this study, and it is achieved by combining official statistics on municipal budgets and survey data. Most of the previous research on the topic has been based on interviews with municipal officials and document analyses, with a relatively small number of municipalities included as cases, which can therefore be considered as explorative approaches with limited potential for generalisations regarding the average consequences of the Financial Crisis at this level of government. In contrast, this study’s focus on quantitative methods allows for statements on common or uncommon developments by generally assessing all municipalities, the empirical testing of hypotheses regarding factors determining variation, and a more holistic methodological approach in general. However, apart from the concentration on quantitative
methods, this study will also include qualitative components, especially to explain relations
between certain factors previously identified through empirical analyses.

In addition to the overall research subject of the ways in which municipalities in the Nether-
lands were affected by the Financial Crisis and reacted to it, another objective of this study is
to examine factors causing variation regarding the Crisis’ impact and countermeasures. In
other words, the overall goal is to provide a better understanding of recent developments in
the context of the Financial Crisis at the Dutch local level, which is the administrative level
closest to the citizens. This goal can also be considered as a beneficial contribution to research
on the resilience of local entities. In terms of the complexity of the Financial Crisis since 2007,
as well as questions in the field of public finances in general and in the context of a crisis in
particular, an interdisciplinary approach is applied for this study by including theoretical in-
sights primarily from the academic disciplines of public administration, political science, eco-
nomics, law, and psychology.

While public administration and political science are particularly relevant to understand the
overall transformation of the role and functioning of the state and local government inde-
pendent of the recent Financial Crisis as underlying framework conditions, the procedures
within political bodies and the administration intended to adjust municipal revenues and ex-
penditures in times of crisis, as well as some of the factors potentially determining variation
across municipalities in case of a crisis, economics – particularly macroeconomics – provides
the necessary insights to retrace the mechanisms of financial crises as such. Assessing the
current legal situation in the context of municipal finances in the Netherlands requires the
inclusion of law. Lastly, additional insights from psychology are necessary in order to include
the perceptions of individuals or groups of individuals regarding certain developments as po-
tentially irrational factors when deciding on crisis reactions.

With the intention to contribute to a better comprehension of the mechanisms of financial
crises and the implications, particularly for local government, this study also aims to help to
reduce the negative effects of potential future crises and to support both crisis prevention and
crisis management with policy recommendations based on scientific findings. In this regard,
insights from the Netherlands, especially in relation to unintended as well as intended changes
in public finances at the municipal level, can also be useful for political-administrative decision
makers in other countries with similar economic conditions and similar political-administrative
systems, since understanding the mechanisms behind a certain development is always the
first step when aiming to influence future conditions in a desired way.

1.3. The structure of this study

Next to this first chapter, which introduces the research subject and represents the first part,
this study consists of three additional components. The second part develops the theoretical
framework and describes the methodology as the basis for the analyses at a later stage. Then
part three first introduces the political-administrative system of the Netherlands, the role of
Dutch local government, as well as the global time course of the Financial Crisis since 2007 and related events. Second, the developments during the Crisis in the Netherlands are analysed based on official documents, previous research, and empirical data with a focus on the country’s local level of government. In other words, part three provides the necessary background knowledge on Dutch local government and the Financial Crisis since 2007, introduces the current state of research on the subject, and includes preparatory analytical steps. Part four, as the final component, addresses variation in the impact of and responses to the recent Financial Crisis across the Dutch local level with statistical analyses; the aim here is to explain why some municipalities were more concerned than others, and this part closes with the study’s overall discussion and conclusion.

The second part begins with the development of the study’s theoretical framework within chapters 2, 3, and 4. Chapter two starts with the changing role and functioning of the state, particularly in line with the trends towards an enabling state and multi-level governance. Following these broad developments, the chapter continues with a focus on local government and local government finance. By assessing ongoing developments at the local level, such as decentralisation and management changes, a general understanding of the administrative and political conditions at the municipal level, as well as recent changes, is provided. In addition, theoretical insights into municipal finance are described, with a focus on cutback management. Chapter 2 thus forms part of the theoretical basis for the question on the impact of the recent Financial Crisis at the local level, alongside other ongoing developments, and the potential reactions within local officials’ usual room to manoeuvre, mainly from a financial perspective.

Based on economic literature, the third chapter discusses the general mechanisms behind the emergence of and reactions to financial crises from a theoretical perspective and historical experiences. While the theories in line with different economic schools of thought, partially supplemented by political-administrative concepts and trends, primarily focus at national levels of government, previous insights and recommendations for the local level are discussed as well. In other words, the chapter provides the necessary economic knowledge to understand the consequences of financial crises at the local of government.

The theoretical framework concludes with chapter 4. Building upon the theoretical insights from chapters 2 and 3, the conceptual model is developed, before potential factors causing variation in crisis impact and crisis reaction at the local level are identified and discussed based on economic, political, and administrative theory, with an overall focus on public policy. This follows the logic that the recent Financial Crisis can be considered as an external effect on the local level, where it did not originate, and certain local conditions might enhance or moderate the impacts of the Crisis as well as the reactions to it. Based on the separate aspects, hypotheses are formulated. In addition, the role of local officials’ crisis perception is discussed as an additional factor with a potential influence on policy decisions.

As the last component of part two, chapter 5 explains the methodology of this study and its quantitative as well as qualitative elements, building upon the theoretical and conceptual work of the previous chapters. Next to the availability and sources as well as detailed types of data of official governmental financial and non-financial statistics, to be used in the empirical
part, the analytical approach and the operationalisations of dependent and independent variables are introduced. In addition, a description is provided for the design and realisation of three own surveys, whose open questions will contribute to identifying problems and mechanisms beyond official statistics.

The sixth chapter – the first chapter of part three – addresses the Netherlands and its local level as the study’s object of research. After explaining the design of the political-administrative system and the division of tasks between the different levels of government, recent developments towards an enabling state and multi-level governance are analysed in this country-specific context, building upon the theoretical considerations of the second chapter.

Chapter 7 focuses on Dutch local government, including the municipal budgetary system. The historical development of the local level’s role and contemporarily tasks, obligations, and the legal situation are described to provide an understanding of the overall structural conditions. Particular attention is also paid to municipal revenues and expenditures, with the intention to assess local officials’ financial room to manoeuvre. To put the potential effects of the Financial Crisis since 2007 into perspective at a later stage, the recent trends and developments at the Dutch local level are analysed based on the theoretical insights of chapter 2.

Chapter 8 analyses the events and developments of the Financial Crisis since 2007, including its temporal course, in detail. In other words, the necessary knowledge on the Crisis for the empirical analyses at a later stage is provided. Building upon chapter 3, the emergence and impacts of, as well as the reactions to, this specific Crisis are researched by examining relevant socio-economic key figures and discussions of the insights from both academic publications and official documents. Apart from the international and national levels, the situation at the local level is assessed, to the extent that information is available.

Building upon the previous chapter, the impact of and responses to the recent Financial Crisis in the Netherlands are the topics of chapter 9. By analysing government documents and previous academic publications, the scope of the Crisis at the national level of government is discussed. Moreover, the effects for local government are assessed as well. All relevant studies on the Financial Crisis since 2007 at the Dutch local level, which are often limited to the situation in a limited number of municipalities from a qualitative perspective or single areas of municipal activities from a quantitative perspective – in other words, the current state of research on the subject – is also presented and discussed in this chapter.

In chapter 10, financial developments at the Dutch local level in the years since the beginning of the Crisis in 2007, as well as a few years before in order to provide benchmarks, are analysed based on official government statistics and own calculations. By examining the financial changes on both sides of the budgets for all Dutch municipalities combined, insights into particularly affected areas with municipal responsibilities and competences are gained; these insights form the statistical basis for the more detailed analyses in part four. Special attention is paid to areas in which potential effects of the recent Financial Crisis have been identified in previous research.

The results of three own surveys addressed to Dutch mayors are presented in chapter 11 to complement the mainly quantitative analyses of this study. By studying the municipal officials’
responses to financial changes within their municipalities, the Financial Crisis is assessed from a more subjective point of view, which provides further explanations for municipal decisions on countermeasures to address the Crisis. In addition, insights are provided from the surveys on topics such as cutback management and common strategies to reduce municipal expenditure.

Part four focuses on the variation in crisis impact and responses by Dutch municipalities. Building upon the empirical insights from chapter 10, chapter 12 continues the quantitative analyses of this study by assessing the variation in financial changes in selected areas of activity between the municipalities. These calculations also constitute the dependent variables for the analyses in the next chapter.

Chapter 13 subsequently assesses variation in the potential factors of influence on municipal finances in times of the recent Financial Crisis in the case of the Netherlands, identified based on the theoretical considerations in chapter 4. Thereafter, these factors are utilised as independent variables in a series of linear regression models, aiming to determine their links to financial changes in the selected policy areas. After a presentation of the empirical results, the chapter closes with the testing of the hypotheses developed in chapter 4.

As the final chapter, chapter 14 discusses the overall findings of this study by bringing the insights from the previous chapters together. After the focus on the variation across the local level in the Netherlands, the financial changes are assessed in relation to other ongoing trends and developments in local government and governance, as described in chapter 7. Then, the chapter reflects on the study’s limitations and provides an answer to the research question. Lastly, further attention is paid to crisis management and policy recommendations for the local level of government in the Netherlands, as along with more general lessons from the Financial Crisis since 2007.