

The Danish structural reform of government

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Abstract

The reform of the three-tier system of government that the Danish society is about to implement is in accordance with the Danish tradition of structural reforms in the pre-war period. The agenda of the current reform derives naturally from the political debates and analyses that have taken place during the last forty years. Although the legislative background of the current reform is not yet in place, various tendencies imply that the reform will lead to more power being concentrated at the level of the state.

Background

The Danish government structure is a three-tier system comprising the state, the region, and the municipality. After the Second World War, the pre-war government system was continued, comprising 25 regions and 1,390 municipalities. In consequence, more than half of the municipalities had only between 1,000 and 2,500 inhabitants.¹ During the 1960ies, a long-standing public debate took place supported by legislation that turned the government structure into 14 regions and 275 municipalities by a large reform in 1970.² The debate was spurred by a state investigation undertaken by *Kommunallovskommissionen*³, the work of which resulted in a legislative proposal in 1966. However, due to a public election, the legislative process had to be postponed, and the law was not put through until May 1967. The legislation led to the formation of *Kommunalreformkommissionen*⁴ in June 1967 that prepared the reform of 1970. There were three main objectives to be achieved (Opgavekommissionen, 1998, ch.2). First, regions were mainly formed as regions based on a major city and regions based on rural areas. In the new structure, regions would comprise both urban and rural areas. Second, major cities were in many cases divided between several municipalities. In the future, municipalities within a city would be merged. Third, the existing regions and municipalities were considered to be too small to carry out the tasks of the future society economically and professionally. A larger economic base had to be achieved, and in order to make the local administration more professional, larger administrative entities had to be created.⁵

Although having only relatively few tasks at the outset, primarily concerning the hospital sector and overall regional planning, the regions grew larger and larger during the 1970ies and 1980ies as the state delegated tasks to the regional level and removed some tasks from the municipal level and located them at the regional level. Of major importance were environmental planning and control, health security, general education for the youth, health education, and special institutions of education and care for children with special needs and for mentally retarded people. At the same time, municipal and state hospitals were turned into regional hospitals.⁶ By mid-1990ies, the total amount of public spending was divided equally between the municipalities, the regions, and the state.

The debate on the division of tasks across the three-tier government system was continuously taking place, to an important extent stimulated by the situation of the municipality of Copenhagen that had special responsibilities as capital in close cooperation with the state

¹ A size and structure that is similar to the current administrative system in France that is, presently, undergoing a change similar to the one taking place in Denmark.

² The municipalities of Copenhagen and Frederiksberg are so large that they have a special status where they in some instances act like a region. Before the structural reform in 1970, 86 municipalities primarily centered around (in a Danish context) larger cities had the same status.

³ My translation: The committee of the legislation on municipalities.

⁴ My translation: The committee of municipal reform.

⁵ The same argument is applied in the reasoning for the current reform.

⁶ Today, all hospitals are regional apart from one, i.e. *Rigshospitalet* (the hospital of the realm) in Copenhagen.

while at the same time being an ordinary municipality. Especially, as capital, Copenhagen attracted a lot of people and thus had an above-average share of infrastructure and social problems. The situation led to different committees, notably the formation of *Hovedstadskommisjonen*⁷ the report of which in 1995 suggested that a number of regional activities ought to be undertaken by the municipality of Copenhagen. In consequence, and stimulated by a general debate, the parliament formed *Opgavekommissionen*⁸ in 1996 that was commissioned to analyze the division of labour between the state, the regions, and the municipalities, and suggest changes by the end of 1998.

The committee work led to a number of suggestions, some of which were carried through. The importance of the committee work, however, is primarily derived from the fact that *Opgavekommissionen* formulated four general principles in accordance with the European Union's current declaration on the so-called principle of subsidiarity. The principles, stated below, constitute a general political agenda that has informed the current structural reform in Denmark. The principles were (Opgavekommissionen, 1998, chs.2 and 8):

1. Public tasks are undertaken as close to the citizens as possible,
2. The execution of public tasks rests on economic and professional sustainability, i.e. carrying out tasks must take place as economically and professionally as possible
3. Public authorities that can be democratically controlled by direct elections provide public goods
4. Economic responsibility and the competence to make decisions are always connected

These principles should be employed in order to pursue the following objectives:

- The division of tasks must facilitate the citizens' ability to influence the public system
- The tasks most relevant to citizens must be carried out by authorities closest to the citizens, i.e. the municipalities
- Tasks that are part of the same complex of tasks must be carried out by only one authority
- Efficiency and quality of problem solution are the main criteria for the location of tasks
- The division of tasks across the three-tier system must facilitate transparent coherence between tasks at the individual level of the system

⁷ My translation: The capital committee.

⁸ My translation: The committee of public tasks.

The work of *Opgavekommissionen* in 1996-98 defined the basic agenda of what was later to appear as the structural reform of the new millennium.

The structural reform of 2005

In October 2002, the current liberal government formed *Strukturkommissionen*⁹ that was commissioned to analyse and suggest, by the end of 2003, changes in the division of tasks between the state, regional, and municipal levels of government. The basic idea, inspired by the principles formulated by *Opgavekommissionen*, was that the existing division of labour across the three-tier system of government had become obsolete in terms of cost effectiveness and the degree of professionalism in public administration. Subsequently, larger units of sub national government were needed. To some extent, the very existence of a regional level was questioned, especially by the conservative partner of the right-wing liberal government coalition (Gjerding, 2003). The committee was to report on its findings by the end of 2003 which was subsequently done, mainly in three white books of which one (*Strukturkommissionen*, 2004) constituted the main report.

Prior to the formation of *Strukturkommissionen*, two other events took place, firmly announcing a political agenda that *Strukturkommissionen* was forced to take into account by way of the task description that was subsequently made by the Danish parliament (*Strukturkommissionen*, 2004, ch.1).

First, at the beginning of 2002, the government formed *Indenrigs- og Sundhedsministerens rådgivende udvalg*¹⁰ commissioned to analyse the organisation of the Danish hospital sector and suggest alternative solutions to the existing division of labour. The work of *Indenrigs- og Sundhedsministerens rådgivende udvalg* stroke at the very hart of the regional level of government since the hospital sector comprises two-third of total spending at the regional level. The committee initially suggested that at least 250,000 inhabitants are needed in order to make a regional hospital sector cost effective and capable of providing the most up-to-date services and treatments. However, the committee also argued that tight budgets and increasing demands on public service force the hospital sector to become more flexible, efficient, specialised, and able to change at the same time. In consequence, the committee arrived at the conclusion that a preferable level of population is within the range of 400,000-750,000 inhabitants depending on the degree of urbanization and the geographical extension of the region (*Indenrigs- og Sundhedsministerens rådgivende udvalg*, 2003). In the public debate, this was interpreted as if at least 600,000 inhabitants are needed – a figure that would require fewer regions in Denmark. *Indenrigs- og Sundhedsministerens rådgivende udvalg* described different

⁹ My translation: The committee of structural reform.

¹⁰ My translation: The consultative committee of the Minister of the Interior and Health.

alternative models of organisation, and the subsequent *Strukturkommissionen* was commissioned to take these models into considerations.¹¹

Second, a few months before forming *Strukturkommissionen*, the government announced its strategy for the future regional policy of Denmark (Indenrigs- og Sundhedsministeriet, 2003) in co-junction with the Danish national planning report (Landsplanafdelingen, 2003) that had been in preparation for more than a year, encompassing public debates throughout the nation. Both reports included important attempts to downplay the role of the existing regions.

The aim of Indenrigs- og Sundhedsministeriet (2003) was to argue a policy change in the Danish regional policy. So far, regional policy had to an important extent been the concern of regions, and national and EU funding had been allocated to the regional level in order to facilitate the execution of regional-based policy. This was the result of a Danish tradition for fighting inequalities between regions and rural areas in terms of primarily employment and income. However, the government argued, by international standards disparities of income and employment had become extremely small during the recent decade with the exception of a limited number of mainly rural and fishing areas. Thus, in the future, regional policy should focus on these peripheral areas within the regions rather than on the regions themselves. Consequently, the government identified a number of peripheral areas targeted for new regional policy schemes, primarily carried out by the state itself.

The aim of Landsplanafdelingen (2003) was, of course, to describe an overall national planning approach in accordance with the Danish tradition of public debates and hearings in order to form a consensus approach to overall planning. However, besides supporting the view of Indenrigs- og Sundhedsministeriet (2003), the report introduced a new political metaphor: Flexible regions. The report pointed out that patterns of habitation, transportation, industrial development, and environmental challenges are located in geographical areas that are far larger than the current administrative borders of the Danish regions. In conclusion, the report found it necessary to transcend the borders of the existing regions, creating a number of state agencies that are not associated with one particular region.¹²

In reaction to these political signals, *Strukturkommissionen* suggested six models of the division of labour across the Danish three-tier system of government (Strukturkommissionen, 2004, chs.18-20). At the extreme points were, on the one hand, a model with no change in the division of labour but comprising only 7-8 regions and municipalities with at least 20,000 inhabitants, and, on the other hand, a model with radical change in the division of labour, no regions at all, and municipalities with at least 30,000 inhabitants. Medium positions comprised cases with 7-8, 4-6 and 3-5 regions, and municipalities with at least 20,000 or 30,000 inhabitants, the main distinguishing factor being the degree of influence by the state. Since the ex-

¹¹ Which they did, and subsequently proposed additional models. The models are briefly presented below.

¹² In fact, such flexible regions were subsequently put into motion in the fields of policing, environmental control at factories, and state services related to family issues.

treme positions were unable to obtain political acceptance, the main message to be derived from the final report was that changes involving fewer regions and fewer municipalities had to take place.¹³

Subsequent political negotiations in the Danish parliament did not result in any broad consensus on the future government structure of Denmark, primarily because the opposition feared that state influence would become too strong. In order to avoid increased state influence, the opposition requested that the regions should retain most of their tasks and still be able to issue taxes.¹⁴ The government, on the other hand, wanted to remove as many tasks as possible from the regional level and concentrate the ability to issue taxes at the state and municipal levels. In consequence, negotiations broke down, and a final agreement was made by only three parties in the parliament, i.e. the two parties of the government (Venstre and Konservative) and the right-wing party normally supporting the government (Dansk Folkeparti). The final agreement made in June 2004 (Indenrigs- og Sundhedsministeriet, 2004) was by and large consistent with the original proposal issued by the government in April 2004 (Regeringen, 2004), apart from minor changes, especially in the field of regional industrial policy. The new three-tier structure comprising 5 regions and probably 100 municipalities¹⁵ was to be in motion from January 1st 2007.

At the present moment, the structural reform is still to be planned in details. Initially, the government aimed at preparing more than 100 new laws enforcing the structural reform and being accepted by parliament during Fall and Winter 2004. However, the government anticipated difficult negotiations on detailed legislation and did not want these issues to interfere with the general national election that was coming up. Consequently, the legislative work was postponed until Spring 2005.¹⁶ At the same time, the government asked the municipalities to begin negotiations with neighbouring municipalities on the issue of merger. Gradually, more and more municipalities engaged in negotiations, realising that this was an opportunity to influence the process of merger. Danish political commentators agree on the argument that one of the reasons for postponing the legislative process was the hope that a new municipal structure would appear voluntarily before Spring 2005, thus making the legislative process a lot easier.

¹³ During the committee work, Ministries and public agencies were asked to issue reports on what they considered to be the economically and professionally optimal size of local units within their fields of responsibility. In general, precise numbers were missing in the reports, but where numbers appeared, the normally centred around 20,000-50,000 inhabitants as the size of municipalities. In order not to invoke too big changes in the number of municipalities, the committee on structural reform settled on focusing on cases with 20,000-30,000 inhabitants.

¹⁴ In Denmark, taxes have always been issued at all three levels of government, based on the argument that public authorities should be able to finance, by their own decisions, the services of which they are in charge.

¹⁵ Municipalities are supposed to have at least 20,000 inhabitants, hence the figure of about 100 municipalities.

¹⁶ An incident similar to what happened prior to the 1970 reform, cf. p.2.

Status of the structural reform

At present, the legislation necessary to enforce the structural reform still needs to be initiated and agreed upon in the parliament. However, meanwhile the process of merging municipalities is progressing faster than could be expected. It appears that about 100 new municipalities will be created on the basis of the existing 275 municipalities, most of them complying with the wish of the government that municipalities ought to have at least 20,000 inhabitants. More than 80 of the new municipalities have already been agreed upon by the merging municipalities and approved by the Ministry of the Interior and Health that is in charge of the process. More than 10 other new municipalities appear to have been formed, but the existing municipalities involved in the merger are considering undertaking a public referendum about the merger. Residually, 6 new municipalities comprising existing municipalities that couldn't agree have been defined by the Ministry of Interior and Health, but await further negotiation. The municipalities agreed upon and approved by the Ministry have, in general, set the process of merger in motion and are now preparing plans for the allocation of staff, money, ICT and so on. It is reasonable to expect that the new municipalities will, more or less, be operational by the end of 2006.¹⁷

Even though the legislative process has not been completed, a number of features are expected to come into existence as the result of the existing agreement (Indenrigs- og Sundhedsministeriet, 2004). Regarding the regional tasks, the following will happen in any circumstances: The regions retain the responsibility for the hospital and psychiatric sectors, and are supposed to be in charge of general regional planning, including public transportation by bus. The existing regional tasks associated with welfare services will be transferred to the municipalities.¹⁸ The existing regional tasks associated with high schools, health education and adult education will be transferred to the state along regional responsibilities for roads, railways, taxes, and funding from the European union.

The most vital area, seen from the perspective of the regional level, is, of course, the health sector. Table 1 illustrates what, at present, seems to happen in this case. In general, it appears that the municipalities will take charge of a lot of new tasks, while the role of the state is reduced. In consequence, it seems as if the structural reform is a process of decentralisation, as argued by the government (Regeringen, 2004). However, there are strong tendencies that point towards centralisation in the three-tier system of government. First, regarding the health sector, the planning of where to locate medical specialities and the authority of the financing of the sector are the two most important sources of influence, and in these areas the state increases its ability to influence the development of the sector and the location of activities.

¹⁷ Alongside this process, the new regions are preparing themselves for merger and for transferring the tasks to the municipalities and the state that they know will come into effect, despite the legislation process has not ended yet.

¹⁸ Originally, the municipalities were also supposed to take charge of environmental policy, but the current debate suggests that the government may still want some environmental agencies at the regional level.

Second, the initial agreement on the structural reforms (Indenrigs- og Sundhedsministeriet, 2004) implies that perhaps as much as half of the existing regional tasks (and probably 1/4 of the budget) is allocated to the state. Third, as part of the agreement, the state sets up a number of new agencies that are to supervise and to some extent regulate the activities going on at the regional and municipal levels. Thus, there are strong tendencies favouring the opinion of the existing regions that centralisation will take place (Amtsrådsforeningen, 2004).

Table 1. *The effect of the structural reform on the health sector*

The organisation of the health sector, as suggested in Indenrigs- og Sundhedsministeriet (2004)	Current authority	New authority		
		Municipality	Region	State
Hospitals	Region			
Psychiatric hospitals	Region			
Social psychiatry	Divided between region and municipality			
Health insurance	Region			
Retraining of sick and disabled	Divided between region and municipality			
Health programs	Divided between all three levels			
Home nursing	Municipality			
Alcohol programs	Region			
Planning of medical specialities	State			
Finance of the sector	Divided between all three levels			

Source: Derived from Indenrigs- og Sundhedsministeriet, 2004)

Supporting the argument that centralisation will take place is the fact that the national parliament during the last two decades have gradually decreased the degrees of freedom by which the regions and municipalities can increase spending and taxes. This has been achieved by annual agreements on the rate of growth of public spending between the government, the regions and the municipalities.¹⁹ The present government has enforced a tax stop by which nominal taxes and percentage taxes are not allowed to increase²⁰, which has reduced the rate

¹⁹ The regions are represented by the council of regions (a national association of all Danish regions), while the municipalities are represented by the council of municipalities (similarly a national association).

²⁰ If, for some reason, it is necessary to increase a tax, one or more other taxes must be reduced in order to maintain the same nominal level of tax revenue.

by which regional and municipal spending are allowed to grow. In consequence, most regions and municipalities feel that they have a very limited economic freedom and opportunity of decision. Recently, 186 mayors representing 186 municipalities were asked about their evaluation of the recent government statement on how to control the economy of municipalities, and 76 % anticipated fewer degrees of freedom, 16 % no change, and 5 % more degrees of freedom (3 % “don,t know”, Kuula & Pihl, 2004). In general, the tax stop combined with tightened economic central control, and the increasing degree of state supervision and regulation of regional and municipal activities implies that the structural reform will lead to a higher degree of centralisation in Denmark.

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