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## 1. Introduction

This case report gives a brief and provisional summary of our empirical findings on fiscal policy in Oberhausen. The first two chapters are based on statistical data and existing literature and describe the socio-economic situation, the political actor constellation and the fiscal challenges. Chapters four and five review our own empirical findings on how local actors perceive fiscal problems and their explanation as well their view on the local scope of action and the concrete consolidation measures, including the assumed impacts. These chapters are purely descriptive and include several quotations and data derived from our MAXQDA analysis as illustration. In the following chapters, the relevant analyses and interpretation of researchers are discussed. We also discuss the policy and leadership styles, the different kinds of legitimacy, the local political culture, knowledge types and new approaches influencing fiscal policymaking. In chapter eight a new perspective will be added that of new actions related to social cohesion and economic development. A detailed discussion of our theoretical and methodological approaches, see our scientific book publication (Stolzenberg et al. 2016).

As of November 16, 2016, the empirical corpus of the Oberhausen case includes:

- interviews with 10 actors: deputy mayor of economics, head of the financial department, two councilors (one from the majority and one from the opposition) (the interviews with the councilors are not transcribed and have so far not been part of the MAXQDA analysis), an interest group and the supervision
- 241 texts from the local press, party manifestos, coalition treaties, etc.

## 2. Socioeconomic features of the City of Kassel

The city of Kassel (with a population of 197,571 inhabitants that is slightly decreasing, Bertelsmann Stiftung) is the biggest city in northern Hesse, which is one of the structurally weakest areas of the German state of Hesse. The city which was situated in the inner German border area (“Zonenrandgebiet”) supported by economic development means of the federal state prior to 1989 is now located in the geographical center of reunified Germany. This favorable situation is reinforced by a good traffic infrastructure (a new railway station since 1991, regional airport since 2013, freeways in all directions). Although important production plants of automotive and defense industries are still located in the region, Kassel suffered from severe economic restructuring. The specific challenge for Kassel and greater region surrounding Kassel was that major companies only had their core production units there, with headquarters, research, and development units located elsewhere.<sup>1</sup> Therefore, the internationalization of production hit the city hard and economic decisions affecting this “remote-controlled industrial region” were largely taken without considering local socio-economic and political conditions (Dittmar 2004, pp. 183–195). After years of dissatisfactory development, strategies signs of a new economic success are now emerging. In cooperation

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<sup>1</sup> The biggest industrial employers with plants or subsidiary companies in the region: Volkswagen (in the neighboring municipality of Baunatal, Wolfsburg), Daimler-Benz (Stuttgart), Bombardier (Montreal), Krauss-Maffei-Wegmann (Munich), Rheinmetall (Düsseldorf) and BASF (Ludwigshafen)

with the university, an economic cluster of technology-based small and medium-sized companies was established and the renewable energy company “SMA Solar Technology” is a highly visible exemplary case for the economic success of the city. Furthermore, in 2011 the Cologne Institute for Economic Research (Institut der deutschen Wirtschaft Köln) named Kassel “Germany’s most dynamic city” because the city successfully reduced unemployment, youth unemployment and the rate of social welfare recipients while levels of disposable income, economic growth and the share of highly qualified employees rose. Moreover, the institutional ranking gave good marks to the education infrastructure as well as to the city’s services in health care and culture – Kassel is the location of Germany’s most important exhibition of modern arts, the “documenta.” Nevertheless, the key socio-economic data show that there is still a considerably economic lag compared to the average in Hesse, especially the south with the Frankfurt-Rhine/Main area, and Germany (see Table 1). Another challenge is that the city’s budget is only benefiting from the economic recovery in part because many plants are situated in the surrounding municipalities, e.g., the SMA headquarters and the Volkswagen production plant. The city and the county of Kassel have promoted a regional reform effort based on the examples of the regions around Hanover and Aachen, which may solve this problem (Bischoff *et al.* 2014). However, this reform was suspended indefinitely due to legal concerns of the federal state and has been mothballed. Moreover, the local government reviewed their opinion on the regional reform because in its view the city has become too strong economically to benefit from amalgamations.

Table 1: socio-economic data of Kassel

		<b>Kassel</b>	<b>Hesse</b>	<b>Germany</b>
Unemployment rate	in %	9.7	5.6	6.5
Social welfare rate	in %	7.4	3.7	4.5
Disposable household income	in € per capita	17.038	20.452	19.933
Primary household income	in € per capita	18740	24938	
Employees in industrial sector	in %	13.6	17.7	20.4
Employees in service sector	in %	82.9	77.2	73.4

Sources: unemployment rate and social welfare rate (12/2013): Bundesagentur für Arbeit; disposable household income (2011): Statistische Ämter der Länder 2012, employees in economic sectors (2012): Statistische Ämter des Bundes und der Länder 2012.

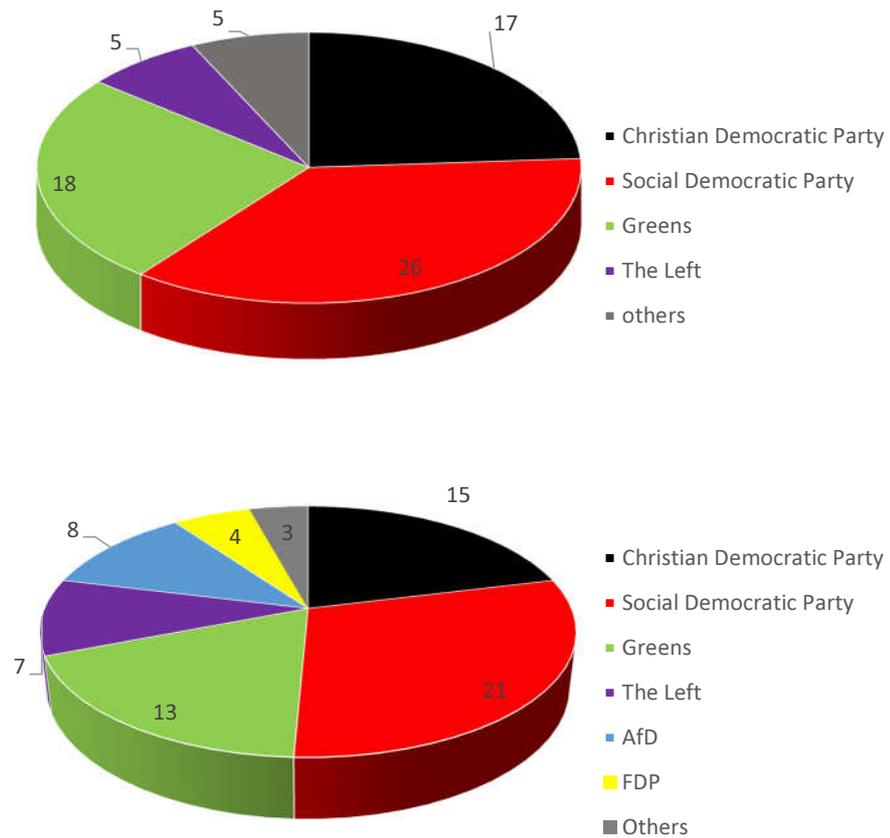
### 3. Municipality of Kassel: Political leadership and the fiscal problem

The city of Kassel has been governed by a coalition of the Social Democratic Party and the Green Party since April of 2006. The last elections confirmed this coalition although both parties lost votes. Kassel was the first municipality with a cooperation of those parties in 1981, but the city also experienced one of the first coalitions between the Green Party and the Christian Democratic Party, which was followed, by today's coalition in 2006. After the last elections, in 2011 and 2014, Social Democrats and Greens decided to proceed with the existing coalition although there were some sources of conflicts between both parties, e.g., the development of an industrial area ("Langes Feld") and the reconstruction of an industrial monument ("Salzmann Areal"). The mayor of Kassel, a Social Democrat, won the election against the incumbent in 2005 and was re-elected in the first ballot in 2011. He is an experienced administrative leader, having served, among other positions, as president of the administrative district (Regierungsbezirk) of Kassel, the deconcentrated federal state administration and the supervision for local governments, and as CEO of the data processing center for municipal administration in the region. The same applies to the deputy mayor for economics, a graduated economist and a Social Democrat, who has been in office since 1991 and previously worked for the Deutsche Bank AG and as an economic policy advisor for the Social Democratic Party. The deputy mayor for economics is also responsible for the social policies and therefore directly in charge of the biggest partial budget. He retired in 2015 and the discussions about his succession already started in the research period. In contrast to our other cases in Hesse, a collegiate governing body ("Magistrat") is responsible for the executive functions and the mayor is a "collegiate leader" (Heinelt and Hlepas 2006) and *primus inter pares* in this governing body.<sup>2</sup> Besides this institutional specificity, we can conclude that Kassel has an actor constellation, which is similar to Wuppertal – with less political fragmentation in comparison to Magdeburg and Mainz –, because in both cases there are clear majorities with formal coalitions and high personnel continuity. Moreover, in both cases, the mayor and the deputy mayor for economics have the same party affiliation and the leadership has far-reaching political and administrative experience.

Figure 1: Distribution of seats in the council of Kassel after the local government elections in 2011 and 2014

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<sup>2</sup> The mayor and other full-time and honorary members are part of the collegial body that decides with majority on all executive tasks. The casting vote of the mayor resolves a tie vote.

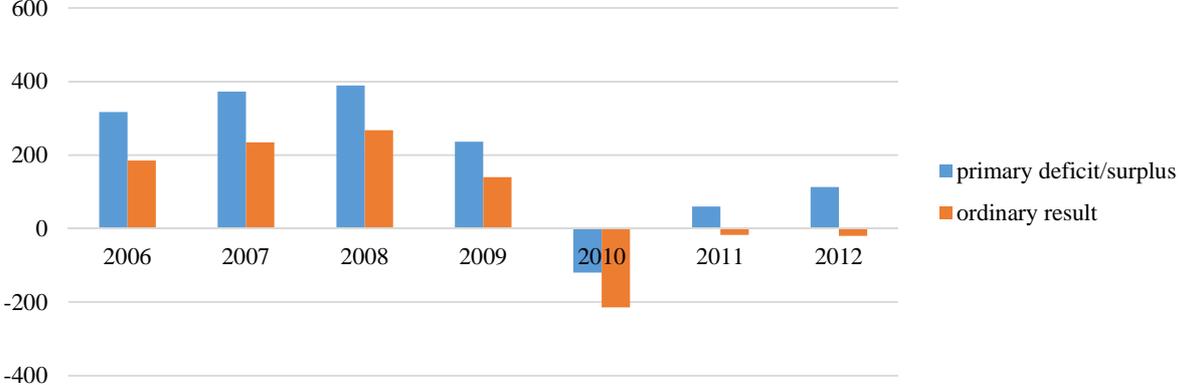


The fiscal situation of the municipality before the implementation of the bailout fund in 2012 will be described in the following. We will compare the fiscal data of Kassel with our other cases and with other comparable independent cities of the federal state of Hesse (Darmstadt, Offenbach and Wiesbaden, except Frankfurt Main). The first observation is that the fiscal challenges of Kassel are less serious than those in Wuppertal or Mainz and especially those faced by Oberhausen and Offenbach. The city had primary surpluses with the exception of 2010 when the crisis hit the municipal budget. Furthermore, in 2013 the city also had a balanced budget in the accounting system used in Hesse (Figure 2). The amount of total and short-term debt per capita is lower than in Mainz, Wuppertal and the average of the independent cities in Hesse (Figure 3). The collection rates for business tax are similar to the Hessian average and close to the rates of the other cases. In contrast to that, real property tax is higher than in the other independent cities in Hesse, but the rate is exceeded by Wuppertal, Oberhausen and Magdeburg (Figure 4). In addition, the revenue figures show that total revenue (with the exception of Wuppertal), tax revenue and business tax revenue exceed the other cases and other independent cities. The only exception is income tax revenue, which is lower than the Hessian average. This seems to reflect low levels of household income (see chapter 2) but due to the adjusted income tax allocation formula the impact on the municipal budget is small (Bertelsmann Stiftung 2013

Figure 5). The social challenges we have described affect the budget, but social spending is almost at the same level as the average in Hessian cities and together with Mainz in the middle of our cases. By contrast, the spending for staff seems to be comparably high in that Kassel exceeds our other cases and the Hessian average (

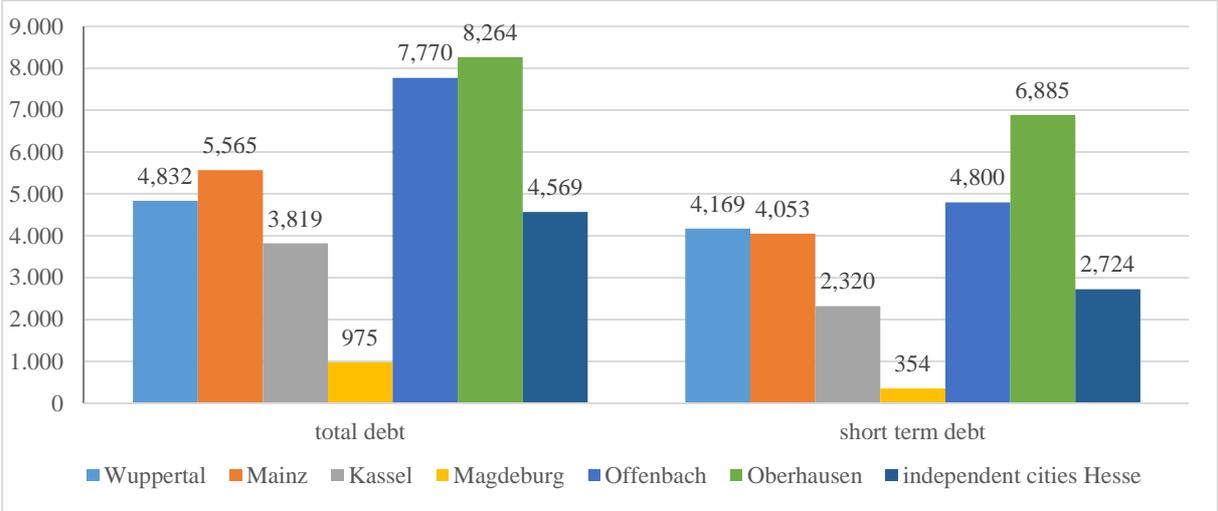
Figure 6). The investment spending is higher than in our other cases but the same applies to the other Hessian cities as well.

Figure 2: Primary deficit/surplus and ordinary result in euro per capita



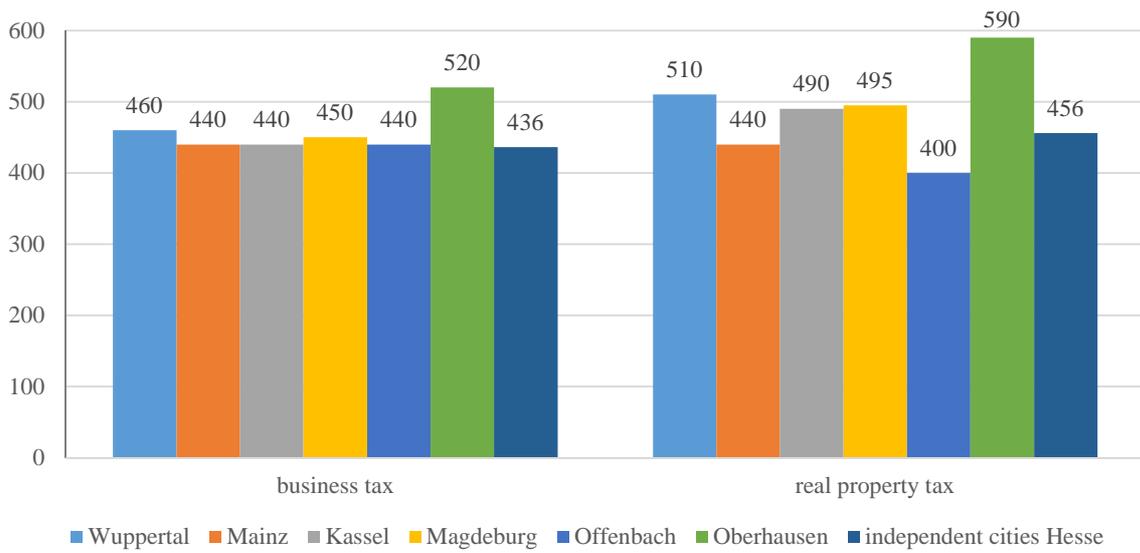
Source: Bertelsmann Stiftung 2013

Figure 3: Total and short-term debt of local government in comparison in euro per capita in 2012



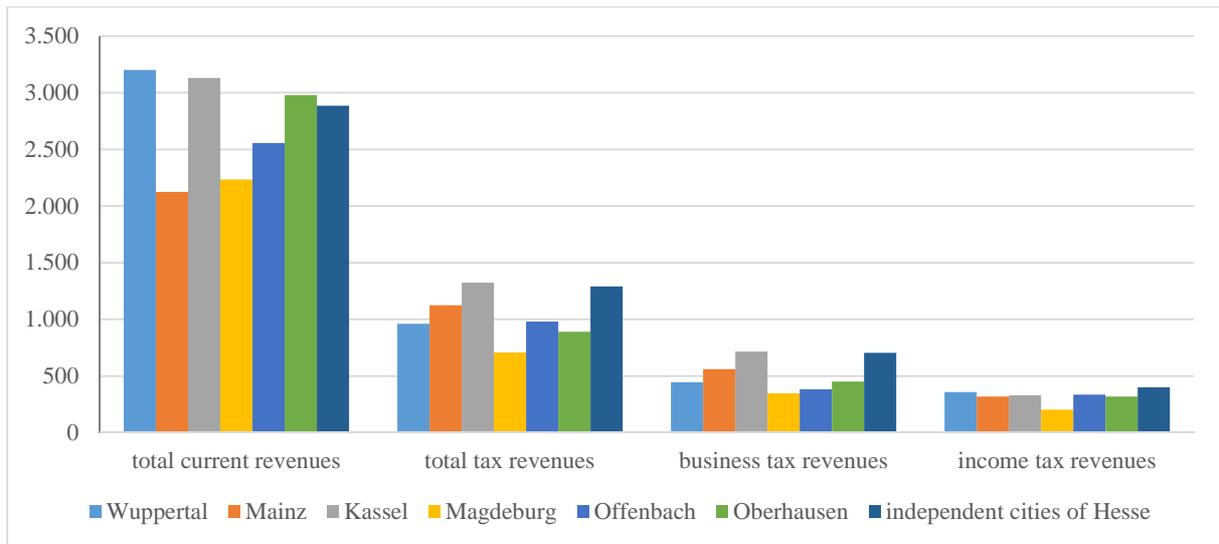
Source: Bertelsmann Stiftung 2013

Figure 4: Collection rates of local government taxes in comparison in 2012



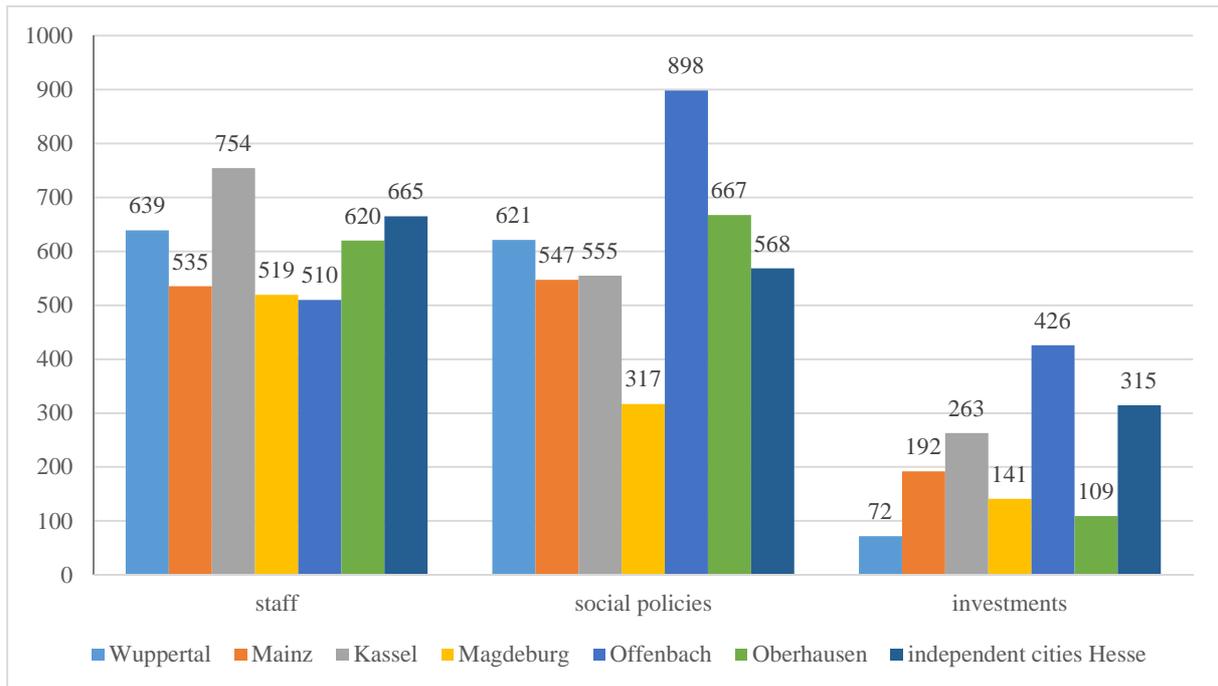
Source: Bertelsmann Stiftung 2013

Figure 5: revenues of local government in comparison in Euro per capita in 2012



Source: Bertelsmann Stiftung 2013

Figure 6: spending of local government in Wuppertal in comparison in Euro per capita in 2012



Source: Bertelsmann Stiftung 2013

#### 4. Problem Perceptions and Causes

Table 2 shows the exact coding of reasons of the fiscal problems with different subcodes.

Table 2

endogenous causes			18
	Youth welfare		3
	Regional exhibition "Hessentag"		2
	Extra award for scrapping old refrigerators		2
	Rent bicycle "Konrad"		9
	Administrative personnel		3
	Local hospital		2
	Regional airport		6
	Other		3
exogenous			

causes				
	upper level government			9
			Asylbewerberleistungsgesetz	3
			Child care under 3 years	1
		federal state level		3
			Financial equalization scheme	4
	socio economic conditions			1
		Low incomes		2
		Income tax		3
		financial crisis		2

The following quotes matrices (Table 3) displays some trenchant statements of different actor groups on the endogenous causes of the fiscal crisis. Local actors discuss the necessity of a number of projects, e.g., a bicycle renting system, the municipal funding for the airport, scrapping premiums for fridges or the planned museum about the Grimm brothers. In contrast to that, the actors do not provide concrete reasons in our interviews and commonly made general statements on problematic former spending behaviors.

*Table 3: different types of endogenous and exogenous reasons*

Actor	Segment	Document group
Interview 1	I don't think that there are distinct challenges in Kassel which we have to manage by applying fiscal measures. Furthermore, I do not assume that we have a backlog of work as – due to the division of East and West Germany – Kassel had always chosen the smaller version and had always kept an eye on limiting expenditures. Consequently, I don't believe that we have a backlog of rationalization measures according to human resources of our civil services but instead, we have a general problem which can be seen everywhere in Germany.	Interviews
CDU	The ongoing efforts of the mayor to shift the blame of the city's dreadful financial situation onto the state is not in a balanced and objective manner. The mayor was not able to implement an effective consolidation program. Instead, he wastes money.	Press article
Journalist	Despite many efforts, the town's political leaders have not yet gone all out to change the course of consolidation. The chief administrator of the supervision is convinced of the importance of taking unpopular measures in order to improve.	Press article

Interview 3	It could also be related to the expenditure policy of the last years and decades. [...] I do believe that the municipality might be also responsible for the current situation.	Interviews
Interview 2	I would not mainly look at the responsibility of politicians in Kassel for the current debt, but instead look at those politicians at the federal and state level who allocated additional tasks to municipalities without distributing additional financial resources for their funding.	Interviews

Table 4 shows some quotations on the exogenous causes including the different subcodes of fiscal problems. Like in Mainz, the local actors criticize the federal state for cutbacks in the equalization scheme, which causes a reduction of state grants before the bailout program was introduced.<sup>3</sup> Moreover, some socio-economic conditions (low number of taxpayers – students, unemployed, and many in-commuters) were named that cause comparatively low revenues from income tax and high expenditures for social welfare. The explanations what accounts for debt differ between the council fractions. Hence, the administration and the majority blames the federal and the federal state level for fiscal problems and the opposition criticizes that the local government does not recognize its own faults.

*Table 4: Exogenous causes of the fiscal crisis – selected quotations*

Actor	Segment	Document group
Interview 1	The level of debt of Kassel is a delayed effect of the former division of Germany, the Second World War as well as the structural change and therefore, can be compared with cities in North Rhine-Westphalia [...] high unemployment rates [...] high social cost and high youth welfare costs have emerged [...].	Interviews
Interest group	The municipalities are underfunded in relation to their tasks. Both federal and federal state level actors are mainly responsible for the dreadful financial situation.	Press article
Mayor and deputy mayor for economics	The mayor and the treasurer wrote in one of their press releases that they will “take all necessary steps in order to fulfil the requirements.” However, possibilities for further means of consolidation are limited. Increasing financial deficits of the city are also perceived to be a result of decreasing fiscal grants of the state. At the same time, the federal and federal state levels transfer more and more responsibilities to municipalities such as the ambitious goal of childcare for children less than three years of age.	Press article
Greens	More and more responsibilities are assigned to municipalities by the federal and federal state level. There are no remaining possibilities for fiscal savings within the municipal administration.	Press article

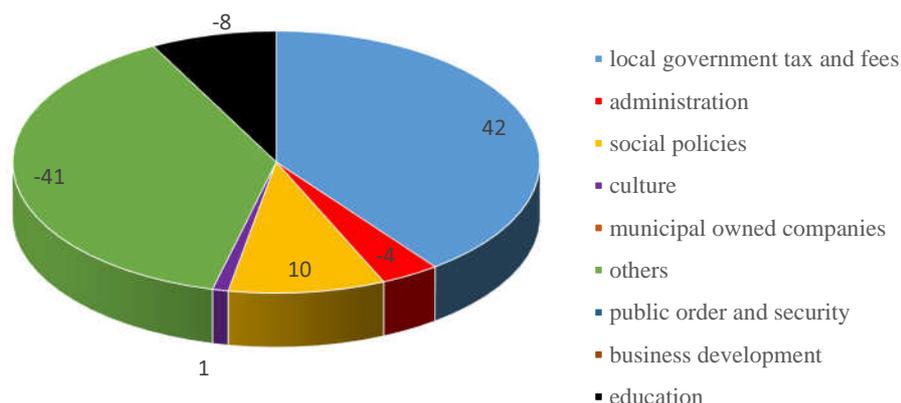
<sup>3</sup> In 2011, the federal state government reduced the state grants for the fiscal equalization scheme (€340 to 400 million per year). The constitutional court of Hesse (“Staatsgerichtshof”) decided in 2013 in a lawsuit brought by a small municipality that these cutbacks were unlawful because the federal state government has not calculate the financial needs of the local level before adjusting the amount of grants. Therefore, the federal state government has to review the equalization scheme until 2016.

## 5. Scope and forms of actions: Evaluation, performance, impact

Like in our other case studies, the local government and most of the council fractions welcomed the bailout program. Only Die Linke (The Left) refuses to support the program because it affects local democracy and transfers neoliberal policies to the local level. Although participation in the program gained broad support in the council, concrete means were contested. Especially the closedown of district libraries led to major conflicts in the council and in the wider public debate.

In comparison to our other cases, the amount of all consolidation measures is much lower (€109, €1,201 per capita in Mainz and €1,126 per capita in Wuppertal). The local government strictly follows the strategy to keep tax rates stable and has therefore not raised the tax rates for many years. The revenue increases are based only on raising parking fees, taxes for gambling machines and fees for services, which can only make a minor contribution to fiscal consolidation.

Figure 7: Implemented consolidation means, in euro per capita 2012-2021



Source: Stadt Kassel

The bailout program and implementation at the local level probably have no long-term impact on fiscal policies and other policy fields (**Σφάλμα! Το αρχείο προέλευσης της αναφοράς δεν βρέθηκε.**). The supervision and the administrative leadership emphasize that no profound consolidation measures were implemented in Kassel. The bailout program thus seems to be a windfall profit for the administration, which reduces local government debt. According to the supervision, consolidation measures in smaller municipalities were much stricter. As the biggest city in the bailout program receiving the highest funding and given its good relations with other municipalities, Kassel could easily let the whole program fail. Nevertheless, only a few actors in the city, namely the administrative leadership, have such power, because they are the interfaces in a multilevel system.

## 6. Public debate

Although the fiscal amount of consolidation was comparatively low in Kassel, the public debate was visible and antagonistic. Especially one consolidation measure, shutting down the district libraries, became a major topic on the political agenda. The district libraries were in fact made the subject of the first local referendum in Kassel. The majority of votes were against the closedown, but the initiative clearly failed to reach the quorum of 25 per cent of the eligible voters favoring the initiative. Like in Wuppertal, the civil society was able to make their voice heard in the public debate. Another example is the initially planned closedown of two outdoor swimming pools, which was not a measure in the consolidation treaty but, among other reasons, was justified by the obligations from the participation in the bailout program. Although these groups clearly advocated the particular interest of the affected districts, they also strengthened the discussion on fiscal priorities by questioning other projects of the local government (e.g., the airport or the new museum). Furthermore, a local branch of the “umFAIRteilen – Reichtum besteuern”/lit. “Redistribution – Tax Wealth!” initiative, which was supported by trade unions and social welfare organizations, took up these topics. This initiative organized a demonstration in front of city hall when the council decided on the participation in the bailout program. They condemned the increase of fees and the cutbacks in municipal services. They instead called for an increase of the business tax. Despite these interesting features of the local debate, the MAXQDA analysis of actors in the press (Table 5) shows similar results like in the other cases. Once again, the most active actor in the local debate was the deputy mayor for economics, but the mayor also addressed the issue comparatively often. The other most cited actors are heads of council fractions. An exception is one actor from the “General Federation of Trade Unions”/“Deutscher Gewerkschaftsbund” who was a driving force behind the initiative.

Table 5: Actors with most press articles quoting or paraphrasing their statements<sup>4</sup>

Code	Codings	Codings %	Documents	Actor group	Position	Opposition /majority	Party
Jürgen Barthel	67	9.12	53	local politicians	deputy mayor of economics	majority	SPD
Bertram Hilgen	35	4.76	25	local politicians	mayor	majority	
Norbert Wett	25	3.40	24	local politicians	councilor	opposition	CDU
letter to the editor	22	2.99	18	others			
Gernot Rönz	14	1.90	12	local politicians	councilor	majority	Green Party
Christian Geselle	14	1.90	13	local politicians	councilor	majority	SPD

<sup>4</sup> The gray lines are the interviewees.

Michael Rudolph	11	1.50	6	interest group	business chamber		
Kai Boeddinghaus	10	1.36	7	local politicians	councilor	opposition	The Left
Frank Oberbrunner	8	1.09	8	local politicians	councilor	opposition	FDP
Christof Nolda	4	0.54	3	local politicians	deputy mayor	majority	Green Party

## **7. Political system: Legitimacy and transparency, political culture, policy style, knowledge and leadership**

The policy style is strictly top-down and the administrative leadership, mainly by the mayor and the deputy mayor of economics, control fiscal policies. In contrast to Mainz and Wuppertal, the council including the majority fractions of the Social Democratic Party and the Green Party seem to have no chance to participate in the first phases of decision-making. The administration only includes the council when there is a legal need to do so. Probably, this policy style also caused some of the disagreements within the coalition (e.g., on the question of the outdoor swimming pools) and created conflicts on some of cutbacks (especially on the libraries).

Moreover, the political culture seems to be divisive. In fact, the participation in the bailout program was a consensual decision of the council (except the Left Party), but its implementation reveals a divisive political culture. The opposition voted against the concrete resources, accused the opposition of wasting money and expressed strong disapproval of the described policy style. The, administration, on the other hand, rejected all proposals made by the opposition.

The administrative leadership seems to have a clear strategy. The local government rules out tax increases, especially business tax, as a possibility to consolidate the budget because economic growth is the absolute priority for the local government. With this stance, the city can only solve their fiscal challenges by attracting businesses to locate there and by bringing people in from a higher income bracket. Therefore, the leadership is strategic but also clearly authoritarian, with the mayor and the deputy mayor for economics dominating fiscal policies by using their full institutional and political power.

The dominant role of the municipal leadership emphasizes that institutional and steering knowledge are, again, the most important knowledge types. On the one hand this is convincing given that the administration was the only actor knowing which conditions have to be fulfilled and which resource could be implemented in the bailout program. On the other hand, the local government did not activate its local knowledge as a source of citizen engagement or decentralized self-organizing. As a result, conflicts on cutbacks occur that are probably not in proportion to the fiscal amount involved in achieving consolidation.

Table 6: central quotations on the political system

Actor	Segment	Document group
Interview 3	Quite a lot was already negotiated within the governing body itself – mainly with the treasurer. [...] Those were indeed guidelines. The possibilities were limited, too. Well of course, you could have said: We offer an alternative. However, it is not so easy with the alternatives because there are not many services, which can be cut.	Interviews
Interview 2	First, the municipal administration called off discussions – even in the council. Instead, suggestions were worked out and then presented to the council meeting. [...]	Interviews
CDU	Consolidation measures suggested by the CDU have always been rejected by the majority. The governing body has to say now which cutback it will implement to meet the requirements of the consolidation program. This discussion should not take part behind the close doors of the coalition.	Press article

## 8. New actions: Social cohesion and economic development

Metropolitan and urban areas were always seen as a nucleus of innovative practices referring either to economic growth or social integration (e.g. Komminos 2002). By readjusting their fiscal situation cities are trying to find new ways of addressing specific problems such as the ones mentioned above, and the data and discourses advise all actors that fiscal consolidation is not enough but has to be complemented by policy innovation focused on economic development (ibidem) as well as social cohesion by local initiatives (Bakker et al 2012). To achieve this kind of policy innovation the formation of new local initiatives aimed at mobilising endogenous locally embedded potentials in these two fields seems to be crucial.

The German cities addressed social cohesion a long time ago, and it has been highly institutionalized since the 1970s (Blanke et al. 1987: 421). It seems that this constellation has been slightly challenging in recent years. Nevertheless, the general impression is that municipalities are following this path in dealing with social cohesion. This is in particular the case in the field of local economic development, a well-developed policy field. Municipal economic agencies are working in an institutionalized and professional way with close ties to local companies and local business networks in order to apply municipal strategies for local economic development (Haus et al. 2005: 132ff. and 210 ff.). Insofar, and in contrast to the Greek cases, these two fields are well developed and innovations are moderate.

In the case of Kassel, we choose two examples to illustrate the efforts made toward innovation (Getimis and Terizakis 2016): a center for technology and an initiative for integration of the migrant population. One-third of the population of Kassel has a migration background. This is an average proportion compared to other (West) German cities. Nevertheless, this task of integrating new citizens into city society is a high priority task for the city of Kassel, especially after a series of negative news stories concerning the activities of right wing elements in the city. For this reason, the city administrations successfully applied

for a Länder financed program called “Modellregion Integration (model region for Integration).” This program supported different campaigns such as language teaching program or cultural or sport events. Kassel financed a central agency coordinating these activities. This agency should function as a platform that orchestrates these cross-sectional tasks. It cooperates with the self-organization of the migrants and agrees with them on different measures and events. It is thus a cooperation with the local civil society fostering them and supporting them with a central infrastructure and funding (HMJIE 2012: 12-15). This agency and its tasks sound like one of the local success stories and is seen as such by local actors in Kassel. At the same time, a document analysis shows that innovation is not a major issue in Kassel because the city generally takes a view of itself as a city that is already modern:

Kassel developed towards a modern and competitive city with a service-based economy in the last years. (Document Budget speech 2012 of the treasurer of the city of Kassel, Mr. Barthel)

As a result, the label of a model region for integration seems to fit with the city's own image of a prosperous regional metropolis in the north of Hesse as well as at the center of Germany (and Europe). The city is a location for traditional industry but also benefits from new industries such as solar industries or medical technology, and a strong industrial sector at least still exists. The economic restructuring and a high unemployment rate since the 1970s have been forcing the city to find solutions for the municipal finance since then (Barthel 1998, p. 121). The fiscal consolidation was necessary, but also successful and useful for the city given that

[T]he city of Kassel is in a good position in economic terms and the budget of the city sets a friendly environment for that. This is the key for our prosperous city and precondition for economic growth (Document: Newspaper HNA, “Kassels Schulden sinken/Kassel's debt is decreasing,” October 12, 2013)

Prosperity is a key word in this debate because new developments were justified by the contribution to the prosperity of the city. The demographic challenge is the background of the commitment by the city in the specific integration program, by its participating in the bailout program seems at a first glance to be an extra ‘sweetener’ or incentive for the city. Nevertheless, participation in the program is part of the local effort to be a good performer in the wider region. The social situation is viewed to be of importance for a flourishing town such as Kassel.

The vibrancy of the economy is part of this ambitious development. Kassel is an interesting location for business given its location at the crossroads of major highways, is a major hub for the Deutsche Bahn (German railway company), has its own regional airport, is the home of important (production) companies and hosts a major cultural event, the *documenta*. Economic innovation seems to be a part of local brand. We chose a local business network to illustrate this because this shows how prosperity can be generated in Kassel. The center for technologies and foundation – short FiDT – is a network infrastructure for local companies. It provides start-ups with a location with the necessary infrastructure and it is financed by the city of Kassel, the *Land* of Hesse, the University, the local chamber of commerce and by other sources. The advantages of an infrastructure and networks created around it are the

specific arrangement created by the FiDT. Especially the university is a key player for the functioning of this construction. A central expectation is to be more attractive to business, which is a kind of mantra for the development of the city: economic development through growth:

It is necessary to combine economic growth and attractiveness with the consolidation of local finances. Consolidation measures ‘should be selected in a way that they do not endanger growth and attractiveness of the city’ said the Lord Mayor Mr. Hilgen (Document: Newspaper HNA, ‘Schutzschirm: Magistrat will mitmachen/Consolidation program: Magistrate will participate’, May 5, 2012)

Fiscal consolidation should not endanger local development created by these kinds of networks. Although the fiscal amount of consolidation was comparatively low in Kassel, the public debate was visible and divisive. One consolidation measure in particular, the closedown of district libraries, became a major topic on the city agenda. The district libraries were in fact made the subject of the first local referendum in Kassel. The majority of votes were against closure, but the initiative clearly failed to reach the quorum of 25 per cent of the eligible voters voting in favor of the initiative. The opposition essentially put these words in the mayors mouth:

Closing down the district libraries or raising business tax (Document: Press release CDU Kassel “Oberbürgermeister Hilgen droht: Entweder Bibliotheken schließen oder Gewerbesteuer erhöhen!,” March 20, 2013).

The latter option was obviously not an option in Kassel.

In Kassel, the mayor and the treasurer dominated consolidation policy, but the mayor was more active in the local debate on fiscal policies than his colleagues in the other cases. The leadership in Kassel involved the other members of the collegial executive body and partly their council coalition. They discussed consolidation measures in closed sessions between the executive and the council majority because they thought that it was impossible to mobilize support from outside. The leaders did not attempt to involve the opposition, which reflects an antagonistic political culture in the city. Moreover, the treasurer aired his doubts on the involvement of civil society groups and citizens in decision-making. Hence, the leadership gave up attempts of participatory budgeting after negative experiences with citizen fora.

Our experience with participatory budgeting is like this: we organized an event with a lot of work and we could welcome all citizens personally, in a city with 200,000 inhabitants (Interview 1)

Indeed, the leadership fostered partnerships in economic policy (e.g., with the university) but consolidation policy was exercised strictly top-down. As a result, civil society groups criticized that local government bypassed local democracy in implementing the consolidation program. Nevertheless, in the view of their political leaders the city is on the right track in pursuing its own attempt at growth policy:

The treasurer in Kassel focuses on growth as basis for solid financial policy. Only the incomes of the city should grow, not the expenditures. (Documents Newspaper HNA “Sparen nichts kaputt/we do not want to destroy through cutbacks,” April 9, 2013).

The strategic path is that

Nothing will be destroyed by the cutbacks (Documents: Newspaper HNA ‘Sparen nichts kaputt/we do not want to destroy by cutbacks’, April 9, 2013).

## **9. Conclusions**

In contrast to Mainz and Wuppertal, it was difficult to identify clear cases of mismanagement. Because the actors of the administrative leadership have been in office for a long time, they could not refer to burdens caused by former governments as was possible in Mainz. Indeed, the opposition was also unable to name concrete endogenous causes for local government debt although they criticized the fiscal priorities of the local government.

The contribution of the bailout program to the fiscal consolidation in Kassel seems to be comparatively small. The city benefited from the windfall profits of state funding but its own attempts to consolidate the budget within the scheme of the bailout program are far less significant than in Mainz or Wuppertal. Nevertheless, the strict top-down policy and the authoritarian leadership caused major conflicts in local politics. The local government strategy excluded increases of real property and business tax, which were quietly implemented in Mainz and Wuppertal and made up the biggest share in consolidation plans in those two cities. It is doubtful whether the strategy to consolidate the budget by initiating economic growth will work in the future. Strategic leadership and planning euphoria seem too close to each other because the reliance on growth is risky and probably overestimates the steering capacities of the local government. Indeed, Kassel had a remarkable economic development over the past few years but the growth dynamics could slow down because the gains from unification are not long-lasting, space for incoming businesses is nearly exhausted and it is difficult to integrate the remaining unemployed within the job market. Moreover, despite a notable increase in business tax revenue in the last decade, it has not been possible to consolidate the budget until now. In addition, there are a number of open questions that will influence the success of fiscal policies in the next years. One of most important points is the as yet uncompleted reform of the fiscal equalization scheme for local governments in Hesse. If the expectation of the local governments are to come true and the federal state reverses earlier cutbacks of state grants, the chances for success will be much higher.

A remarkable observation is that we have a vivid public debate on fiscal priorities, which includes interest groups arguing in favor of the preservation of municipal services or alternative means of consolidation. Indeed, we have to note that the public debate is not connected to the decision-making process. Agenda setting and decision-making is exclusively controlled by the administrative leadership. The council had no influence on the consolidation program except the formal approval of the means. Going beyond this, although the participation in the bailout fund is not contested, concrete means were welcome by the majority of council members – a pattern we also found in Mainz and Wuppertal.

## 10. Policy recommendations

### Recommendations for Local Level Actors (Micro-level)

Political culture: Mayors and treasurers should represent the whole coalition government because otherwise it is more difficult to mobilize enough political support for consolidation policies.

Output legitimacy: The exclusion of revenue-based consolidation measures is demanding for local governments because the options for achieving greater efficiency and cutbacks are restricted after several years of consolidation.

Attempts at regional cooperation require the acceptance of all affected municipalities from the beginning.

Economic growth is a favorable condition for consolidation, but economic policy alone is not a sufficient strategy.

Companies owned by the municipality should be restricted to their tasks in local public services, which do not overburden local steering capacities and the knowledge of local actors.

Input legitimacy: Trying to prevent discourse on consolidation measures is a dangerous strategy. Direct democratic elements have to be considered as new veto-points, especially for consolidation measures where affected groups are clearly definable.

Policy style/

leadership: What innovation is depends strongly on the local context. One size fits all solutions should be avoided

### Recommendations for Federal and Federal State Level Actors (Macro-level)

Consolidation programs need objectives for local consolidations plans that prevent bargained solutions behind closed doors. Solutions agreed behind closed doors favor bigger cities with higher political power and political networks in comparison to smaller municipalities.

Consolidation programs are able to strengthen the position of fiscal policy makers in local bargaining processes but also their argumentation because they can refer to direct and short-term benefits of consolidation (triadic communication).

Cooperative legislation (consultation with local government associations) and implementation of bailout programs could lead to broad-based acceptance of the program on the one hand but also make stricter sanctions and mixed funds (financial contributions of the local level to the program) impossible.

Consolidation programs are just one side of the reform agenda, innovative stimuli of the local economy and society is the other side. The exact meaning of innovation depends strongly on the local context. One-size-fits-all solutions implemented from the top down should be avoided.

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## List of interviews

1	Dr. Jürgen Barthel	Treasurer
2	Michael Schreyer	Head of the financial department (Kämmerei und Steuern)
3	Hermann Hartig	Councilor and speaker for fiscal policy
4	Dorothee Köpp	Councilor and speaker for fiscal policy
5	Bernd-Peter Doose	Councilor and speaker for fiscal policy
6	Michael Rudolph	CEO German association of unions in the Region of North Hesse ('Deutscher Gewerkschaftsbund Region Nordhessen')
7	Dr. Marc Gnädinger	Executive officer in the department for debt management, local government equalization schemes

8	Dr. Ulrich Keilmann	Deputy head of the department for debt management, local government equalization schemes, Ministry of Finance Hesse
9	Klaus Tampe	Officer for fiscal supervision for the city and the county of Kassel, Supervision (Regierungspräsidium Kassel)
10	Dr. Jürgen Dieter	Director, Association of Hessian cities (Hessischer Städtetag)