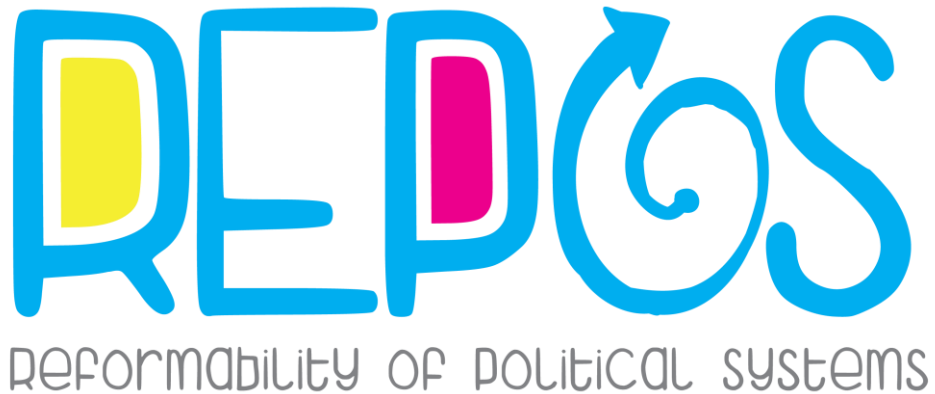


P. Stolzenberg

Mainz Case study report



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1. Introduction

The case report gives a brief and provisional summary on our empirical findings on fiscal policy in Mainz. The first two 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 the local scope of action and the concrete consolidation means including the assumed impacts. These chapters are purely descriptive and we illustrated them with several quotations and data derived from our MAXQDA-analysis. In the following chapters the analyses and interpretation of researchers became relevant. We will discuss the policy and leadership styles, the different kinds of legitimacy, the local political culture and knowledge types influencing the fiscal policy making. The empirical corpus of the case of Mainz includes up to now (16th September):

- interviews with 7 actors: treasurer, head of the financial department, two councillors of the majority of the local council, one councillor from the opposition, 1 representative of an interest group
- 128 texts of local press, party manifestos, coalition treaties etc.

2. Socioeconomic features of the City of Mainz

Mainz (202.756 inhabitants, increasing) is the biggest city and the capital of the federal state Rhineland-Palatinate. The city is located at the Rhine with the city of Wiesbaden, capital of Hesse, just across the river. It is part of the Region Frankfurt/Rhine Main but not member of the regional planning authority. Nevertheless, the city benefits from the good traffic infrastructure (airport of Frankfurt, freeway access, inland harbour) and the economically prospering region. Mainz is the only German case which was not affected by any major economic restructuring. A diversified economy and a strong service sector (university, federal state institutions and television) were able to compensate the close-down of industrial plants. Nevertheless, big business tax payers are missing as public employers dominate the job market.

The unemployment rate and the social welfare rate are lower than the Germany average and similar to the average of the federal state. Moreover, the social segregation (unemployment, migration, child poverty) is due to a study of the German Institute for Urban Affairs (DifU) comparatively low (Dohnke *et al.* 2012).

Table 1: socio-economic data of Mainz

		Mainz	Rhineland-Palatinate	Germany
unemployment rate	in %	5.4	5.6	6.5
social welfare rate	in %	3.6	3.6	4.5
disposable household income	in € per capita	20,078	20,712	19,933

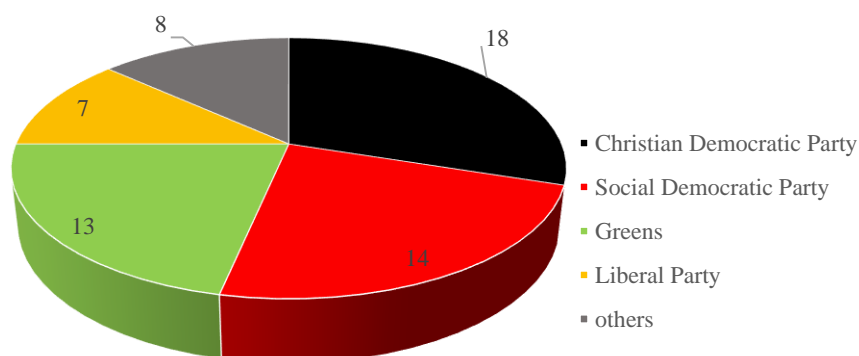
primary household income	in € per capita	25,308	24,502	23,278
share of employees in industrial sector	in %	10.0	24.4	20.4
share of employees in service sector	in %	90.0	67.7	73.4

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 Mainz: Political leadership and the fiscal problem

Mainz is governed by a so-called “traffic light coalition”/”Ampelkoalition” between Social Democratic Party, Green Party and Liberal Party since 2009. Before 2009 clear majorities and coalitions were unusual and a system of informal cooperation between all parties in the council, called the “Mainzer Modell”, helped to manage this challenge for decades. In the last years this style of politics was criticized as a clientelistic system of mutual favours, e.g. through allocation of posts in municipal owned companies, and legal limbo of local elites that was fostered by the absence of an opposition. The breakdown of the “Mainzer Modell” in the council was followed by the retirement of the former Social Democratic mayor who was involved in several scandals in municipal owned companies and the accounting of his trips. His successor, also a Social Democrat, was elected in 2011 and won in the second ballot against the deputy mayor for economics, Green party. Both of them emphasized that the election campaigns were fair and non-polarizing. The mayor has experience as local politician and deputy mayor for social services in Mainz and state secretary at the federal level before his inauguration. He is also leader of the Social Democratic Party in Mainz which unusual in German municipalities. The deputy mayor for economics who is in office since 2010 is a local politician and long standing councillor. He is a former entrepreneur and social worker and the only deputy mayor for economics in our cases with no administrative experience. The scope of his department includes besides fiscal policies the management of the municipal companies and sports policy, one of the major volunteer tasks of the municipality. The actor constellation differs compared to our other cases because the whole constellation and the most important actors changed just before our research period and the implementation of the bailout fund.

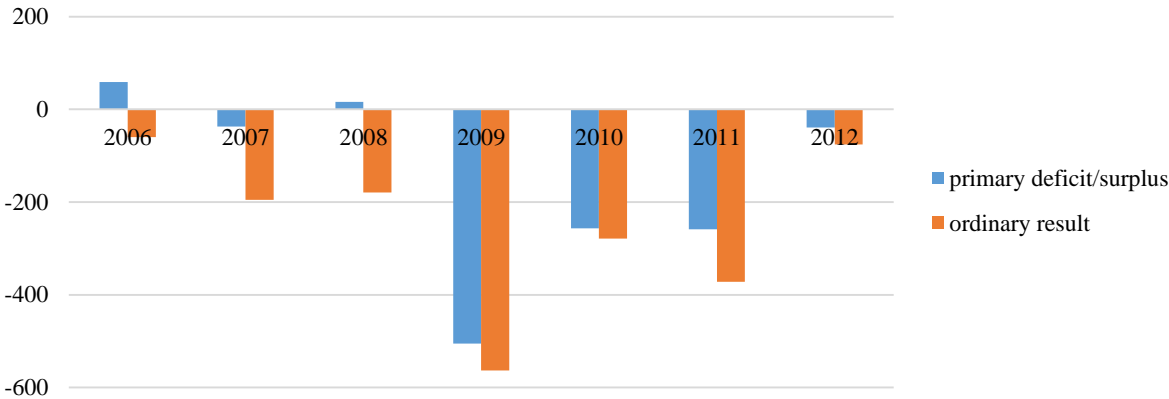
Figure 1: seating in the council of Mainz after the local government elections in 2009



Together with Wuppertal the city of Mainz is the German case with the biggest fiscal challenges.

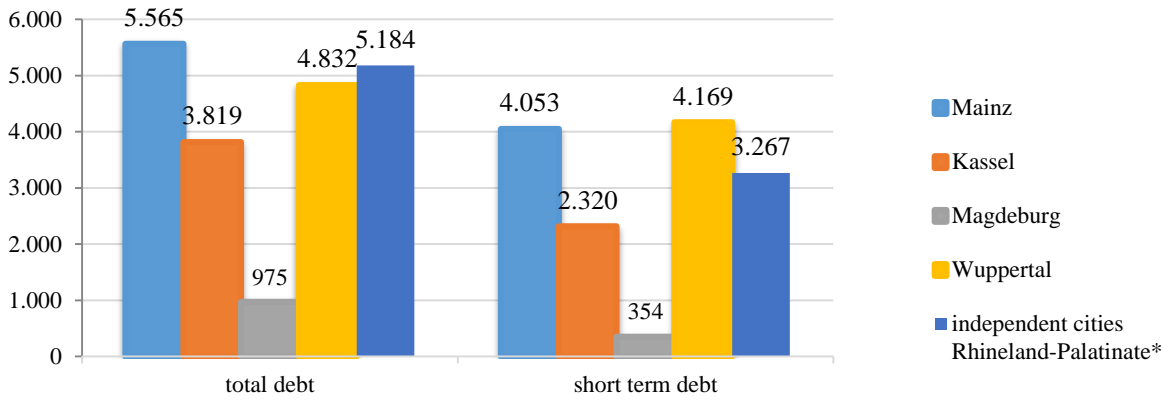
We will compare the fiscal data before the implementation of the bailout fund with our other cases and the bigger independent cities in Rhineland-Palatinate (more than 50.000 inhabitants). The city was not able to balance its budget for decades and the statistics show a permanent primary deficit and a negative ordinary result (Figure 2). Moreover, the city has the highest amount of total debt and only Wuppertal exceeds the amount of short-term debt. We have to consider that some other independent cities of Rhineland-Palatinate, especially Kaiserslautern and Ludwigshafen, also suffer from a similar fiscal crisis, but there are also cities with lower local government debt (Figure 3). The collection rate for business tax is almost similar to the other selected cases and higher than in other cities of Rhineland-Palatinate. In contrast to that the collection rate for real property tax is low in Mainz and the other municipalities in the federal state in comparison to the other cities in our set. Moreover, Mainz has the lowest local government revenues compared to our other cases and to the other independent cities in the federal state although the total local tax revenues are among the highest and similar to the average of Rhineland-Palatinate (Figure 5). The spending side is characterized by comparatively low expenses for staff which are lower than in our other cases and in the other cities of Rhineland-Palatinate. The same applies for the social spending which is similar in Kassel and lower in Magdeburg. This seems to be surprising as the social-economic situation is much better in Mainz than in Kassel or Magdeburg but we have to consider that the concrete assignment of social tasks between local and state level and the standards for the fulfilment of these tasks is varying between the federal states.

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



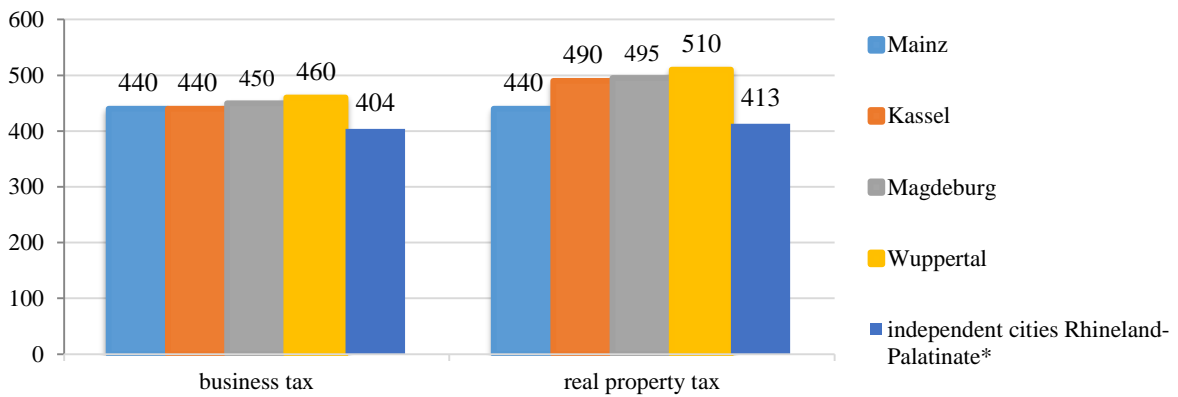
Source: Bertelsmann Stiftung 2013

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



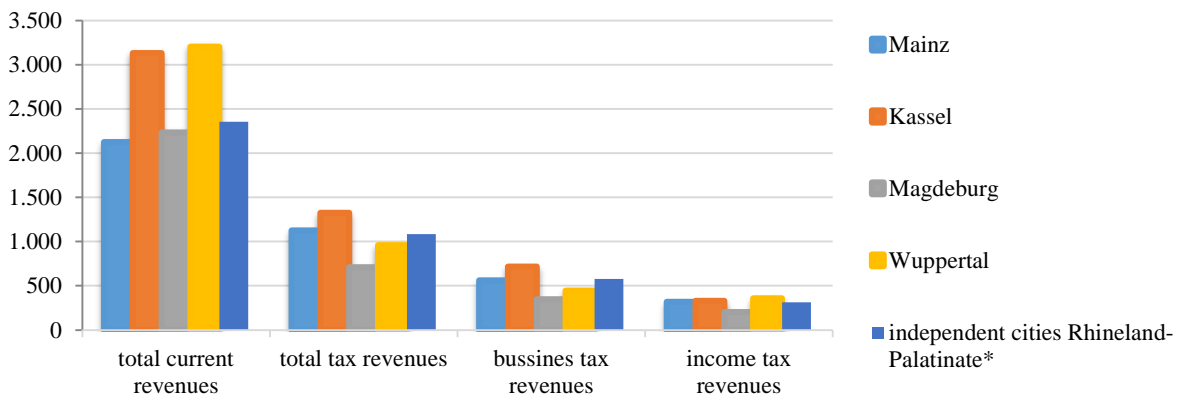
*average of independent cities in Rhineland Palatinate with more than 50.000 inhabitants. Source: Bertelsmann Stiftung 2013

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



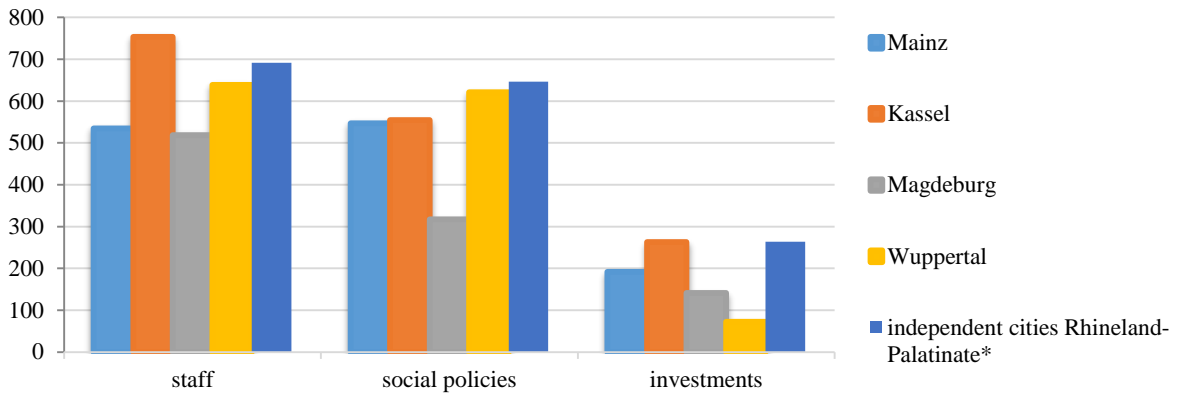
*average of independent cities in Rhineland Palatinate with more than 50.000 inhabitants. Source: Bertelsmann Stiftung 2013

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

4. Problem Perceptions and Causes

Table 2 and Table 3 show how often different actors speak about exogenous and endogenous causes for the fiscal crisis. Documents which are assignable to one specific actor (budget speeches, press releases, manifestos, coalition treaties) are plotted in Table 2. In documents with several quoted or paraphrased statements of different actors, e.g. local press articles, segments were coded with the actor name and the content of the statement. Thus, Table 3 displays segments with an actor code that overlaps with the corresponding content codes, endogenous or exogenous reasons.

Table 2: document based number of codings in budget speeches, press releases, manifestos, coalition treaties

	majority	opposition	interest group	SUM
endogenous sum	2	2	-	4
exogenous sum	1	1	-	2
SUM	3	3	-	6

Table 3: document based number of codings in local press

	majority	opposition	interest group	SUM
endogenous sum	5	1	0	6
exogenous sum	11	2	2	15
SUM	16	3	2	21

Table 4 shows the exact codings of reasons of the fiscal reasons with different sub-codes.

Table 4: different types of endogenous and exogenous reasons

code	Sub-code 1	Sub-code 2	Sub-code 3	
endogenous causes				18
	Wohnbau-Skandal			3
exogenous causes				2
	upper level government			8
		european level		0
		national/federal level		6
			Konnexität	2
			Sozialausgaben	2
		federal state level		8
			Kita	1
			Schülerbeförderung	1
	socio economic conditions			0
		regionale Lage		3
		Kreditmarkt		1
		unemployment		0
		financial crisis		0
		economic restructuring		0
		demographic change		0

The following quotes matrices (Table 5) displays some trenchant statements of different actor groups on the endogenous causes of the fiscal crisis. In contrast to other cases we find some statements that label concrete reasons like the scandal of the municipal owned housing company or failed investment planning. The Green party (and some small opposition parties), including the deputy mayor for economics and the head of the fraction, seem to be the strongest voices in the debate of these endogenous causes. However, the “new generation” of the social democrats also names endogenous reasons – more concrete the missing attempts to increase taxes up to now.

Table 5: endogenous causes of the fiscal crisis – selected quotations

actor	segment	document group
interview 2	I think there are no distinct reasons for municipal debt in Mainz. However, one exception is that the following up costs of investments were not considered.	interviews
interview 1	Well, at those days when there was enough money, voluntary tasks like decentralized infrastructures were financed. This is not affordable anymore. With other words: the notion of those days was different. I think that the first deficit was four or five Million DM. [...]. They certainly believed in controlling it. In the following year they started all over again and hoped to absorb their past actions. But this spiral of actions had gone on and on so that finally, the municipal of Mainz has gone up to more than a billion Euros in the past 20 years.	interviews
interview 3	Although the financial situation worsened, investments were still taken - investments in the cultural section, [...] in the section of volunteer services and in the section of child and youth services. [...] Generous services for the youth and other services remained, Moreover, consolidation measures within the municipal administration were not pushed enough.	interviews
Greens	Despite balanced budget rule all three parties (CDU, FDP and SPD) contravened the rules in an excessively way [...]. The current problems are a result of political failures of the past and a huge challenge for future generations. [...] For decades there was a general principle of “giving and taking”, also referred to as “Handkäsmafia”. However, we put a stop to this manner of politics. Journeys to the Island of Capri, trips to the festivities of Bregenz, high-risk derivatives trading, resident building scandals, instances of alleged embezzlement and corruption belong to the past.	party manifesto
interview 4	I am sure you can find these examples [of local failures] in every municipality and if I travel through the federal state, I am sure that I will find somewhere a project which should have never been started. (...) However, one has to take into account that we have a principle of local self-government. If I intervene hierarchical in every municipality I would erode this principle.	interviews

Table 6 shows in contrast some quotations on the exogenous causes including the different sub-codes of fiscal problems. A striking point in comparison to our other cases is that the actors label more concrete reasons at the federal state level. The challenge of the city is that the federal state level in Rhineland-Palatinate is also suffering from a major fiscal crisis. Indeed, like in Hesse the fiscal equalization scheme for local governments has to be reformed due to a court decision that commits the federal state to a higher consideration of expenditure for social policies. The allocation of state grants between the city and municipalities in the urban hinterland are perceived as unfair due to enormous external effects of some services

(e.g. theatres and sport facilities). Another specificity of Rhineland-Palatinate, the supply of childcare without fees, is not challenged although actors from the local level criticize the allocation of financial burdens.

Table 6: exogenous causes of the fiscal crisis – selected quotations

actor	Segment	document group
interview 2	On the one hand, there are huge social expenditures we have to struggle with. [...] On the other hand, the grants in Rhineland-Palatinate for counties and independent cities are not sufficient [...] If we were located a few kilometres further to the East in Hesse, our city would definitely face a better financial situation.	interviews
interview 1	[...] the principle of distribution has to be rearranged [...] The idea of fiscal equivalence has to be enhanced. It is fine if the federal state government defines political projects. It is fine to have childcare without fees but it does not work if the municipality has to pay for it.	interviews
interview 3	Maybe my perception differs from the view of other actors in Mainz. Of course, you could say that local politicians in Mainz are responsible, but every independent city in Rhineland-Palatinate is in bad financial situation. You can clearly identify regions with high local government debt which are Rhineland-Palatinate, North Rhine-Westphalia, Saarland and partly Hesse. Therefore, the fiscal challenges are not caused by the federal level. The mentioned federal states do not provide enough grants to enable local self-government.	interviews
interview 5	Well, we do have a problem all over Germany. Social expenditures are defined by federal and the federal state level. The local level has to pay for it without having appropriate revenues.	interviews
interview 4	The challenges for independent cities and counties are the expenditures for social and youth services. Moreover, it is clear that not only social transfers but also a huge share of staff expenditures are dedicated to these policies. These policies are mainly determined by federal and federal state laws and the steering capacities for municipalities are limited.	interviews

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

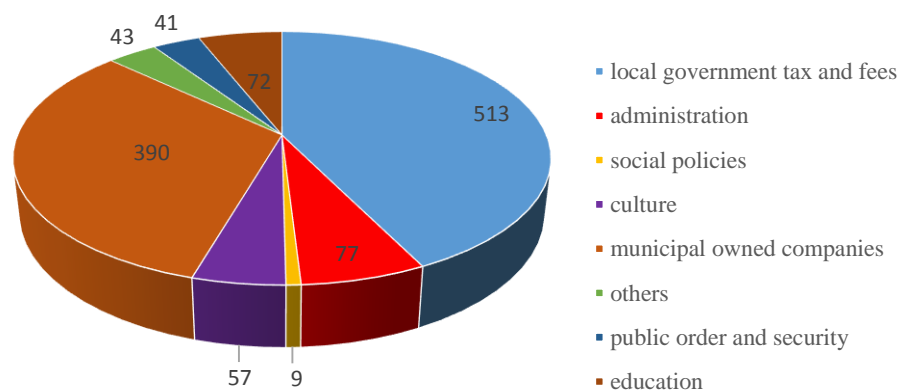
The following statements (Table 7) illustrate the perception of the impact of the bailout fund on fiscal policies in Mainz. In contrast to the other cases we have to consider the role of party politics as majority and opposition have with the exception of the Liberal Party the same party affiliation as at the federal level. The local parties and other actors have different views on the program. The opposition criticizes that the program is not effective enough as it only lowers the increase of debts but it does not lead to balanced budgets or debt reductions. Moreover, an interest group explained that the program is only a reallocation of public debt from the local level to the federal state level. Nevertheless, the non-participation in the bailout fund was never an alternative for the administration and the council. On the one hand side their logic was that for every Euro of cutbacks or revenue increase the local government got two Euros (one from the federal state and one from equalization scheme). On the other hand side they pronounce the effect of the program that fostered sustainable management and changed the fiscal preferences of the local actors.

Table 7: scope of action – selected quotations

actor	Segment	document group
interview 1	The fiscal effect is limited but the political pressure to consolidate the budget was important. Without the consolidation program we would not have been able to achieve the budget improvement of 11 millions	interview
administration	The consolidation program initiated a debate on sustainable fiscal policies and caused a paradigmatic change.	Press release
interview 3	Consolidation programs are not really a help for bigger cities because the local level does not repay debt but instead, debt increases gradually slower. [...]	interviews
interview 4	The consolidation program is a big support for local governments but you cannot expect that it solves every problem. It is a great help from the state and the whole local level for indebted municipalities. Moreover, it was an opportunity to enhance measures of the supervision which were otherwise difficult to implement or caused long trials.	interviews
interview 1	[...] we have not yet reached the point of being unable to act. We have still new ideas. For me it is an incentive to initiate creative solutions and change.	interview
interview 2	There is leeway mainly through our municipal companies. Our serious housing shortage is a field for strategic actions. We are a growing city and this cannot be subordinated to consolidation needs.	interview

Like in Wuppertal local government taxes and fees, especially real property tax, amount for the highest share of the consolidation measures (Figure 7). Moreover, a set of consolidation means affects the municipal companies which were reorganized and were obliged for higher disbursements to the local government budget. All in all, the amount of consolidation means is nearly the same like in Wuppertal (1.201 Euro per capita). As there is no robust evidence for the success of fiscal policies up to now the administration tries to prove the good performance with a time-efficient budget process the approval of the supervision with lower constraints than in former years. Of course this perception is contested by the opposition which criticizes that there is no evidence for a good performance. In their view the funding from the federal state and the high tax revenues led only to a short-term fiscal relief which is not caused by local policies. Moreover, concrete means are criticized as demise of cultural services and unreasonable burdens for citizens.

Figure 7: implemented consolidation means, in Euro per capita 2012-2021



The local actors do not problematize the restricted leeway. As we mostly spoke to fiscal policy makers the claims for cutbacks and tax increases are not perceived as constraints but as possibility to strengthen their own position against demands from other actors (municipal staff, interest group or other councillors).

6. Public Debate

Table 8 shows the most relevant actors in terms of the number of press articles quoting or paraphrasing statements of them. The data suggests that the deputy mayor for economics is the most important actor in the local debate. He is followed by the head of the biggest opposition fraction and the mayor. The list continues with other councillors, heads of fractions or speakers for fiscal policy, and the supervision. Therefore, the most important actor is almost the same like in Wuppertal. Probably the scandal on the municipal owned housing company caused a more polyphonic debate before our research period. Indeed, coalitions of interest groups and citizens who try to influence fiscal policies like in Wuppertal were not visible. Except the “dog tax” which led to protests in front of the town hall the implemented consolidation means do not seem to be very controversial in the public debate. Furthermore, the proposal to close down three decentralized administrations units was not implemented due to political resistance from the districts.¹ Indeed, debates on investments like the reconstruction of the town hall, a protected monument, or the decentralized infrastructures in the districts led to some visible conflicts.

Table 8: actors with most press articles quoting or paraphrasing their statements

Code	codings	actor codings %	documents	actor group	position	opposition/majority	party
Günter Beck	69	7,25	46	local politicians	deputy mayor for economics		Greens
Hannsgeorg Schöning	20	2,84	13	local politicians	councillor	opposition	CDU
Michael Ebling	17	2,13	9	local politicians	mayor	majority	SPD
Walter Koppius	13	1,85	11	local politicians	councillor	majority	FDP
René Quante	9	1,28	1	interest groups			
ADD	8	1,14	5	upper levels	supervision		
Oliver Sucher	7	1,00	7	local politicians	councillor	majority	SPD
Andrea Litzenburger	7	1,00	5	local politicians	councillor	opposition	CDU
Ansgar Helm-Becker	6	0,85	6	local politicians	councillor	majority	Greens
Lukas	5	0,71	1	local		opposition	CDU

¹ The city of Mainz has a system of directly elected decentralized councils and honorary district mayors with consultation rights in political issues affecting the district.

Augustin				politicians			
Gerd Schreiner	4	0,57	3	upper levels	federal state mp	opposition	CDU
Volker Bierwirth	4	0,57	1	others			
Martin Kinzelbach	3	0,43	3	local politicians	councillor	opposition	SPD
Peter Tress	3	0,43	3	local politicians	councillor	opposition	CDU
Felix Leinen	3	0,43	3	local politicians	councillor	opposition	ÖDP

7. Political system: Legitimacy and Transparency, political culture, Policy style, knowledge, leadership

Like in Wuppertal the policy style is mainly top down. Although the consolidation means were discussed in an inter-party working group and opposition fractions contributed own proposals the decisions were made by the administration (mayor, the deputy mayor) and the majority fractions in the end. At least the majority fractions describe the decision-making as a fair and open bargaining process between the majority fractions. The fractions set political guidelines to discuss the means which were proposed by the administration. Accountability, comprehensive decision-making and a fair balancing of interests were described as advantages of top down policies by different actors. The ideas for participatory budgeting were only partly implemented. The administration organized citizens meetings and published an open budget at their homepage. Therefore, results were transparent for the public whereas decision-making took place behind closed doors.

Aspects of coalitional and conflictual political culture are observable in Mainz. The participation in the bailout-program was a consensual decision of the council but the concrete means were decided by the majority. Especially the tax increases were contested by the opposition and also one of the coalition parties (Liberal Party) had difficulties to agree on these measures. Therefore, the proceeding of the coalition after the last local government elections in 2014 could fail due to conflicts in fiscal policies.

The actors follow strategic goals which focus mainly on municipal owned companies, e.g. strengthening the development of housing space. Moreover, the structure and tasks of municipal owned companies were reformed and bundled in a holding. Nevertheless, the reform goals of professionalization, effectivity and efficiency probably conflicts with the claim of the council for democratic steering capacities. The administration and the majority fractions rejected the “across the board-cutbacks” emphasized by the opposition. Strategic choices seem to be necessary to save the economic competitiveness of Mainz compared to other cities in the region and the urban hinterland. The categorization between cooperative and authoritarian leadership is not clear in Mainz. In many cases (decentralized infrastructures, the theatre or the real property tax) compromises were necessary as attempts to push consolidation policies in an authoritarian style failed.

High steering and institutional knowledge on the municipal administrative structure and the municipal owned companies as well as on the specific set of local government finance in the

federal state is required to participate in the debate. Moreover, actors have to know about formal and informal networks of administrative contacts or party affiliations from the district level to the federal state level.

Table 9: evidence for top-down policy making and communication paths

actor	Segment	document group
interview 3	The decision to participate in the consolidation program was supported by a big majority including the opposition. However, when the council had to decide on concrete measures the coalition mainly based on raising taxes. In contrast, we favoured cutting costs within the administration.	interviews
interview 1	I tried different forms of participation. [...] However, there are so many vested interests that it is impossible to make consolidation policy in a participative way. You can do it in an open and transparent process but in the end politicians have to decide.	interviews
interview 4	If you do not try to achieve strategic goals anymore you should quit politics. Of course you have to react to current developments. But I do not know why the current budget situation should hinder us from developing strategic aims. [...] Fiscal consolidation is a strategic goal of its own but if you carry out only horizontal cutback you will not be successful.	interviews
interview 4	We scrutinized all expenditures of the city and examined their importance for social justice and sustainability. All future decisions are checked for cutbacks and follow-up costs. We focus on investments with regard to education, child and elderly care and defer other desirable tasks. We do not want austerity but without the reduction of certain tasks it is impossible to maintain our leeway.	interviews

8. Conclusions

The city of Mainz used the dual window of opportunity of the bailout fund and the change of actors and actor constellations to reform the structure of the municipal companies and to implement the bailout program. The new actors were able to overcome the defects of a local political system suffering from clientelistic structures. Furthermore, they were able to name endogenous causes as one reason for the fiscal difficulties because they were not responsible for these problems. If this change will also cause a successful fiscal policy is not clear up to now. The bailout fund and its local implementation will not be sufficient to consolidate the budget and to achieve balanced budgets. It is still an open question if the bailout program set only right incentives in the short run or changed political attitudes in the long run. Moreover, the bailout program in Rhineland-Palatinate does not directly set the aim of a balanced budget in the future. Although local actors emphasize that the balanced budget is the most important task in fiscal policies the long-term financial planning contains ongoing deficits and increasing debts. Therefore, the critics are right if they complain that the program only reduce the increase of debts. Indeed, we detect some features of local mismanagement but also have to recognize that other municipalities in Rhineland-Palatinate suffer from similar fiscal problems. Therefore, one condition for fiscal success will be a positive impact of the reform of the fiscal equalization scheme of the federal state which came into effect in 2014.

In comparison to our other cases the city has the advantage to be part of an economically prospering region. Although some challenges are corresponding to this advantage there is no ongoing social crisis that makes it nearly impossible to consolidate the budget or to save the quality of life in the city like in Wuppertal.

Moreover, it will be a major challenge for the city to finance the reconstruction of the town hall as well as to develop the infrastructure and staff for feeless childcare. In comparison to Wuppertal some consolidation means have to be revisited as cutbacks in culture and decentralized administrations were not implemented due to strong resistance from the concerned actors. The positive economic conditions probably make it more difficult to gain acceptance for consolidation means. Moreover, the administration should not underestimate the importance of symbolic cutbacks that show the parsimony of the administrative leadership. Like in Wuppertal tax increases were an important part of the local consolidation means. This strategy does not seem to be very innovative which again has its reasons in the logic of bailout programs. Consolidation means need measurable short-term fiscal effects to be controlled by the supervision thus comprehensive reforms of local government cannot be expected.

9. Policy recommendations

Recommendations for Local Level Actors (Micro-level)

Local politicians and administration

Political culture: A consensus oriented political culture (“Mainzer Modell”) does not per se lead to better fiscal performance. Local actors have to take care that consensus does not cause clientelistic networks in the absence of an opposition.

Clear majorities and leadership of mayors and treasurers can also produce effective consolidation means and accountable decisions.

Output-legitimacy: The recognition and the discourse of endogenous reasons for local government debt fosters own problem solving capacities and active engagement in fiscal consolidation.

Local actors have to anticipate conflicts on specific consolidation means. They have to consider the potential effectiveness of consolidation means on the one hand side and their conflictualness on the other hand side.

Input-legitimacy: Transparent political priority setting has to take place in the first phase of consolidation policy making to set clear guidelines for the administration.

Resistance against consolidation depends on specific institutional settings in a city (decentralized councils, state theatres). However, local actors have to face trade-offs between output- and input-legitimacy.

Policy style/

Leadership:

Leadership means to bear with conflicts by argumentation. Local Governments have to communicate their fiscal constraints and the chances of consolidation programs.

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

Consolidation programs are able to motivate local governments to consolidate their budget via strong incentives.

Consolidation programs need clear aims with the perspective firstly for a structural balanced budget and secondly for a new leeway for local politics in the long-run.

Federal states should combine consolidation programs with reforms of the system of local government finance in the federal states because “help-for self-help” cannot remove the endogenous reasons of local government debt.

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