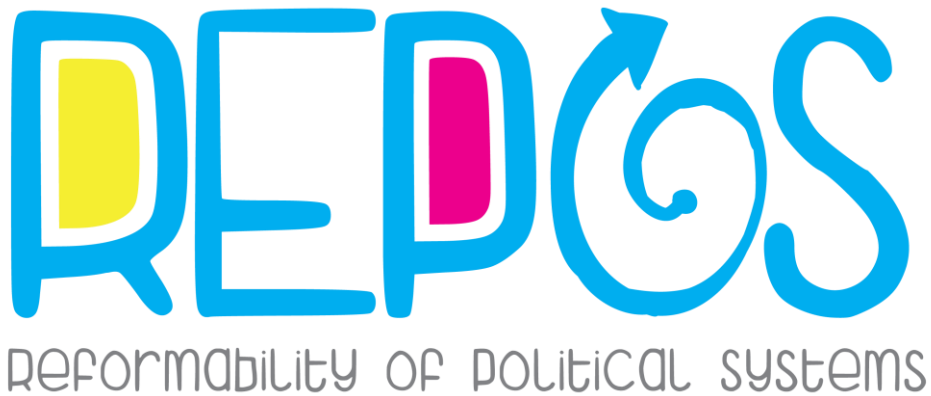


P. Stolzenberg

Magdeburg Case study report



Contents

1. Introduction	2
2. Socioeconomic features of the City of Magdeburg.....	2
3. Political leadership	3
4. Fiscal Challenges	3
5. Problem Perception and Causes	6
6. Scope and means of Actions: Evaluation, Performance, Impact	7
7. Public Debate	12
8. Political system: Legitimacy and Transparency, political culture, leadership.....	14
9. Policy recommendations	17
Recommendations for Local Level Actors.....	17
Recommendations for Federal and Federal State Level Actors	17
References	18

1. Introduction

The case report gives a brief and provisional summary on our empirical findings on fiscal policy in Magdeburg. The first three chapters are descriptions of the socio-economic situation, the political actor constellation and the fiscal challenges based on statistical data and existing literature. The chapters four and five review our own empirical findings on the perception of local actors on fiscal problems and their explanation as well their view on concrete consolidation means including the assumed impacts. These chapters are purely descriptive and are provided with several quotations and data derived from our MAXQDA-analysis. In the following chapters I will then concentrate on the analyses and interpretation of researchers became relevant. I will discuss the policy and leadership styles, the different kinds of legitimacy and the local political culture influencing the fiscal policy making. The empirical corpus of the case of Magdeburg includes the following data collected up to now (16th April 2015):

- interviews with 8 actors: deputy mayor of economics, head of the financial department, 4 councillors or CEOs of council fractions, a representative of an interest group (tax payers association, a researcher (political science) of the local university, a representative of the investment bank Saxony Anhalt
- 92 documents from the local newspaper, council minutes, reports or press releases of the local parties and the municipality

2. Socioeconomic features of the City of Magdeburg

The city of Magdeburg is the capital of the federal state of Saxony-Anhalt in East Germany. The city lost about 60.000 inhabitants since 1989 and has 229.924 inhabitants today. Magdeburg is located in a rural area between different metropolitan areas but due to long distances the economic links are rare. Magdeburg was also member of the metropolitan region called “Metropolregion Mitteldeutschland“, which was established by several cities in Thuringia, Saxony and Saxony-Anhalt. However, the city left the organization of the region in 2014. Nevertheless, the city is a major regional centre which could be described with the planning term “Regiopolis”/“Regiopole” like Kassel.¹ The city was the centre of the machine and plant construction of the German Democratic Republic which collapsed in the economic restructuring after the German reunification. Although there were some successful attempts to restore the industry, e.g. solar industries or medical technology, the industrial sector is still small. The service sector which contains the federal state institutions, a university, a university of applied science as well as several other research institutions, could absorb some of the losses. In 2012 Magdeburg was awarded as “Germany’s most dynamic city” (following Kassel awarded in 2011). The city successfully reduced unemployment, youth unemployment as well as the number of social welfare recipients and increased the municipal tax power (Institut der deutschen Wirtschaft 2012, p. 10). Nevertheless, the socio-economic development is still lower than in our other cases and in several cities in East-Germany (e.g. Jena, Dresden or Erfurt). The unemployment rate and the rate of social welfare recipients are slightly higher than in average of Saxony-Anhalt and of East-Germany as a whole. Moreover, the disposable household income is clearly lower than in the other selected German cities.

¹ The term “Regiopole” should characterize major cities (more than 100.000 inhabitants) located outside metropolitan regions. These cities should have a university, a good traffic infrastructure and a certain amount of metropolitan functions for the surrounding region Aring and Reuther (2008, pp. 23–27). Kassel is one of the prototypes of this city type but Magdeburg has also many of the described characteristics and the city’s urban planning concept also uses this approach Landeshauptstadt Magdeburg (2013, p. 20).

Table 1: socio-economic data of Kassel

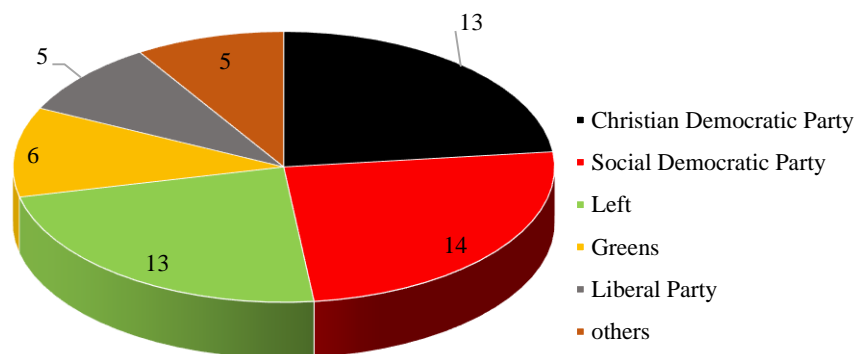
		Magdeburg	Saxony-Anhalt	East-Germany	Germany
unemployment rate	in %	11.0	10.7	9.9	6.5
social welfare rate	in %	8.5	7.7	7.2	4.5
disposable household income	in € per capita	16,044	16,661	-	19,933
primary household income	in € per capita	16,221	16,469	-	23,278
share of employees in	in %	8.9	18.7	25.8	20.4
share of employees in service	in %	85.9	71.7	72.1	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. Political leadership

In contrast to our other cases there is no formal coalition in the council. This is quite common in East-German municipalities and caused by a distinct political culture which is characterized by widespread scepticism of political parties especially at the local level. A strong Left and fragmented councils make common coalitions including a grand coalition impossible (Figure 1). Furthermore, the institutional arrangement of a local government code that provides the mayor with strong administrative and political powers probably strengthens the possibility to form ad hoc majorities (Reiser 2010, pp. 309–310). The actors in Magdeburg perceive local politics as consensual, and fiscal policies are made by broad majorities without the need for formal coalitions. The mayor, a Social Democrat and the second mayor after the reunification, is in office since 2001 and was re-elected in 2008 as well as 2015 in the first ballot. He is a former councillor and chairman of the budget committee and worked as secretary of state in the federal ministry for spatial planning, agriculture and environment. The deputy mayor for economics, a Christian Democrat, is in office since 2007. He was a public servant of the municipal administration and head of the financial department before the council elected him as deputy mayor. Despite their different party affiliations, the cooperation between the mayor and his deputy is described as consensual because they share the same point of view on fiscal policies. Similar to Kassel and Wuppertal there is strong personnel continuity and a high amount of political and administrative experience.

Figure 1: seating in the council of Magdeburg after the local government elections in 2009

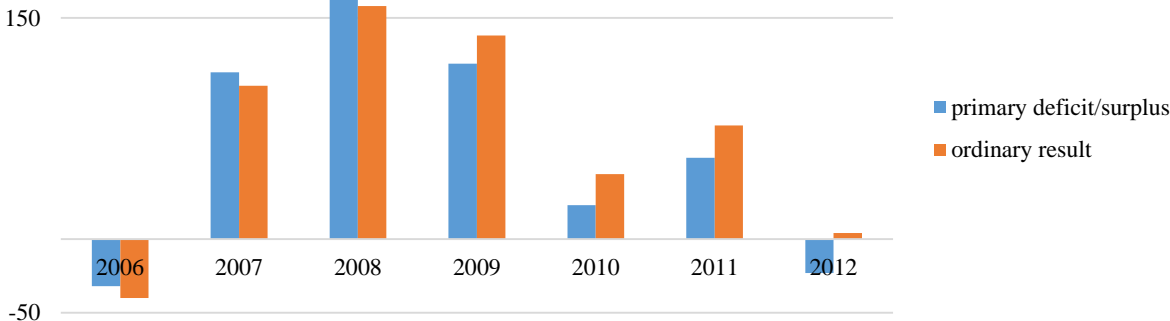


4. Fiscal Challenges

The fiscal situation of the city seems to be not as challenging compared to the other cases, but it is necessary to consider some distinct aspects of local government finance in East-Germany. Cities in the new federal states depend much more on grants and benefit from the expiring “solidarity pact”/”Solidarpakt”. Moreover, the revenues from own taxes, especially from the business tax, are much lower than in West-German cities due to structural economic problems and the characteristics of the tax law. I will compare the fiscal data to other independent cities in East-Germany of the same size as the federal state of Saxony-Anhalt has only two more independent cities (Halle/Saale, Dessau-Roßlau). The municipality was able to balance the budget since 2012 (Figure 2). Moreover, the total debt and especially the short-term debt are much lower than in the other cases (

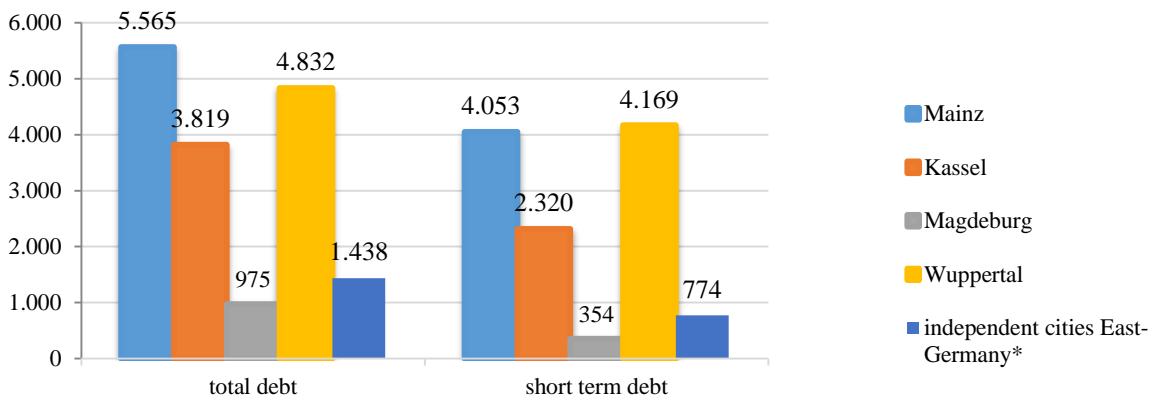
Figure 3). In contrast to that the revenues are among the lowest in comparison to the other cases and among the East-German cities but we have to consider that Saxony-Anhalt is one of the federal states with the lowest level decentralization in Germany (Burth *et al.* 2013, p. 51). In comparison with the cases in the set, Magdeburg indeed still lags behind in respect to tax revenues (especially business tax revenues). In contrast, only one independent city in East-Germany has a clearly higher tax power (Jena, Figure 5). The data for local government tax collection rates show that Magdeburg has a high rate of business tax and real property tax (Figure 4), although the latter is characterized by high convergence among East-German cities. Moreover, the spending-side shows that the expenses for staff and for social policies are comparatively low. Actually, a smaller amount of tasks at the local level might explain this finding.

Figure 2: primary deficit/ surplus and ordinary result; in Euro per capita.



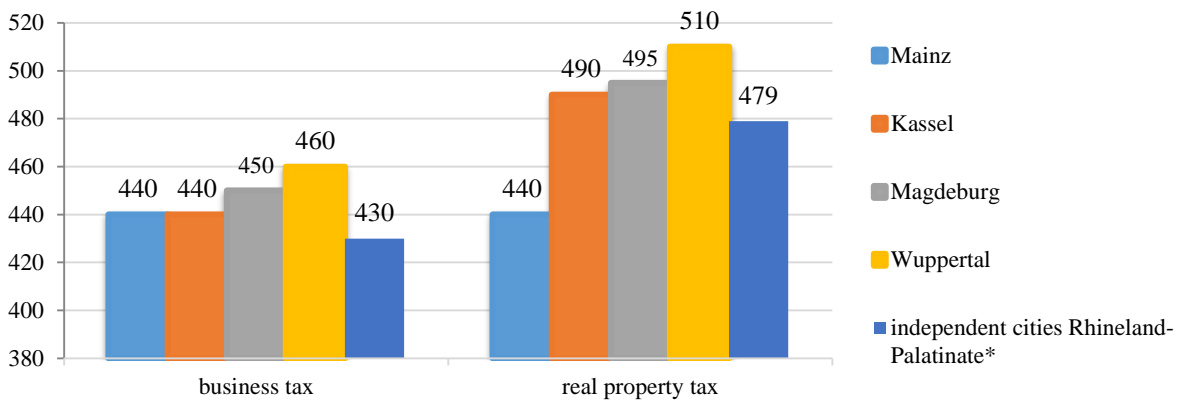
Source: Bertelsmann Stiftung 2013

Figure 3: total and short-term debt of local government in Wuppertal in comparison; in Euro per capita in 2012.



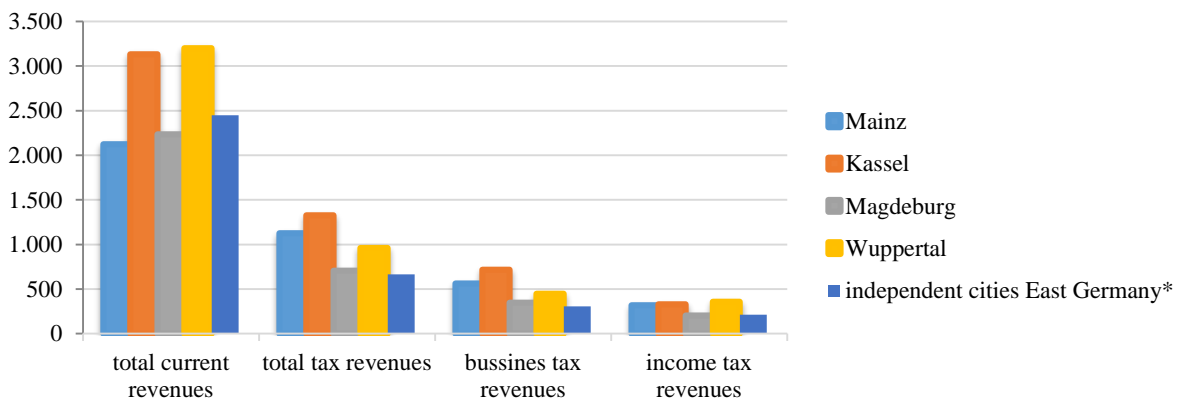
*average of independent cities in Rhineland Palatinate with more than 50.000 inhabitants. Source: Bertelsmann Stiftung 2013

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



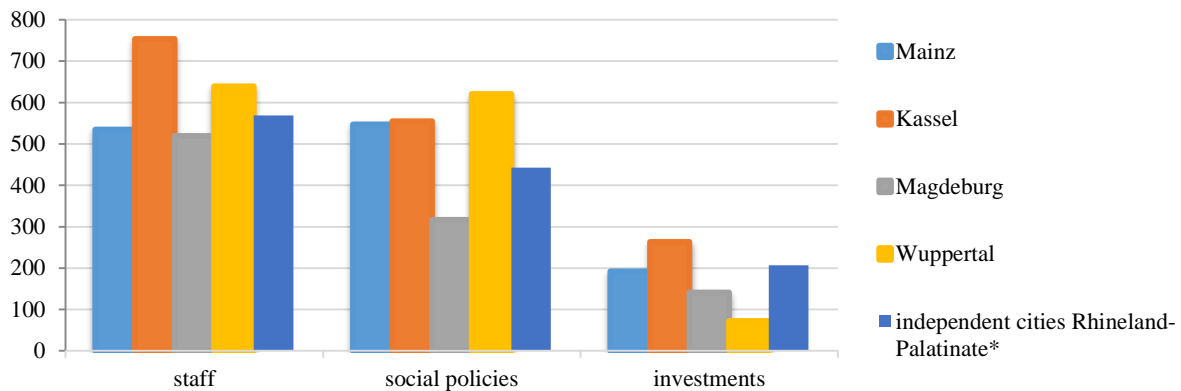
*average of independent cities in Rhineland Palatinate with more than 50.000 inhabitants. Source: Bertelsmann Stiftung 2013

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



*average of independent cities in Rhineland Palatinate with more than 50.000 inhabitants. Source: Bertelsmann Stiftung 2013

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



*average of independent cities in Rhineland Palatinate with more than 50.000 inhabitants. Source: Bertelsmann Stiftung 2013

5. Problem Perception and Causes

Chapter 3 showed that the fiscal challenges of Magdeburg are comparatively moderate which is supported by the views of local actors as well as actors from an interest group and the representative of the public investment bank of Saxony Anhalt. The low amount of tax revenues, the repayment of local government debt and especially missing capacities for investments are perceived as the main challenges. The latter was described with an alarming metaphor launched by the mayor and the treasurer and adopted by some council fractions:

“If we cannot strengthen the investments to stop the deterioration of municipal assets we will have the same failure like in times of the German Democratic Republic.” [Mayor quoted in the local newspaper, 28th November 2013].

Endogenous causes for local government debts were rarely discussed which seems to be consequential as fiscal policies were supported by most of the council fractions. Only few small-investments or dispensable tasks were criticized in the documents and interviews (e.g. the new building of the football stadium, the local airfield, the marketing campaign for the city). Additionally, there is major dispute on the construction of a tunnel nearby the main station. However, the local actors emphasize that loans for investments were necessary and successfully enhanced the living conditions in the city.

Table 2: number of assigned codes for endogenous and exogenous causes

endogenous causes	35
exogenous causes	144

Table 3: endogenous causes of the fiscal crisis – selected quotations

actor	segment	document group
Interview 2	Magdeburg is a positive example which achieved a balanced budget with the available revenues. However, Magdeburg has a huge amount of municipal debt. [...]. There were also some politically motivated projects [football stadium] which will trouble the municipality for years.	Interviews
Interview 3	There are always failures. However, I cannot remember any local failures which were really essential.	Interviews

Interview 1	We missed to develop commercial areas in the early nineties. Therefore, we have many business locations in the suburbs now.	Interviews
Budget speech Left 2014	Where is the money which is missing in these policies [infrastructure, social policies]: In dubious attempts to make the city more visible and more attractive [e.g. the image campaign] which cost a lot of money and are impossible to evaluate up to now.	Council minutes

Therefore, the common perception is that exogenous reasons caused fiscal challenges. These exogenous causes are complex but all in all four types of reasons can be differentiated in the local debate namely:

1. **The federal state:** an insufficient financial equalization scheme, the weakening of fiscal rules for short term borrowing.
2. **The federal level:** tax reforms and increasing tasks for social policies increasing expenditures and decreasing revenues.
3. **Socio-economic structure:** limited capacities for own revenues, dependence on state grants, industrial locations mainly located in suburban areas outside the city, long-term-unemployment and low incomes causing high transfer payments.
4. **Centrality:** city fulfils many tasks for surrounding municipalities.
5. **Need for public investments after reunification**

A dominant topic is the financial equalization scheme of the federal state, found in the documents as well as in many interviews, which is blamed for punishing Magdeburg for its comparatively good fiscal performance. Moreover, the local actors expressed the importance of typical socio-economic challenges of East-German municipalities.

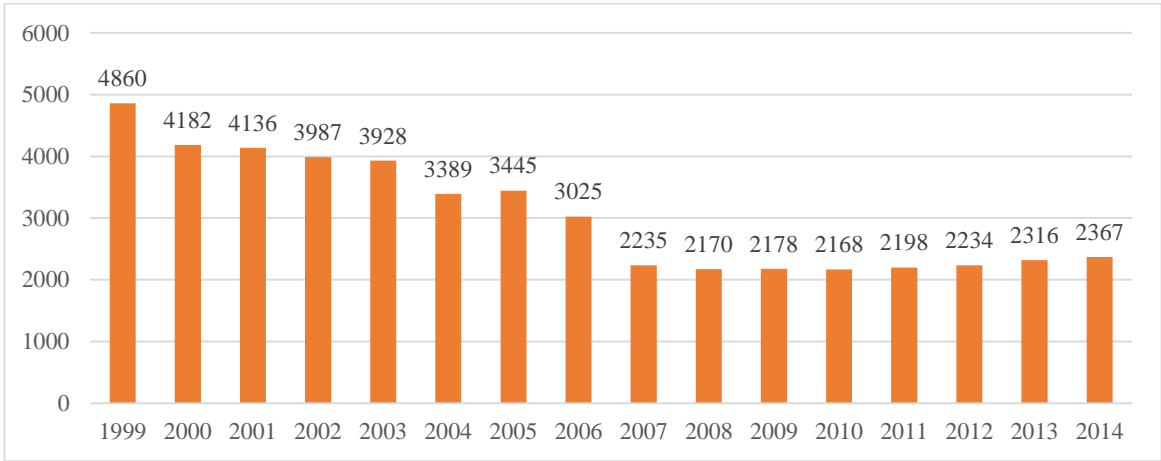
actor	segment	document group
Interview 1	Social expenditures are big challenges for us (e.g. the accommodation costs for welfare recipients). Some of these expenditures have steadily (e.g. socio-educational support, "Hilfe zur Erziehung") increased in the recent years.	interviews
Budget speech SPD	We should not be the extended workbench for external companies. We need headquarters. The employment situation in Magdeburg got better in the recent years but there are still too many people who do not have enough money to pay their rents. Therefore, they need additional transfers from the municipal budget. [...]	Council minutes
Budget speech SPD	A decrease of federal state grants causes a huge gap in the municipal budget which otherwise would be balanced. The reduction of state grants is a slap in the face for a successful consolidation policy and the efforts of economic development. Those, who treat frontrunners of the local level that way cause apathy and raise a lack of solidarity in the federal state.	Council minutes

6. Scope and means of Actions: Evaluation, Performance, Impact

In contrast to the other German cases, the city did not decide on a new consolidation plan in our research period but adjusted an existing consolidation concept (originally decided in 2002, now 171 means). Since 2012, the municipality is not anymore obliged to implement a consolidation concept as balanced budgets were reached. Therefore, the comparability to the other German cases is limited. Compared to the other cases the history of fiscal consolidation is shorter and started formally with the first consolidation concept in 1999. Figure 9 shows all means stated in the second consolidation concept from 2002. It is an updated version for the period from 2011 till 2015. Compared to the other cases it is obvious that Magdeburg lowered

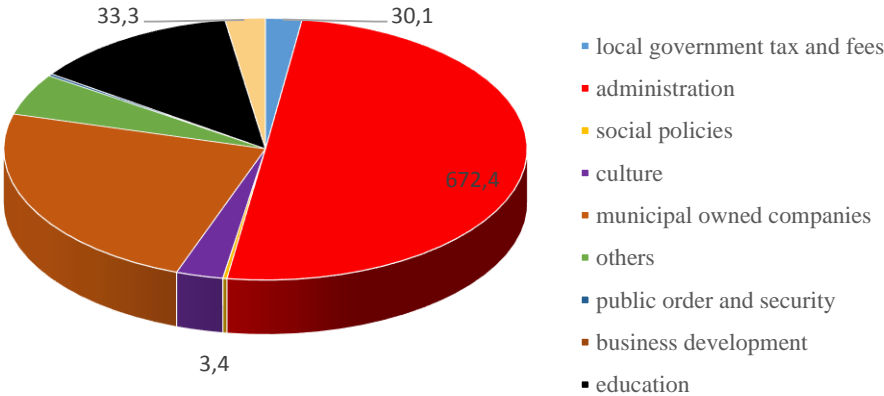
its administrative cost much more (especially the expenditures for staff). These findings are not surprising as east-German municipalities were overstaffed after the reunification (see Figure 7). Moreover, the municipality reduced the number of schools, shifted childcare to non-profit agencies, merged departments and reduced subsidies to municipal owned companies. Moreover, a number of New Public Management instruments were established within the municipal administration (controlling, human resources controlling, cost and performance accounting). In contrast to other German cities which successfully consolidated their budgets, the disposal of public assets like municipal housing companies was excluded by the municipal leadership and the council.

Figure 7: municipal staff in Magdeburg (full time equivalent)



Source: (Landeshauptstadt Magdeburg 2014a, p. 11)

Figure 8: implemented consolidation means in Euro per capita (adjusted consolidation concept for 2011-2015)



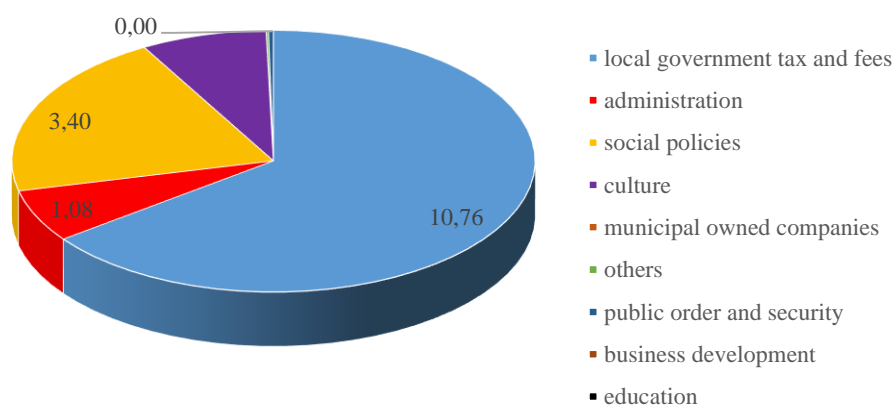
Source: (Landeshauptstadt Magdeburg 2014b)

Although the formally obliged fiscal consolidation ended, the municipality did not only adjust the old consolidation concept but decided on a new consolidation list and adopted an own municipal “debt brake”:

“The council decides to balance the budget including all consequences for public services, especially for voluntary tasks.” [Council minute DS0384/11]

Moreover, a binding benchmark decision of the council forbids borrowing from 2011 to 2015 (DS916-35(V)11). To comply with this decision the financial administration prepares budget drafts with planned balanced budgets and restrains the financial demands of departments within the drafting process. Furthermore, a decrease of state grants made additional consolidation measures necessary to reach the agreed goal (shown in Figure 9). The municipality increased the rate for real property tax, made cutbacks in social policies and horizontal cutbacks for all departments. However, compared to the older consolidation program the fiscal amount of this new consolidation list is limited and incremental short-term means prevail as the municipality had to decide on the means in a few days after a cut of state grants announced by the federal state.

Figure 9: implemented consolidation means in Euro per capita in 2012.



Source: (Landeshauptstadt Magdeburg 2011)

Table 4 gives a brief overview on the discussed means analysed in our MAXQDA-Analysis. The table shows that the means with the highest amount in the consolidation concept (reduction of staff) and in the latest consolidation list (real property tax) were most frequently discussed.

Table 4: consolidation means – codes and number of codes

		number of codes
management reforms		1
management reforms	Freie Träger in der Kinderbetreuung	1
management reforms	Leistungsverträge	2
management reforms	Projektförderung statt Institutionenförderung	1
management reforms	Ausgliederung KITAS und Pflegeheime	2
management reforms	Energieeinsparung	2
management reforms	Einsparungen Straßen	1
management reforms	Bauhöfe	3
management reforms	Verwaltungseffizienz	1
management reforms	Kosteneinsparung durch Radverkehr	1
management reforms	WOBAU-Verkauf	1
management reforms	Gewinnabführungen Eigenbetriebe	4
management reforms	Pflegefamilien	3
management reforms	Schuldenmanagement	1
management reforms	Public Private Partnership	4
management reforms	Gebäudewirtschaft	1
management reforms	Co-Produktion	3
management reforms	Doppik	10

management reforms		Privatisierungen	7
management reforms		Neuverschuldungsverbot	13
management reforms		Aufgabenkritik	7
revenues increase			4
revenues increase		Kulturförderabgabe	1
revenues increase		Zeitwohnsitzsteuer	1
revenues increase		Verkauf Klinikum	1
revenues increase		Straßenausbaubeiträge	1
revenues increase		Kindergartengebühren	1
revenues increase		Gewerbesteuer	4
revenues increase		Grundsteuer	31
cutbacks			6
cutbacks		Frauenhaus	1
cutbacks		Initiative Mitteldeutschland und der Metropolregion	1
cutbacks		Kürzungen Kulturpolitik	9
cutbacks	Kürzungen Kulturpolitik	Schließung Kabarett	2
cutbacks		Kürzungen Sozialpolitik	10
cutbacks	Kürzungen Sozialpolitik	Jugendhilfe	4
cutbacks	Kürzungen Sozialpolitik	Jugend- und Seniorenpolitik	2
cutbacks	Kürzungen Sozialpolitik	Kürzungen in der Kinder- und Jugendarbeit	6
cutbacks		Rasenmäher	2
cutbacks		Schwimmbhallen	1
cutbacks		Stadtteilbibliotheken	1
cutbacks		Grünpflege	1
cutbacks		Symbolische Maßnahmen	1
cutbacks		Kabarett	1
cutbacks		Personal	26
cutbacks		ÖPNV	9
cutbacks		Dommuseum	1
cutbacks		Einsparung Innere Verwaltung	1
cutbacks		AMO-Schließung	3

While the first consolidation program was not disputed in the council, some cleavages became obvious when the new consolidation means were discussed. To complement the quantitative analysis, some statements of the local actors on the most important means are shown in Table 5. A common perception (reflected by the development of municipal staff in the recent years) is that reductions in staff are not possible anymore if existing tasks have to be fulfilled.

Table 5: controversial means in the local debate

actor	segment	document group
Department 1	It is not possible to reduce more and more staff if existing tasks have to be fulfilled. A work overload and a narrowed knowledge transfer would be the consequence.	Administration (report on staff and organization 2012/13)
Interview 1	We made extensive staff reductions. Maybe there are still some departments where reductions are possible but we have to prepare ourselves for skill shortages ("Fachkräftemangel"). [...] We have to make good offers for job applicants and be an attractive employer.	Interviews
Budget Speech SPD	We restricted expenditures and made hard cutbacks. As the municipal staff provided an enormous share of the fiscal consolidation it is out of question to make more cutbacks in staff expenditures.	Council minutes
Interview 1	We closed some youth centres. Of course, there was protest, but all in all the level of our expenditures for youth policy is good. In face-to-face dialogues the non-profit agencies ("freie Träger") will agree on this because expenditures in Halle/Saale are much lower.	Interviews

Budget speech Greens 2012	Like every year horizontal cutbacks in youth policies are planned. The focus is not on effectiveness and appropriateness for the challenges in Magdeburg. The focus is on the arbitrariness of horizontal cutbacks.	Council minutes
Budget speech Left 2012	If you see that more and more children are born in poverty you have to recognize that cutbacks in these policies are not possible. [...] Intergenerational fairness is often used as an argument for fiscal consolidation but we have to take care that we can finance these public tasks. Not only to retain service but to enable developments which seem to be endangered in the recent years.	Council minutes
Budget speech treasurer 2012	Many cities have similar or higher rates of real property tax and some of these cities (e.g. Wuppertal and Gelsenkirchen) have to provide transfers of the “solidarity pact” to the east-German federal states. Therefore, my point of view is that we cannot justify that we do not attain possible own revenues while receiving transfers.	Council minutes
Budget speech CDU 2012	From our point of view the increase of real property tax rates is the wrong signal for citizens and businesses. Moreover, it is counterproductive for the political demand for business development.	Council minutes
Budget speech CDU 2014	Our municipality benefits from current low interest rates. However we cannot assume that rates will stay at this level. Therefore, the reconsideration of the “municipal debt brake” is comprehensible and our fraction will support an amendment of the rule if necessary.	Council minutes
Budget speech mayor 2013	If we persist on the rule [the municipal debt brake] with respect to investments? I don't think so. We have to finance investments. In the current phase of low interest rates this is not a problem, but it will be probably more challenging in the years to come.	Council minutes

The success of fiscal consolidation is relatively undisputed in Magdeburg. Local actors as well as actors of upper levels or interest groups share the opinion that fiscal policies were successful. Balanced budgets and the moderate level of local government debt (including short-term borrowing) were seen as a result of effective consolidation policy. Many actors evaluate the success in relation to policy outcomes in other municipalities (especially in Halle/Saale). However, the common perception is that Magdeburg does not benefit enough from fiscal consolidation as the federal state equalization scheme tends to offset consolidation gains in favour of municipalities which made lesser efforts. Moreover, the Left party that supported consolidation policy for a long time complains about new austerity means. In their opinion the service level in social policy as well as public transportation suffers from austerity. Therefore, the balanced budget is labelled as “window dressing” and affirmation of wrong policies at upper levels. As chapter 5 showed this view is partly shared by other fractions which also complain about missing capacities for investment policies. Nevertheless, the bigger fraction and the municipal leadership describe the socio-economic development of the city as merely positive and in accordance with the consolidation means.

Table 6: perceptions of fiscal performance

Budget speech Left 2012	We were not elected to affirm a disputable policy of the federal or the federal state level but to shape Magdeburg in a way which is in favour of our citizens. Due to the consolidation plan – or the austerity and tax raising plan – we have a balanced budget plan - in terms of accounting – but we do not fulfil the mandate of our citizens.	Council minutes
Budget speech mayor 2012	We decided on 170 consolidation means to balance the budget without any harm in culture, sports or youth policy. If anything, we invested in childcare and sports facilities. Everything is in a great condition and nobody has to suffer in Magdeburg.	Council minutes
Interview 2	Magdeburg has a balanced budget. This is not self-evident in Saxony Anhalt. The city for comparisons is Halle/Saale with an enormous deficit and unbelievable political motivated projects. [...] Magdeburg always tried to fulfil tasks with available resources.	Interviews

Interview 4	If you compare Magdeburg to the other independent cities within Saxony Anhalt the fiscal indicators are good. The municipality made good fiscal policies. They have a low level of short-term debt and tried to finance investments in a solid way. [...]	Interviews
Interview 3	There is no striking negative impact of fiscal consolidation. The voluntary tasks in cultural and social policies remained at the same level. From my point of view the service is even better as all facilities were refurbished.	Interviews
Budget speech treasurer 2014	We made hard cutbacks and reduced 600 positions in the municipal administration. We restructured and delegated tasks of the municipality and you can see that we were successful.	Council minutes
Budget speech mayor 2013	It is a common achievement of the council and the municipal administration that we were able to leave prescribed austerity behind us. There is nobody who can make obligations anymore after eleven years of fiscal consolidation. The federal state cannot boss us around anymore. [...] and you have to show me the city in Saxony Anhalt which was as successful as Magdeburg.	Council minutes
Interview 5	The image of Magdeburg is not that good but the city is much better than its reputation. 1992 when I was here for the first time I nearly turned around to leave immediately. The initial position of Magdeburg was not as good as in Erfurt, Dresden or Leipzig. However, the city developed really good [...] but I think it has not reached the same level like the east-German frontrunners.	Interviews

7. Public Debate

In this chapter we will illustrate our interpretation of the public debate, e.g. the dominating actors and some visible cleavages. Table 7 shows the most relevant actors in terms of the number of press articles, quoting or paraphrased statements. In contrast, to all other cases the mayor is the dominant actor in the public debate, whereas the treasurer and the heads of the fractions follow at great distance. The total number of actors is also much lower than in the other cases. Moreover, compared to Wuppertal and Kassel the civil society is quantitatively and qualitatively nearly invisible in the public debate. Only a short dispute on cutbacks in youth policy and an interview with the tax payers association was documented in the local newspaper. Probably the new consolidation means were not controversial outside the council.

Table 7: actors with most press articles quoting or paraphrasing their statements

code	documents	codings	codings %	actor group	position	party	
Lutz Trümper	26	17	3,35	local politicians	mayor	SPD	
Klaus Zimmermann	10	8	1,29	local politicians	treasurer	CDU	
Wigbert Schwencke	7	5	0,90	local politicians	councillor	CDU	head of the fraction
Wolfgang Wähnelt	6	5	0,77	local politicians	councillor	Greens	head of the fraction
Frank Theile	5	3	0,64	local politicians	councillor	Left	head of the fraction
Reinhard Stern	5	5	0,64	local politicians	councillor	CDU	Chairman of the financial committee
Hans-Jörg Schuster	4	4	0,52	local politicians	councillor	FDP	head of the fraction
Jens Rösler	4	3	0,52	local politicians	councillor	SPD	speaker for fiscal policy

In contrast to the other cases the debate on specific consolidation means was limited with respect to the number of press articles, participating actors and cleavages. The only visible public conflict took place between the mayor and the Minister of Finance of the federal state on the equalization scheme (both with the same party affiliation). The mayor criticized the federal state with harsh words for the financial equalization scheme: “*Crash course*”/“*This is how you kill the city step by step.*”/“*This law is so crude that you cannot even believe it.*” Moreover, he requested the Minister of Finance for a public disputation and recommended the council to ignore the obligation of the supervision on the budget:

“The obligations of the supervision will not be fulfilled as long as the financial equalization scheme supposes decreasing financial needs of the city due to successful financial consolidation.”[Council minutes, DS0384/11]

This proposal of the mayor received consentaneous support from the council and his strong appeal was welcomed by all local actors. Moreover, as this part of the debate focuses on complex multi-level issues it is not only political but also very technical and detailed. For citizens and civil society actors it is probably impossible to take part in this discussion as speeches of the mayor and other local actors are very technocratic and require much knowledge on municipal fiscal policy. This is different to the other cases, where especially the mayor uses their budget speeches to describe the general political challenges of their city and treasures are responsible for details. Another striking observation is that the comparison to other cities - or more specific to Halle/Saale - plays a crucial role in the public debate. The historical rivalry of the two cities which both wanted to become capital of the federal state after reunification continues in fiscal policies. The local actors in Magdeburg accuse Haale/Saale for a low performance in fiscal policy which is smoothed through financial equalisation at the expense of Magdeburg:

The citizen of Magdeburg did not live beyond their means and do not have to accept cutbacks. The unsuited equalization mechanism and the lobbying of politicians and administrations at the federal state level in favour of Haale/Saale punishes Magdeburg for successful fiscal consolidation and causes rivalries between local governments. [budget speech left 2014]

In comparison to the other big city in the south of Saxony-Anhalt [Haale/Saale] you can see who did his job well. [...] They just administered the deficit and the federal state government stood at the side-line. [Interview3]

Although the cleavage between the municipality and the federal state prevailed in the debate, the consent in fiscal policies broke down in recent years. Indeed, there is still a broad majority in the council that supports the budget whereas the Left takes over the role of an opposition in fiscal policies. However, their main point of criticism is that the balanced budget is a result of creative bookkeeping which neglects the challenges of the city. In their view the city should abstain from fiscal austerity and should borrow to finance local government tasks and to enhance the awareness of the federal state on the failure of the financial equalization scheme. Although they criticize some priorities set by the local government (a marketing campaign and the tunnel next to the main station), they mainly emphasize to strengthen the resistance to the federal state. In their view mayor and treasurer fulfil the austerity policy of the federal state. Moreover, the increase of the real property tax and cutbacks in youth policy were discussed in the council. The “municipal debt brake” was used as an argument in the political debates to restrict increases of expenditures and to exert pressure on the federal state. However, low

interest rates for investments and decreasing grants raised doubts of local actors on their commitments to the “debt brake”.

8. Political system: Legitimacy and Transparency, political culture, leadership

The changed role of the Left could be interpreted as a trend towards a stronger party polarization. Probably the local party system tends to reflect the system of the federal state which is governed by a Grand coalition with the Left as the biggest party in opposition. However, all in all the political culture in Magdeburg is still more consent-oriented than in our other cases and reflects a specific political culture:

“[...] especially in local politics the Christian Democrats would not oppose if the Left says: ‘two plus two is four’. This is reasonable local politics [...]. There has always been good cooperation and there was not any major antagonism between the mayor and the council. [...]” [Interview 1]

“In Halle/Saale the councillors are at odds with each other and were not able to reach a consensus. This caused the failures in fiscal policies. In contrast to that, politicians were always able to cooperate with each other. That helped a lot.” [Interview6]

“Reasonable decisions – some might have a different opinion – but all in all the continuity of decision-makers and the good cooperation is a reason for successful policies.” [Interview 3]

Fiscal policies are different in Magdeburg as the administrative leadership and the council majority do not work in a classical coalition arrangement with the typical working groups. Therefore, informal contacts and the debates in the council as well as in the committees are more important than in the other cases. Social Democratic and Christian Democratic councillors make a number of amendments to the budget and do not solely rely on party political contacts to mayor and treasurer. The municipal administration and the mayor are widely respected for their professionalism. Administrative reforms and administrative culture are at least according to the administration successfully oriented towards New Public Management concepts:

“We successfully established new economic steering instruments like controlling, human resource controlling as well as costs and performance accounting. Moreover, we could strengthen efficiency and effectivity as a core idea of the municipal administration. If an administration thinks only politically and acts as do-gooder fiscal consolidation would become difficult.” [Interview 6]

Moreover, the interviewees merely describe a positive and work-sharing relationship between the administration and the council:

If the council has demands for political priorities in social, economic or cultural branches, we discuss in a real strict way: Can we afford this? [...] You can spend money only once and the dialogue with the council was always constructively. [Interview5]

“A good cooperation between the council and the administration is essential. The administration has to prepare the budget but the councillors have to communicate the policy to the citizens.” [Interview1]

However, this perception is not undisputedly shared by all actors:

„We [the laymen councillors] are confronted with highly-skilled professionals in the administration and should be at eye-level with them. Therefore, it is unavoidable to make errors and I personally experienced that the administration is not always as neutral towards the council as it should be.” [Interview7]

Moreover, the mayor is described as a self-assertive and persistent person who has the courage to represent the interests of the city [Interview 4]. In contrast to the other cases the mayor is described as the central actor by the interviewees:

“The mayor is dominant. He does a really good administrative work but he also uses his knowledge and administrative resources to enhance his own political position” [Interview 7].

However, the expertise of the administration and the need for rapid reactions restricted the leeway of the council towards the administration. The dominance of the mayor is also reflected by the public debate (see chapter 7). As political leader he combines a strong input-legitimacy (long-term incumbency, outstanding results in elections) with a high degree of knowledge and experience in fiscal policy. This enables him to compete with technocrats at the local level and at upper levels. Moreover, his institutional strength is higher compared to his colleagues in Wuppertal and Kassel according to the different local government acts (Bogumil and Holtkamp 2013, p. 18). The dominance of the mayor did not lead to visible conflicts within the administration. The cooperation between mayor and treasurer seems to be good. Hence, the mayor proposed the treasurer as the first deputy mayor to the council which is a traditional strategy in Magdeburg to integrate different political parties into the municipal leadership.

To sum up, we found no evidence that the ideal types of top down or bottom up policies match for Magdeburg. The council seems to be active in fiscal policies and amends the proposals of the administration. Leadership acts merely cooperative within the administration and in the relationship with the council. Civil society groups and citizen were not involved in decision-making at all. However, at least in our research period we could not observe any bottom up demand for such an involvement. Therefore, it is not possible to assess if leadership is authoritative or cooperative towards citizen and civil society but the attempts to actively involve them in fiscal policies were limited. Participatory budgeting was proposed in council but the administrative leadership and the majority of councillors were sceptical because of low public interest in fiscal policy, the constrained fiscal leeway and additional costs for the participation project (S0016/13). Furthermore, the term “citizen community”, often linked to participatory budgeting in Germany, is used in the documents but there is no comprehensive concept to implement this approach of administrative modernization (Bogumil and Holtkamp 2004). Strategic orientations seem to prevail during the first consolidation program which is enacted since 2002. Reforms of the administrative structure, human resources planning and the adjustment of school planning to demographic change show the long-term orientations of policies. Moreover, the administration tried to shorten the life of loans to strengthen the responsibility of councillors for their decisions:

“The councillors who decide on borrowing should be still in the council when we repay loans.” [Interview5]

The argumentation on fiscal policies still shows that leaders think in long time periods:

„We have to do everything to compensate decreasing grants till 2019 when the „solidarity pact“ expires. If we want to keep the existing level of service delivery we have to strengthen economic growth and tax income in our city. We have to enhance revenues from all types of taxes – not through increased rates but through growth of existing businesses and through new investments. [Budget speech mayor 2012]

Nevertheless, it is difficult to identify the political priorities in fiscal policies. Political leaders emphasize the importance of culture, voluntary social policies, public transportation, business development and investment policies but priorities spread without a clarification of tasks or services with low priority. The urban planning concept which is probably the most important strategic document also selects typical topics (science, business, sustainability, green city, education and culture) without a distinct focus and a connection to fiscal policies (Landeshauptstadt Magdeburg 2013, p. 20). The local actors highlight the necessity to combine fiscal consolidation with attempts to strengthen economic growth and the attractiveness of the city. However, these ideas remain unspecific. Moreover, the ongoing conflict with the federal state and the uncertainty of state grants endangers strategic orientations. New consolidation means tend to be incremental short-term adjustments to fiscal challenges like tax increases and horizontal cutbacks. The change of leadership orientation is also expressed in some of the documents:

“As a municipality you want to follow strategic guidelines but this requires a reliability of revenues from state grants. This is not the case.” [Interview 3]

“We are in a situation in which we only administer what is determined by laws of upper levels. [...] The share of investments that we can really influence decreases every year” [Interview 7]

“We have to say that our ideas are exhausted and new approaches cannot balance the decreasing grants and the increasing expenditures caused by upper levels anymore. [Budget speech 2012]

To sum up we can observe strategic orientations in fiscal consolidation but a trend towards incremental policy-making is obvious.

Compared to the other cases a lot of publications inform on policies like periodically reports on municipal debt, human resources or annual reports on municipal services. These reports provide detailed information and probably focus on councillors or possible creditors. Therefore, these technical reports are incomprehensible for citizens and civil society groups. Attempts to enable citizens and to enhance transparency by open budgets or other ideas of open government were not discussed as local actors rely on the role of councillors in explaining policies to the citizens. If political processes are more transparent than in the other cases is difficult to estimate. On the one hand side, the debate in the council seem be more active with a number of amendments to the budget draft, on the other hand side the informal contacts between the administrative leadership in Magdeburg are not more transparent than the working groups of the coalitions in the other cases. The output-legitimacy of fiscal consolidation in Magdeburg is comparatively high. The budget is balanced since 2012 and the amount of local government debt, especially for short-term borrowing, is much lower than in the other cases. If the conflict between the federal state and the city will endanger this successful policy remains to be seen. Revenues from business and income tax steadily increased and the award as “Germany’s most dynamic city” in 2012 shows that the socio-economic development of the city is successful. Unemployment rates decreased, household incomes increased and the population shrinkage stopped. The sources of input-legitimacy are firstly the directly elected mayor and secondly the council which

tries to influence at least parts of the budget. Input-legitimacy beyond representative democracy is not visible at all as there were neither top down nor bottom up approaches for participatory or direct mechanisms of democracy. As voter turnouts are lower than in the other cases this could be a beneficial approach to enhance input-legitimacy.

9. Policy recommendations

Recommendations for Local Level Actors

- Local governments should introduce own debt brakes at the local level to enhance the commitment of all actors to consolidation policy.
- Debt reporting, staff reporting and annual reports on administrative outputs should be established to make impacts of political decisions transparent for councillors.
- Mayor should deepen their expert knowledge in fiscal policies to be at eye level with upper level actors and their local administration.
- Consensus-oriented political culture and a cooperative relationship between council and administration can be strengthened by successful involvement of all parties in the administrative leadership.

Recommendations for Federal and Federal State Level Actors

- Federal states have to provide reliable revenues to fiscal equalization schemes to provide stable incentives and trustful relationship between both levels of government.
- Changes in equalization schemes should be planned in long-term time horizons and after consultation with local governments.
- Strict rules and approval requirements for the use of short term liabilities are necessary.
- Upper level governments have to reward successful fiscal consolidation of municipalities.

References

- Aring, J. and Reuther, I., 2008. Die Regiopole: Vom Arbeitsbegriff zur konzeptionellen Idee. In: J. Aring and I. Reuther, eds. *Regiopolen: Die kleinen Großstädte in Zeiten der Globalisierung*. Berlin: Jovis-Verl, 8–30.
- Bertelsmann Stiftung, 2013. *Wegweiser Kommune: Finanzberichte*. Gütersloh.
- Bogumil, J. and Holtkamp, L., 2004. The Citizens' Community under Pressure to Consolidate? An Empirical Study of Explanatory Factors for the Implementation Status of Citizens' Community | DIFU. *German Journal of Urban Studies* [online] (1). Available from: <http://www.difu.de/node/6063> [Accessed 15 Apr 2015].
- Bogumil, J. and Holtkamp, L., 2013. *Kommunalpolitik und Kommunalverwaltung: Eine praxisorientierte Einführung*. Bonn: Bpb Bundeszentrale für Politische Bildung.
- Bundesagentur für Arbeit. *Statistik der Bundesagentur für Arbeit: Statistik nach Regionen* [online]. Available from: https://statistik.arbeitsagentur.de/Navigation/Statistik/Statistik-nach-Regionen/Politische-Gebietsstruktur-Nav.html?year_month=201406 [Accessed 22 Jul 2014].
- Burth, A., et al., 2013. *Kommunaler Finanzreport 2013: Einnahmen, Ausgaben und Verschuldung im Ländervergleich*. Gütersloh: Bertelsmann Stiftung.
- Institut der deutschen Wirtschaft, 2012. *Städteranking 2012: Die 50 größten deutschen Städte im Test*. Bericht der IW Consult GmbH im Auftrag der Initiative Neue Soziale Marktwirtschaft. Köln.
- Landeshauptstadt Magdeburg, 2011. *Konsolidierungsvorschläge zur Amortisation der FAG-Mindererträge 2012*. Änderungsantrag (DS0455/11/31) [Accessed 10 Apr 2015].
- Landeshauptstadt Magdeburg, 2013. *Integriertes Stadtentwicklungskonzept der Landeshauptstadt Magdeburg: Magdeburg 2025*.
- Landeshauptstadt Magdeburg, 2014a. *Bericht zum Personal- und Organisationsmanagement der Landeshauptstadt Magdeburg 2012/2013*.
- Landeshauptstadt Magdeburg, 2014b. *Thema: Abrechnung der Haushaltskonsolidierung per 31.12.2013*. Information (I0114/14) [Accessed 10 Apr 2015].
- Reiser, M., 2010. Kommunalpolitik in Sachsen-Anhalt. In: A. Kost and H.-G. Wehling, eds. *Kommunalpolitik in den deutschen Ländern: VS Verlag für Sozialwissenschaften*, 307–324.
- Statistische Ämter der Länder, 2012. *Volkswirtschaftliche Gesamtrechnungen der Länder: Einkommen der privaten Haushalte in den kreisfreien Städten und Landkreisen der Bundesrepublik Deutschland 2000 bis 2011*, Reihe 2, Kreisergebnisse Band 3. Available from: https://www.destatis.de/DE/Publikationen/Thematisch/VolkswirtschaftlicheGesamtrechnungen/VGRderLaender/VGR_KreisergebnisseBand3.html.
- Statistische Ämter des Bundes und der Länder, 2012. *Erwerbstätigenrechnung: Erwerbstätige in den kreisfreien Städten und Landkreisen der Bundesrepublik Deutschland 1991 bis 2012*. Available from: http://www.statistikportal.de/statistikportal/ETR_R2B1_2012_j.pdf.