# Fiscal Consolidation in German and Greek Municipalities

*Policy Paper No. 1*

12/2015

Philipp Stolzenberg
TECHNISCHE UNIVERSITÄT DARMSTSTADT
INSTITUTE OF POLITICAL SCIENCE
DIVISION FOR PUBLIC MANAGEMENT, ADMINISTRATIVE SCIENCE AND LOCAL GOVERNMENT
EMAIL: stolzenberg@pg.tu-darmstadt.de

## EXECUTIVE SUMMARY

I. This policy paper makes **recommendations to German and Greek policymakers** who deal at various political levels with the challenges of municipal fiscal policy. Consequently, it evaluates current reform approaches in both countries – namely the fiscal consolidation efforts (starting with the Kallikratis plan) in Greece and the conditional bailout programs for local government in Germany. Moreover, the paper assesses fiscal consolidation in ten larger municipalities in both countries in order to investigate how municipal actors perform under these different institutional frameworks.

II. The financial and economic crisis caused decreased grants and tax revenues for local government while demands on their capacity in social policy, housing, health care, internal security and refugee policy increased. In Germany the financial and economic crisis coincided with a long-term crisis of local government finance, whereas in Greece it created a sudden fiscal breakdown inter alia at the local level. Although local government systems differ remarkably between the unitary and centralized state of Greece and the federal and decentralized state of Germany, **municipalities in both countries are suffering from fiscal challenges**.

III. In both countries these challenges are concentrated in specific regions such as **urbanized areas or specific federal states**. Municipal actors circumvented fiscal rules to finance municipal service delivery, for instance in Germany by misusing short-term credits and in Greece by condoning overdue liabilities to private contractors. Moreover, the problem dimension was hidden in both countries for long time as local government outsourced liabilities to a fragmented landscape of municipal companies and other entities. Especially in Germany, but also in Greece, upper level governments delegated tasks without providing adequate financial resources. Hence, municipal financial problems were caused by a complex set of exogenous factors, which local government cannot influence, and endogenous factors which derived from specific local failures.

IV. During the financial and economic crisis upper level governments in both countries developed **diverging reform approaches** to solve these challenges. While Greek policymakers enacted a broad functional, fiscal and territorial reform called the **"Kallikratis plan"**, the German federal states focused on an output-steering approach through **conditional bailout programs**. The results of both attempts are mixed. The German approach has the advantage of a broad involvement of local actors in addressing the problem, but the impact on fiscal results has been limited up to now. The Greek reform is more comprehensive and yields short-term fiscal improvements, but long-term sustainability of fiscal consolidation is questionable. Moreover, in Greece implementation deficits and the lack of fiscal decentralization reflect the persistent mistrust between the central and the local level.

V. City-specific attempts of fiscal consolidation can be found in both countries. A comparative case study of ten cities in Germany and Greece exemplifies different local attempts of fiscal consolidation. **Incremental measures** dominated in both countries, tax increases in Germany and horizontal cutbacks in Greece, but some municipalities in both countries also tried to **modernize the**

**administration** and to set priorities in service delivery. Because each year the Greek central government enacted discretionary cutbacks, long-term fiscal management was impossible, making ad hoc annual decisions for consolidation measures necessary. Flexibility and inventiveness are the proper response within this uncertain environment.

VI. Distinct municipal approaches of fiscal consolidation are influenced by the different local government systems and varying leadership styles in the municipalities. Hence, recommendations focus on these two factors and are specified for policymakers at different levels of government in both countries. For Greece the policy paper recommends **strengthened fiscal decentralization** including local government taxes. Discretionary cutbacks of grants should be avoided to enhance incentives and abilities for long-term fiscal management in municipalities.

VII. Moreover, renunciation of a rigorously mayor-centred system is emphasized. In the case of Germany, the paper stresses specific design options for conditional bailout programs as well as the need for more **comprehensive reforms of the system of municipal financing**. The recommendations for the Greek local level concentrate on strategies to involve civil society and citizens in decision-making and provision of municipal services. Furthermore, the focus lies on more transparent fiscal policies, the enhancement of professionalism in financial administration and the mobilization of additional revenues. For German municipal actors the paper highlights the importance of strategic rather than incremental approaches to fiscal consolidation.

VIII. The paper is a result of the research project **"REformablility of POlitical System in times of crisis" (REPOS)** which compared municipal fiscal consolidation in both countries. The REPOS project is part of the **Bilateral R&D Cooperation in Social Science between Germany and Greece**. The project is funded by the German Federal Ministry of Education and Research and the Greek Ministry of Culture, Education and Religious Affairs. The first phase of the project was dedicated to fiscal consolidation and the following phase will focus on innovations in economic and social policy at the local level.

# 1 INTRODUCTION

The financial and economic crisis challenged local government all over Europe, including Germany and Greece. While state grants as well as municipal tax revenues decreased, expenditures for social policies rose. Local government is expected to attenuate the failures of upper levels and national welfare states. Housing, health care, internal security and refugee policy are only some of the issues where municipalities have to act in times of crisis. Despite this, concrete characteristics of the crisis differ within Europe and especially between Germany and Greece. Whereas the financial and economic crisis coincided with a long-term crisis of local government finance in Germany, the Greek local level was fiscally and socio-economically affected by a sudden breakdown. Local leadership proved to be a promising tool for successful consolidation policies in both countries. However, the expectation that cities could replace dysfunctional nation states, as Barber advises in "If mayors ruled the world" (Barber 2013), seems to be exaggerated. Hence, the crisis requires an institutional redesign of local government systems as well as enhanced local leadership.

There are no one-size-fits-all solutions, neither for all local government systems nor for all municipalities. Consequently, the recent attempts at fiscal consolidation differ remarkably between Germany and Greece. In Greece a reform (Kallikratis plan) combining territorial re-scaling with functional decentralization and stricter fiscal management was followed by centrally enacted horizontal cutbacks, an overdue liabilities program, and new monitoring mechanisms. In Germany the federal states initiated conditional bailout programs which provide incentives for municipal fiscal consolidation. The comparison will show that the Greek approach facilitated remarkable short-term successes in fiscal terms, but the sustainability of reforms and fiscal consolidation is endangered because of a lack of acceptance at the local level. In contrast, the German conditional bailout programs were welcomed by many municipalities, but their effectiveness has not been proved up to now. A comparative assessment of varying institutional specificities and specific municipal conditions helps to find innovative solutions and should enhance policy learning.

The policy paper makes recommendations to German and Greek policymakers who deal at various territorial levels with the challenges of municipal fiscal policy. The main focus lies on the redesign of fiscal decentralization and the enhancement of local leadership in both countries. Moreover, specific local debates on fiscal policies were investigated. The guiding idea is to provide effective and efficient policy options in order to regain fiscal leeway, but also to consider the role of the local level as an important level of democratic decision-making.

The paper evolved within the research project "REformablility of Political Systems in times of crisis" (REPOS) which compared municipal fiscal consolidation in both countries. Researchers in Germany and Greece used a case study approach to carry out an investigation in ten cities (four in Germany and six in Greece). The researchers conducted expert interviews with 115 actors from municipalities, the local civil society, supervisory authorities and responsible ministries. Because the project focused on bigger and medium-sized cities, the research involves the type of municipality which is worst affected by fiscal problems in both countries. However, this means that our recommendations should only be cautiously applied to smaller municipalities.

The first paragraph compares the basic features of the local government systems in Germany and Greece and analyses the fiscal challenges at the local level in both countries. The second chapter outlines the reforms and measures policymakers at the central, federal state or municipal level in Germany and Greece enacted to solve these challenges. Subsequently, the last chapter offers recommendations derived from our research. The recommendations outline the necessary institutional reforms of the two local government systems as suggestions for central and federal state actors. Moreover, recommendations for local government actors include advice on municipal consolidation measures and political as well as administrative leadership.

**Box 1: REPOS project profile.**

**REformability of POlitical System in times of crisis (REPOS):**

**The example of the financial consolidation in German and Greek municipalities**

The REPOS project is part of the Bilateral R&D Cooperation in Social Science between Germany and Greece. The project is funded by the German Federal Ministry of Education and Research and the Greek Ministry of Culture, Education and Religious Affairs. The first phase of the project was dedicated to fiscal consolidation and the following phase will focus on innovations in local economic and social policy.

**MAIN OBJECTIVES**

- Investigating institutions and leadership comparatively to identify opportunities for and obstacles to reform
- Evaluating reforms of local government systems and municipal fiscal consolidation strategies
- Drawing lessons for sustainable reform capacities

**MAIN RESEARCH QUESTIONS**

1. How do institutional settings and national specificities of the two countries influence municipal fiscal consolidation?
2. How do actor-related factors and case-specific variables influence municipal consolidation within the similar institutional structures within the same country?
3. How are different problem perceptions reflected in each locality in the local discourse on fiscal problems and how can the specificity of each locality be interpreted?

**METHODOLOGY**

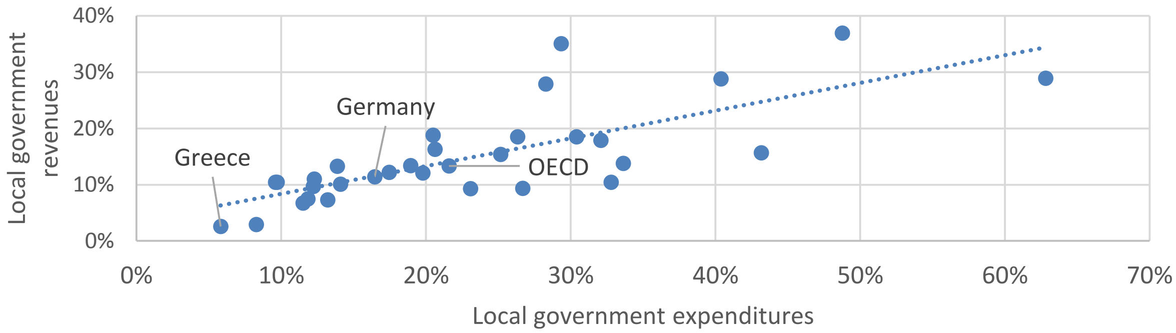
- Case study approach: 10 case studies (6 in Greece, 4 in Germany)
- Guided interviews: 115 local (mayors, treasurers) and upper-level actors (supervisory bodies, ministries)
- Document analysis: local newspapers, council minutes, manifestos, press releases

# 2 LOCAL GOVERNMENT SYSTEMS AND FISCAL CHALLENGES IN COMPARISON

## 2.1 GERMAN AND GREEK LOCAL GOVERNMENT SYSTEMS

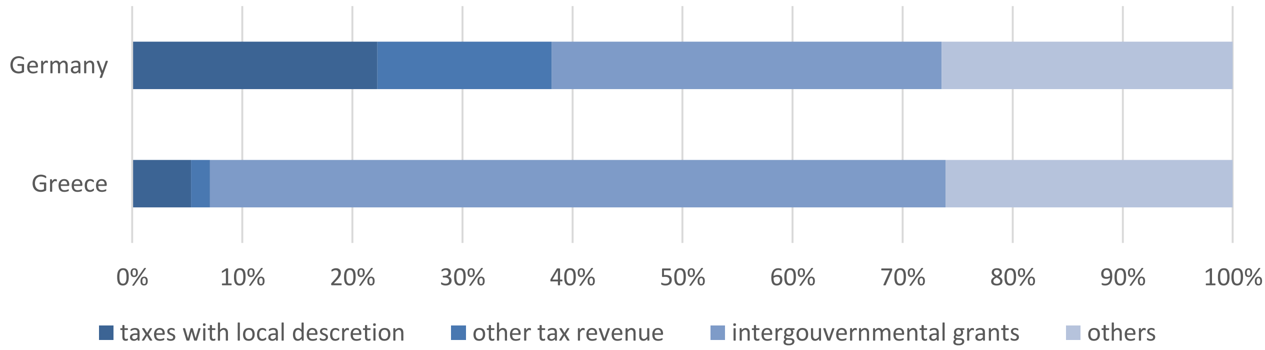
Local government systems, more specifically the institutional distribution of power among territorial levels within a political system and among local actors, affect the range of feasible policies for consolidating municipal budgets. The institutional distribution of power is changeable, as international trends towards fiscal decentralization and strengthened mayors prove. The German local level has a strong **constitutional role**, but it is subordinated to the federal states, which shape local government systems and determine many aspects of municipal financing. In the unitary state of Greece these variations do not exist. The Greek constitution calls for administrative decentralization, but does not assign a similar role to the local level.

**Figure 1: Share of local government revenues and expenditures as percentage of general government revenues and expenditures in comparison to OECD states.**




Source: OECD 2013, p. 79.

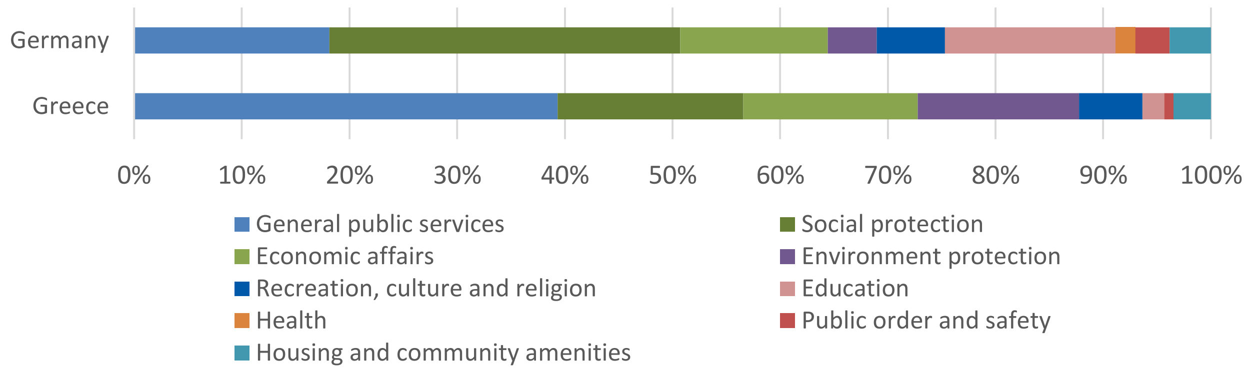
**Figure 2: Revenue structure of local government, in percentage of total local government revenues in 2011.**




Source: own calculation based on OECD 2015.

German local government is responsible for many public services and **social policies** as obligatory tasks (e.g., social welfare or childcare policies). In contrast, Greek local government has fewer tasks and the budget composition shows that municipalities have limited relevance in social policy and education (see Figure 2). A comparison of **fiscal decentralization** shows that revenues and expenditures at the German local level are higher (see Figure 1). Whereas German municipalities levy business tax as well as real property tax, and receive a share of income tax, Greek local government is to a large extent dependent on state grants.

**Figure 3: Local government expenditure structure, expenditure by COFOG function in per cent of total expenditure in 2011.**




Source: OECD 2013a.

**Table 1: Local government systems in comparison.**

| | Greece | Germany |
|---|---|---|
| **Vertical power dimension** | | |
| Access to higher political levels | High | Low |
| Powers | Few, weak | Many, important |
| Financial autonomy | Low | Medium |
| Dependence on grants | High | Medium |
| Fiscal supervision | Legalistic, hierarchical | Legalistic, bargaining in the “shadow of hierarchy” |
| Fiscal rules | Legally strict | Legally strict |
| **Horizontal power dimension** | | |
| Political leadership I | Strong mayor | Strong mayor (collective form, Hesse) |
| **Combined leadership dimension** | | |
| Political leadership II | Political mayor | Executive mayor (collegial leader, Hesse) |

Sources: Getimis *et al.* 2016.

Both countries have **“strong mayors”** who are in full charge of all executive functions. Greek mayors usually control the majority of the council, whereas the directly elected German mayors often have to deal with diverging majorities in the council.[1] Moreover, the German mayor has to cooperate with a

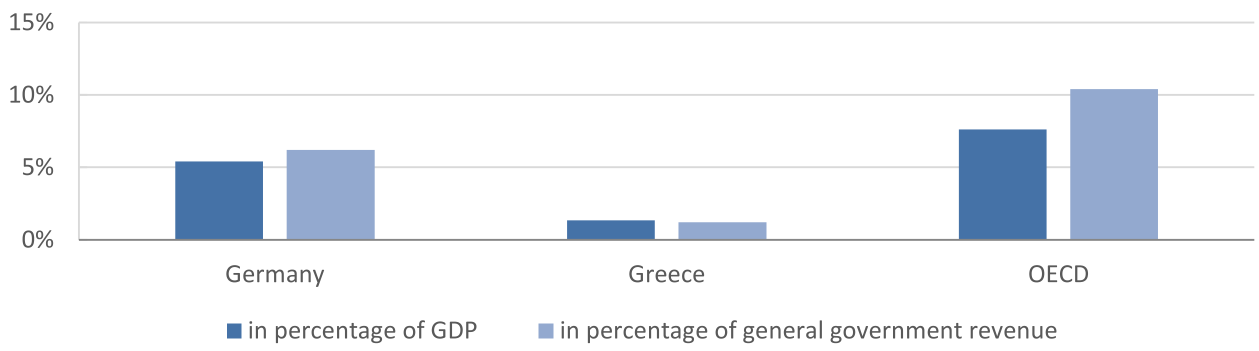
[1] In Greece designated mayors head a party list in municipal elections and a simple majority allows them to obtain the mayoral office and three-fifths of council seats. The direct election of the German mayor takes place in a separate ballot from the council election (usually also on different election dates).

council-elected treasurer who is responsible for municipal finances. Because Greek mayors appoint all leading administrators, they appear to have more power. However, the low degree of decentralization means that the mayors' executive powers are limited. Therefore, the Greek mayors are also called **"political mayors"** whose main responsibility is to gain access to upper levels of government. Hence, in contrast to the German **"executive mayors"**, the institutional setting does not encourage them to be a stronghold of fiscal discipline.

## 2.2 FISCAL CHALLENGES OF GERMAN AND GREEK LOCAL GOVERNMENT

In both countries local government debt accounts for only a small share of public debt and of GDP, which is below the OECD average (see Figure 4). Because Greece is one of the most centralized countries and in Germany sub-national debt is predominantly held by federal state governments, this is not surprising. However, a comparative assessment that considers the different levels of local government revenues shows that **local government debt** in Germany and especially in Greece is only slightly below the OECD average. Considering that in Greece the local level has only a small amount of tax revenues of its own and that the local level has no discretion on most tax revenues, the ability of municipalities to solve fiscal challenges becomes even more limited (see Table 2).

**Figure 4: Local government debt as percentage of GDP and general government debt.**




Source: own calculation based on OECD 2013, p. 67.

Liabilities are **regionally unequally distributed** in Germany and Greece. In Germany municipal debt is concentrated within the West German "crisis states"[2] and in Greece urbanized regions such as Attika suffer especially from the fiscal crisis.

[2] The so-called "Krisenländer" are North Rhine Westphalia, Rhineland-Palatinate, Saarland and partly Hesse, where local-level governing entities have the largest amount of total debt and short-term debt.

**Table 2: Local government debt in percentage of different types of local government revenues.**

| | Germany | OECD | Greece |
|---|---|---|---|
| **Local government debt in percentage of local government revenues** | 106 | 136 | 119 |
| **Local government debt in percentage of local government tax revenues** | 270 | - | 1,736 |
| **Local government debt in percentage of local government discretionary tax revenues** | 462 | - | 2,290 |

Sources: own calculations based on OECD 2015 and OECD 2013, p. 67.

In Germany a remarkable share of local government debt consists of **short-term borrowing** ("Kassenkredite" or "Liquiditätskredite") which is not related to asset values. According to regulations, short-term borrowing should only compensate for short-term variations in income, but in fact local government entities misuse cash credit to finance structural deficits and current expenditures. The Greek equivalent of short-term borrowing are **overdue liabilities**. Local government simply does not fulfil financial obligations towards private suppliers and contractors. This practice causes liquidity problems for a large number of small- and medium sized enterprises.

Furthermore, in both countries a considerable share of municipal debt has been "hidden" up to now. Newly introduced public statistics in Germany show that about 50 percent of local government debt is dedicated to **separated budgets, public funds as well as public companies** (Bogumil *et al.* 2014, pp. 616–619). In Greece the debt of municipal companies was also not statistically recorded before the Kallikrates reform was enacted.

Another challenge of macroeconomic importance are municipal investments, because local government in both countries is responsible for a significant share of all public investments (48 percent in Germany and 31 percent in Greece, OECD 2013b). In times of crisis cutbacks in investments are common, although a reprioritization from operational and personnel costs toward investments seems to be more suitable for strengthening the local economy and ensuring service quality in the long run.

Moreover, in Germany missing investments combined with increasing expenditures for **mandatory social services** are leading to constrained leeway for local decision-making. German local government entities are also complaining about insufficient grants from federal states and about tax reforms at the federal level. However, the local level municipalities in Germany have never experienced a sudden drop of revenues like the one being experienced at the Greek local level, which suffered **straight cutbacks of grants** (20 percent of all grants) during the crisis.

Because municipal fiscal performance varies strongly within Germany, a great deal of research has been conducted to explain these differences. Basically, research refers to, firstly, **exogenous reasons**, that local government can hardly influence, and secondly to **endogenous reasons** which are due to local failures. Although there are no equivalent research findings for Greece, we can adopt this basic categorization.

**Box 2: Municipal debt of cases in the REPOS project.**

Fiscal data for the ten selected cases reflects the general comparison between the countries, but there are also remarkable differences within Germany and Greece. Due to the higher degree of fiscal decentralization local government debt per capita is mostly higher in Germany. A comparison of municipal debt with local government revenues modifies this initial picture and reveals that some of the Greek municipalities have huge fiscal problems (e.g., Maroussi and Nikaia-Rentis).

| | Local government debt per capita in 2011 | Local government debt in % of annual revenues in 2011 |
|---|---:|---:|
| Mainz | 5,434 | 278 |
| Kassel | 3,740 | 136 |
| Magdeburg | 1,659 | 78 |
| Wuppertal | 4,894 | 160 |
| Athens | 406 | 52 |
| Maroussi | 2,008 | 231 |
| Piraeus | 913 | 99 |
| Nikaia-Rentis | 711 | 131 |
| Patras | 187 | 35 |
| Volos | 186 | 33 |

Sources: own calculations for Germany based on Bertelsmann Stiftung 2015, for Greece based on own calculation of official data from the Ministry of Interior.

Exogenous reasons consist of **spatial, socio-economic and demographic factors**, which are especially important for the German municipalities with their high number of social policy tasks. Nevertheless, because political interventions have only limited influence on these factors, it is useful to concentrate on other exogenous institutional and political conditions. In both countries upper-level governing entities have strong incentives to consolidate their budgets and to fulfil citizen demands at the expense of local government. The **delegation of tasks without providing adequate financial resources**, centrally initiated tax reliefs and cutbacks or freezes of grants appeared in both countries. Moreover, typical failures of fiscal policies in multilevel systems such as the **"fiscal illusion"** are relevant especially in Greece. Taxpayers are unaware of the final recipients of their taxes and local government is less accountable. Supervisory authorities and **fiscal rules** could theoretically alleviate this problem. However, local government in both countries was often creative enough to circumvent these restrictions, in part with the support of higher tiers of public administration.

Furthermore, an inappropriate **distribution of power within municipalities** could affect the fiscal performance of local government. The strong role of the Greek and German mayors seems to be favourable at first glance. They are able to enforce fiscal consolidation and promote the common interests of the municipality. Moreover, research on local governance expects them not only to overcome "performance deficits" but also "democratic deficits" by cooperating with different council party groups and civil society actors. However, the assumption that strong mayors inevitably have a preference for fiscal discipline is oversimplified. Specific **endogenous features of local leadership** in concrete municipalities affect fiscal outcomes but it seems to be impossible to standardize these aspects of leadership in term of formal qualifications or party affiliations. All in all the assessment of the fiscal challenges in both countries shows that solutions to problems have to draw on the **capacities of all political levels**. On the one hand, upper levels have to provide short-term fiscal relief and long-term institutional changes, whereas on the other hand, local government could contribute by enhancing leadership and strategic management.

# 3 REFORM OPTIONS IN MULTILEVEL SYSTEMS

## 3.1 POLICY GOALS OF FISCAL CONSOLIDATION

According to the European Charter of Local Self-Government, local government is *"one of the main foundations of any democratic regime"*, citizen participation is *"most directly exercised at the local level"* and "*local authorities with real responsibilities can provide an administration which is both effective and close to the citizen*.*"* The challenge for policymakers is to find solutions for fiscal problems without hollowing out the promises of decentralization.

**Table 3: Normative goals of fiscal consolidation.**

| | Principles | Criteria |
|---|---|---|
| **Output-legitimacy** | Effectiveness/efficiency | • Compliance with fiscal rules<br>• Fiscal balances and local government debt<br>• Administrative modernization |
| **Input-legitimacy** | Participation, "voice" and "vote" | • Local choices<br>• Involvement of council members, stakeholder and citizens |
| **Throughput-legitimacy** | Fairness and transparency | • Public consultation and transparency of decisions |

Source: own contribution based on Haus and Heinelt 2005, p. 15.

On the one hand, local government has to be able to meet specific local demands and to enhance democratic decision-making. On the other hand, upper levels have to recognize the risks of decentralization which are exemplified by subnational bailouts. Fiscal consolidation is often solely discussed in terms of **effectiveness and efficiency (output-legitimacy)**, but these criteria are only one side of the coin. Usually fiscal policies are dominated by a few municipal actors with expert knowledge, whereas deliberation at the local level as well as the involvement of civil society and citizens are limited. However, standards of good government also include the idea of **citizen participation (input-legitimacy)** as well as the need for fair and **transparent decision making (throughput-legitimacy)**. In the near term, these goals could be contradictory because hierarchy and strict fiscal rules may successfully enforce fiscal consolidation. However, over the long term decentralization works only when democratic and transparent decision making is ensured.

## 3.2 REFORM OPTIONS FOR CENTRAL AND FEDERAL STATE POLICYMAKERS

Policymakers at the central and federal state level can affect the outputs and processes of municipal decision making with **functional and territorial reforms as well as with regulatory, procedural or incentive-based policy instruments**. Within Europe the reform landscape which emerged during the crisis shows various contradictory approaches: amalgamations, regionalization and establishment of metropolitan governments, upscaling of power, decentralization of tasks, greater supervision and fiscal rules as well as attempts at fiscal decentralization (Davey 2011, Meneguzzo *et al.* 2013, Council of European Municipalities and Regions 2013). Despite these diverging trends, a comparison with earlier waves of local government reforms shows that the **focus of policymakers is on efficiency and effectiveness** while aspects of local democracy are largely neglected. In Germany and Greece, policymakers chose different reform options which reflect the different fiscal and political challenges of the local level, but also the different reform capabilities within the German and Greek political system. While Greek policymakers decided to conduct a broad functional and territorial reform, German federal states focused on output steering based on conditional bailout programs.

**Table 4: Reform options for central and federal state policymakers.**

| Type of reform | Examples |
|---|---|
| **Fiscal reforms** | Fiscal decentralization/centralization, reassignment of public revenues and taxation rights |
| **Functional reforms** | Reassignment of public tasks: decentralisation or upscaling of tasks, creation and consolidation of metropolitan government |
| **Territorial reforms** | Enhancing economies of scale, administrative professionalism and reducing overheads through amalgamations and inter-municipal cooperation |
| **Procedural reforms** | Reforms of bookkeeping, biennial budgets, sunset legislation, zero base budgeting, local referenda, involvement of municipal committees or civil society |
| **Regulatory reforms** | Quantitative fiscal rules: balanced budget rules, debt limits, expenditure limits, limits for fees and tax rates |
| **Incentives/conditionality** | output/performance steering offering grants or technical assistance for fulfilment of fiscal consolidation |

### 3.2.1 THE KALLIKRATIS PLAN

The Kallikratis plan was the second broad reform of the Greek local government system after the democratization. The first reform (Kapodistrias reform) had already reduced the number of local government entities remarkably (from 5,700 to 1,034). Bigger municipalities were expected to provide services more effectively and enable participation in a broader range of services. However, the quality of public services remained poor. Regional and local entities as well as newly established municipal companies caused overlapping powers as well as organizational fragmentation. Before the crisis began, another reform step was therefore planned but the crisis was the final “window of opportunity”. The Kallikratis reform was already drafted and was finally issued shortly after the first bailout agreement with the international creditors. The reform covers **territorial, functional and fiscal regulations**, and establishes **new participatory institutions**. Moreover, it encompasses both tiers of local government as well as regional government and state supervision. In addition to the Kallikratis plan the central government, in cooperation with the Troika established new control and monitoring mechanisms (the most important of these being the “Observatory of Local Autonomy” and an overdue liabilities program. In practical terms, the program transfers municipal debt to the central level if municipalities agree to fixed consolidation agreements.

**Table 5: The Kallikratis plan.**

| | |
|---|---|
| Amalgamations | • Decreasing number of local government entities from 1,034 to 325 municipalities |
| Secondary tier of local government | • Establishment of 13 regions (“peripheries”) replacing 54 prefectures (“nomarchies”) as a second tier of local government<br>• Establishment of 7 decentralized administrative districts (“Apokendromeni Diikisi”) |
| Participation | • Longer terms of office for mayors and council members (5 years)<br>• Local and regional ombudsmen<br>• Deliberation committees and immigrant integration councils<br>• Strengthening of district councils |
| Transparency | • Compulsory internet publication of municipal decisions |
| Fiscal rules | • Obligatory balanced budgets since 2013 for all municipalities<br>• Introduction of two financial criteria (Kallikratis I: annual cost servicing of debt lower than 20 percent of annual revenues, Kallikratis II: debt limit of 60 percent of annual revenues) |
| Fiscal supervision | • Strengthened role of the court of audits<br>• Monthly central monitoring by fiscal observatory<br>• Establishment of an independent “special supervision service” (SSS) in the decentralized administrations (still pending) |
| Municipal companies | • Obligatory merging of local government enterprises |
| Decentralization | • Decentralization of tasks from former prefectures (e.g., waste management, roadworks, social policy tasks and education) |

FURTHER READING

Hlepas, N.; Getimis, Panagiotis (2011): Impacts of Local Government Reforms in Greece: An Interim Assessment. In: Local Government Studies 37 (5), pp. 517–532.

## 3.2.2 CONDITIONAL BAILOUT PROGRAMS

Because federal states are responsible for functional and territorial reforms of the local government system in Germany, a comprehensive countrywide reform like the one in Greece is impossible. This also applies to regulatory, procedural and incentive-based reform approaches. The federal level could reform the system of municipal taxation, but the distributional effects of any such reform inevitably lead to vetoes by the second chamber ("Bundesrat"), local government associations or powerful interest groups. For this reason, problem solutions of the federal state level were demanded. The federal states have implemented territorial reforms (e.g., Saxony-Anhalt) or reformed fiscal equalization schemes for local government (e.g., Hesse) during the last years. However, their most visible reaction to the financial and economic crisis were the conditional bailout programs for municipalities and counties that ten out of thirteen territorial federal states initiated. Many programs were imposed by federal states after consultation with local government associations. The programs are designed as a **"help for self-help" offering conditional grants in return for municipal consolidation efforts**. About twenty percent of German first tier local government entities participate in such programs (Ernst & Young GmbH 2014). Usually, municipal councils decide on participation in the programs and choose the specific municipal consolidation measures. Supervising bodies periodically monitor municipal compliance with the conditions and penalize non-compliance with supervisory or financial sanctions.

**Table 6: Conditional bailout programs.**

| Policy goals | Reduced short-term borrowing or investment borrowing, balanced budgets |
|---|---|
| Amount of fiscal aid | • Between 9–32 percent of local government debt (4–18 percent derived from federal state budgets)<br>• Between 25–118 percent of local government short-term borrowing (13–46 percent derived from federal state budgets) |
| Types of fiscal help | Discretionary non-earmarked grants, partial debt or interest rate relief |
| Participating local government entities | Ranges from 16 to about 600 municipalities and counties in different federal states |
| Funding sources | Federal state budgets, equalization schemes for local government, additional "solidarity funds" of local government |
| Selection and allocation criteria | Past fiscal data on: budget balances, taxing capacity, total debt, short-term borrowing or over-indebtedness |
| Types of conditions | • Output conditions: municipal fiscal consolidation plans, restrictions for voluntary tasks, minimum levels for tax rates and fees, defined amount of cutbacks or revenue increases<br>• Impact conditions: balanced budgets rules<br>• Procedural conditions: application procedures, involvement of municipal councils, reporting |
| Monitoring | Partial upscaling of fiscal supervision and strengthening of ministries of finance |
| Sanctions | • Financial sanctions: dismissal or reclaiming of benefits already paid<br>• Supervisory sanctions: hierarchical interventions. e.g., appointment of a state commissioner |
| FURTHER READING<br>Heinelt, Hubert; Stolzenberg, Philipp (2014): "The Rhinish Greeks." Bailout Funds for Local Government in German Federal States. In: *Urban Research & Practice* 7 (2). | |

### 3.2.3 EVALUATION OF CURRENT REFORMS

The approaches of central and federal state policymakers in Germany and Greece have different advantages and disadvantages, as demonstrated by theoretical considerations and empirical evidence. Despite some lacks (e.g., in the Attica region) the extent of amalgamations and reassignments of public tasks in Greece is impressive. Moreover, the Kallikratis reform seeks to balance the different normative criteria of output-, input- and throughput-legitimacy. One of the weaknesses of the Kallikratis plan is the **failure to implement** important reform components. Due to institutional barriers (requirement of a two-thirds council majority) and the resistance of mayors who feared constraints on mayoral power, many municipalities did not implement the new institutions of the local ombudsman and the deliberation committee. In this regard the **top-down approach** of the Kallikratis reform had weaknesses because of a lack of acceptance at the local level and emerging anti-reform alliances.

Moreover, the devolution of tasks to the local level requires a **professionalization of municipal staff** in order to manage new local government tasks efficiently. However, in times of austerity it is doubtful if local government can achieve such an improvement, particularly as the reform lacks a clear change towards **fiscal decentralization**. The introduction of local government taxes to enhance the incentives for municipalities to attract citizens and companies through good services has not occurred up to now. Moreover, it is necessary to combine fiscal decentralization with a system of fiscal equalization that balances the policy goals of competitiveness and equal living conditions.

In contrast to the Kallikratis plan, German conditional bailout programs are not comprehensive reforms but temporary mechanisms to initiate municipal fiscal consolidation. German policymakers usually involved municipal actors in the formulation of the programs. Moreover, German municipalities could decide on **tailor-made measures** for fiscal consolidation to fulfil the conditions of the program. An evaluation of the implementation is difficult, because the lifespans of the programs are still very short. Up to now it can be concluded that a very large number of municipalities decided to participate in the programs voluntarily, meaning that acceptance is quite high. In addition, the vast majority of these local government entities are complying with the conditions in the programs. How far **compliance** proves the success is hard to assess because the first implementation phase took place under convenient socio-economic circumstances. Although the use of sanctions was rare, supervisory bodies showed themselves to be willing to enact them if necessary. While the fiscal situation of many municipalities which participate in conditionality programs improved, this does not apply to the fiscal situation at the local level across the board, which is still characterized by **a rising level of short-term borrowing and expenditures for social policies**.

From a theoretical point of view the programs imply four additional challenges. Firstly, despite the temporary fiscal aid the programs **remove only the endogenous reasons** for municipal fiscal challenges. As a consequence, exogenous failures of the system of local government finance such as the volatility of business tax revenues and increasing spending for welfare benefits have yet to be systematically addressed. Secondly, the programs probably influence municipal actors only as long as conditions are in place. When the provision of financial incentives comes to an end, municipal actors do not benefit from compliance anymore. If the programs did not initiate intense **policy learning**, municipal decision-makers will resume their initial fiscal policy as a result. Thirdly, incentive-based grant schemes always raise implicit **expectations of ongoing financial help** regardless of their effectiveness. Nevertheless, federal states have to insist on limiting the time frame for programs, because renewal would increase bailout expectations considerably. Fourthly, like other instruments based on financial aid, **windfall gains** are possible.

All in all, the results of the preliminary evaluation are mixed. Both approaches have strengths and weaknesses with regard to the normative criteria applied (see Table 7). On the one hand the German approach has the advantage of broad-based involvement of the local level in solving problems, which lowers the risks of implementation and motivation deficits. On the other hand, it seems to be impossible to enforce broad financial, functional and territorial reforms in this consensual way. Hence, German problem solutions are confined to a temporary adjustment of the fiscal environment of some municipalities. In contrast the Greek approach is characterized by comprehensive territorial, functional and fiscal reform. However, the lack of acceptance at the local level causes implementation deficits and the lack of municipal taxes prevents clear incentives for local actors to practice fiscal discipline and provide services efficiently.

Therefore, new reforms in Greece should **decentralize powers of taxation** and the capacity to collect municipal revenues. Existing implementation deficits should be removed and more **cooperative legislation** could prevent the emergence of new deficits. Moreover, the mayor-centred local government system did not prove to be a driver of fiscal discipline. Therefore, a more balanced and consensual local government system seems to be necessary. In Germany the bailout programs proved to be more legitimized and transparent. The approach of output-steering proved to be partly effective, but solutions of the fiscal challenges of the local level require a more **comprehensive approach**.

**Table 7: Preliminary evaluation of the Kallikratis plan and conditional bailout programs.**

| | Kallikratis plan | Conditional bailout programs |
|---|---|---|
| **Output-legitimacy** | + Efficiency gains due to economies of scale and streamlined task assignments<br>– Lack of professional staff | + High compliance with conditions<br>+ Strengthening municipal consolidation efforts<br>– Lack of systematic financial reforms<br>– Uncertain long-term impact<br>– Cost-intensive for federal state budgets |
| **Input-legitimacy** | ± Enforced participatory instruments but lack of implementation | + Broad acceptance and participation by municipalities |
| **Throughput-legitimacy** | + Publication of municipal decisions<br>– Lack of debate | + Transparent municipal consolidation plans<br>– Selective debates |

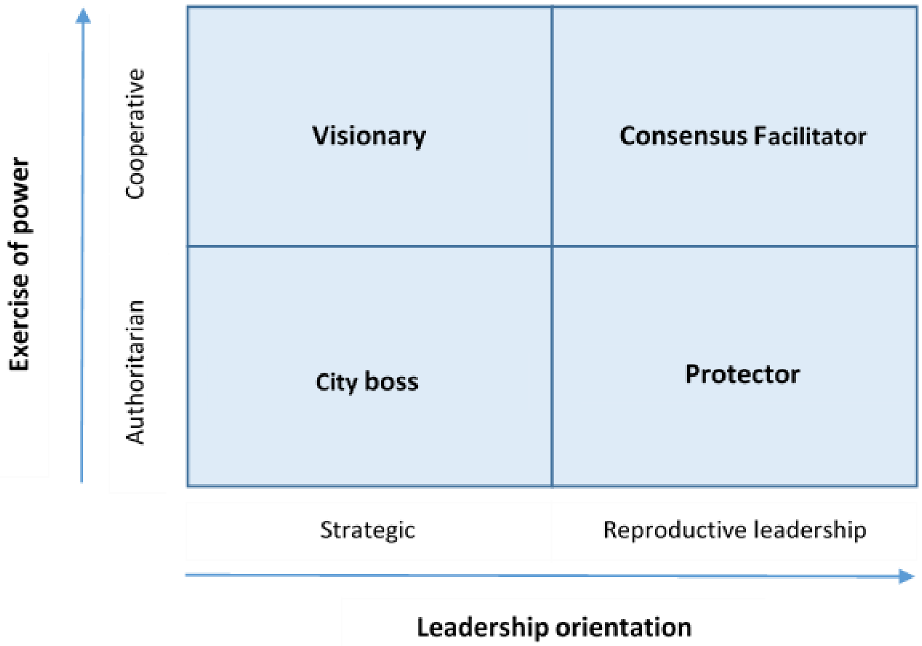
## 3.3 REFORM OPTIONS FOR MUNICIPAL POLICYMAKERS

### 3.3.1 INSTITUTIONAL FRAMEWORKS AND LEADERSHIP

Within the institutional frameworks determined by upper levels, local actors choose concrete measures for fiscal consolidation. Of course, compared with Greece, the scope of action is broader in the German local government system. However, institutions not only restrict feasible policy options but they also affect the **behaviour of local political leaders**. Nonetheless, as many local government reforms have demonstrated, institutions do not determine certain leadership styles on their own; styles are also influenced by character traits, individual skills or political cultures.

Leaders are either strategic – setting long-term goals and encouraging innovations – or reproductive – reacting to emerging challenges with day-to-day guidance. Furthermore, leaders act either cooperatively – focusing on bargaining and deliberation – or in an authoritarian manner – deciding top down. The combination of leadership characteristics results in four leadership styles: **the "visionary," the "consensus facilitator," the "city boss" and the "protector"** (see Figure 4).

**Figure 5: Leadership styles of local government.**




Source: Getimis and Hlepas 2006, p. 182, John and Cole 1999, p. 102.

The protectors act in both an authoritarian and a reproductive manner. They solve short-term fiscal challenges effectively by hierarchical interventions, but avoid prioritization of public services and administrative reforms. The "consensus facilitators" involve different actor groups better. Nevertheless, policies might be inadequate because they can neither execute short-term fiscal goals hierarchically nor enforce long-term strategic goals. At first glance the city boss is the preferred leadership style, as these leaders set long-term strategic goals and enforce measures against resistance within the administration and the council. However, these leaders are vulnerable, as acceptance for their policies is missing. By contrast, the visionary is better able to establish coalitions that share the same problem perception, to enhance the local debate on fiscal policies and to control fragmented administrations as well as polarized party structures. The visionary is also capable of connecting different arenas of decision-making (participatory mechanisms, multi-level bargaining and local representative bodies).

In Greece the mayor is the undisputed leader in fiscal policies, while in Germany treasurers are also powerful leaders. A typology of fiscal measures shows that Greek municipal actors can enact strategic as well as incremental measures. The only excluded type of measure in Greece is tax increases, but municipalities can improve the collection of fees and revenues (see Table 8).

**Table 8: Types of municipal fiscal consolidation measures and their feasibility in the German and Greek local government systems.**

| | Strategic measures | | Incremental measures | |
|---|---|---|---|---|
| | Efficiency gains/innovation | Prioritization | Horizontal cutbacks | Tax increases |
| **Approach** | Organizational | Fiscal | Fiscal | Fiscal |
| **Time span** | Long-term | Long-term | Short-term | Short-term |
| **Decision-making costs** | High | High | Low | Low |
| **Long-term effectiveness** | High | High | Low | Low |
| **Typical measures** | Process optimization, E-government, co-production of citizenry, inter-municipal cooperation | Cutbacks of non-prioritized services | Control of expenses, across-the-board cut-backs, hiring freezes, expenditure freezes | Increase of business and real property tax, transfer of profits from municipal companies |
| **Feasibility at German local level** | + | + | + | + |
| **Feasibility at Greek local level** | + | (+) | + | - |

To assess the consolidation mix in German and Greek municipalities a comparison and evaluation of the measures in the ten case study municipalities is necessary. The empirical analysis shows remarkable differences between Germany and Greece, but also within the two countries. The differences evolved due to different institutional frameworks, but also due to different characteristics of municipal leadership. Moreover, different socio-economic circumstances (see Table 8) and different legacies of fiscal consolidation have to be considered.

**Table 9: Socio-economic conditions of cases in the REPOS project.**[3]

| | Population | Unemployment rate | Social welfare rate |
|---|---|---|---|
| Mainz | 202,756 | 5.4 | 7.0 |
| Kassel | 197,571 | 9.7 | 11.2 |
| Magdeburg | 229,924 | 11,0 | 14.1 |
| Wuppertal | 349,770 | 11.3 | 13.2 |
| Athens | 664,046 | 20.4 | 3.3 |
| Maroussi | 72,333 | 12.3 | 3.0 |
| Piraeus | 163,688 | 21.9 | 5.7 |
| Nikaia-Rentis | 105,430 | 19.6 | 2.5 |
| Patras | 213,984 | 21.6 | 4.2 |
| Volos | 144,449 | 20.1 | 2.9 |
| Greece | 10,815,197 | 18.7 | 3.7 |
| Germany | 80,328,000 | 6.5 | 7.6 |

### 3.3.2 MUNCIPAL FISCAL CONSOLIDATION MEASURES

In the German municipalities, on the one hand, negative impacts of consolidation measures could be ignored in most of the cases. On the other hand, there is no remarkably short-term improvement in fiscal data as was the case in Greece. In Germany **revenue-based consolidation** measures played a much larger role, which was justified by the long legacy of fiscal consolidation that had exhausted the possibilities for efficiency gains. With the exception of Kassel, all German case cities used the opportunity to increase local government taxes. The cities relied entirely on **real property tax**, because an increase has no negative side effects (house owners and renters are not as mobile as businesses) and political costs are low. The real property tax distributes the "pain" to all citizens equally, and resistance from organized groups is limited.

Moreover, **municipally owned companies** were involved into fiscal consolidation as they had to transfer profits to the municipalities or to handle decreased grants from them. The comparison of cutbacks in the German cities produces a fragmented picture, but horizontal cutbacks are rare. The degree of **cutbacks** in social policy, administration and cultural policies varies from city to city, which means that prioritization of services seemed to be possible for local actors.

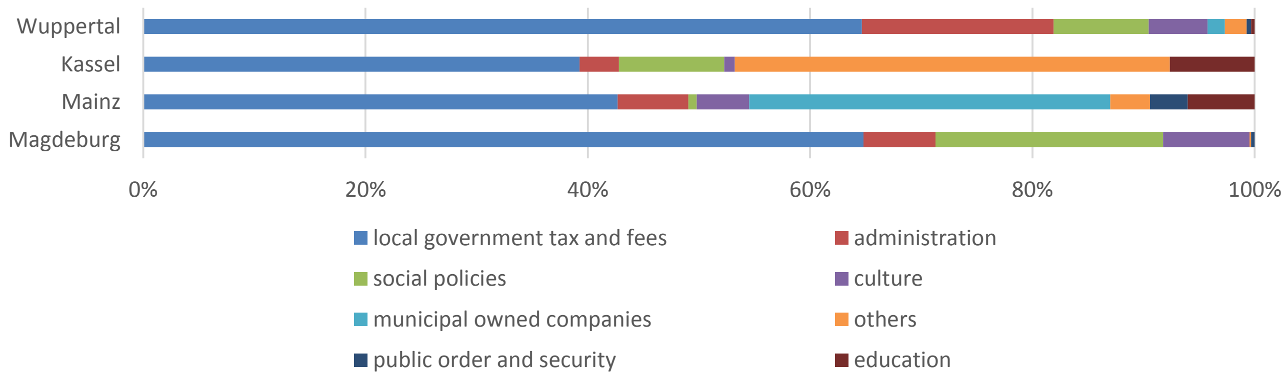
Kassel was the only German city which reduced its municipal debt and balanced the budget as a result of the conditional bailout program and the economic success of the city. Although other cities such as Wuppertal and Mainz implemented more far-reaching consolidation measures, it is uncertain whether they will achieve a balanced budget. The municipalities initiated some **innovative measures** such as

[3] German sources: social welfare rate (including unemployed, disabled and elderly welfare recipients and recipients of refugee aid in 2011): own calculation based on Statistische Ämter des Bundes und der Länder (2015) and Statistische Ämter des Bundes und der Länder 2014;
Greek sources: population and unemployment rate: ELSTAT, Population Census 2011, social welfare rate (unemployed receiving unemployment benefits): OAED, Hellenic Manpower Organization, primary income: based on the annual declarations of households, Greek Ministry of Finance.

municipal bonds, new public management reforms or new governance mechanisms for municipally companies, but these means were not a direct result of the conditional bailout programs. The programs were implemented under time pressure, and the fiscal outcomes of innovations are uncertain as well as difficult to monitor.

The **focus on fiscal instead of organizational means** is thus not surprising. Setting conditions proved to be sufficient for adaption but not for policy learning. However, if fiscal consolidation should prove to be successful, adaption will not be sufficient. Local government should therefore develop strategies that enforce prioritization, and carry out open evaluation of their own performance and consolidation approaches which balance the different types of measures. The specific local debates about fiscal problems are surprisingly lively in the German cities. Civil society groups and citizens have raised their voice on certain issues which are related to fiscal consolidation (e.g., cutbacks in cultural programs in Wuppertal or the close down of district libraries in Kassel). Nevertheless, treasurers and mayors have dominated expert-driven local discourses. Their concrete roles differed because some mayors were more actively engaged in the debates (e.g., Magdeburg) while others left this responsibility mostly to the treasurers (e.g., Wuppertal and Mainz).

**Figure 6: Fiscal consolidation in German cases**




Sources: own calculation based on Landeshauptstadt Magdeburg 2011, Stadt Wuppertal, Stadt Wuppertal, and Landeshauptstadt Mainz 2013.

In Greece municipal measures were largely determined by the central level, which decreased state grants during the crisis. Furthermore, multilateral agreements with international creditors affected the entire public sector, including the municipalities. All cities had to **lower expenditures for staff** (a salary cut of 20 percent) and to dismiss personnel in some services that were abolished (school guards and municipal police). Nevertheless, variations between the municipalities could be observed. Some municipalities concentrated on debt restructuring by implementing the **overdue liabilities program** of the national government, which enabled massive reductions of local government debt in the near term. Other municipalities focused on a more effective **collection of their own revenues** (e.g., Patras), a higher absorption of **EU funds** (e.g., Athens, Nikaia-Rentis, Maroussi) or management reforms (Athens, Nikaia-Rentis).

Municipalities introduced new procurement systems, cost benefit analyses for major services, and zero-base budgeting, and strengthened corruption prevention as well as opportunities for extrajudicial compromises with creditors. **Privatizations and public-private partnerships (PPP)** were rare in the Greek municipalities due to these measures being highly controversial. However, this also applies to the German cases, where privatizations are partly excluded in the conditional bailout programs as they lead to only one-off effects on fiscal consolidation.

Compared to the German cases, where variations in business tax revenues and changes of equalization schemes also led to uncertainties it was nearly impossible for Greek local government to conduct multiannual fiscal planning during the crisis. As the central government implemented discretionary decreases of grants, the municipalities had to react with **ad hoc consolidation measures** every year. This meant strategic long-term measures were nearly impossible, and cutbacks mainly targeted staff and investment spending.

With respect to output-legitimacy, Greek municipalities achieved **remarkable cost savings and debt reductions**. Most of the cities now comply with the fiscal rules introduced by the Kallikratis plan, and have municipal debt lower than 60 percent of their annual revenues. This data and the effort to implement management reform that has been described seem to indicate good performance, at first glance. However, a cautious assessment that includes negative impacts of consolidation measures shows limitations.

Firstly, investments and service quality remain at a very low level, especially in cities such as Athens and Piraeus, which are characterized by huge infrastructural problems. In response to this, municipalities should develop **new forms of providing services** including the civil society and the private sector. Secondly, the municipalities were not able to hire the professional staff they need in order to **modernize the local administration and municipal fiscal management**. Thirdly, discretionary interventions of the central government hinder long-term strategic planning, and transparent and comprehensive lists of all municipal consolidation measures such as in Germany are missing. Nevertheless, local government should use all existing opportunities to increase their own revenues and should publish all means of fiscal consolidation. Regarding input and throughput legitimacy, Greek cities perform differently. It is notable that Nikaia-Rentis, Athens and Maroussi encourage councillors and citizens to participate in deliberative processes, and this facilitated the implementation of consolidation measures.

However, with the exception of the two bigger municipalities of Athens and Piraeus, the debate on municipal fiscal policies remained weak in Greece and was overshadowed by the national discourse on the general financial and economic crisis. Some mayors who had been newly elected in 2010 put fiscal consolidation and management reforms at the top of their agenda (Athens, Patras, Volos and Nikaia-Rentis). However, the lack of reliable fiscal data as well as the blame-shifting strategies of municipal actors hindered specific local debates. Furthermore, there is no competition between Greek local government entities regarding “good” performance in services. It is thus difficult to force discourse at the local level on failures and achievements of municipal service provision.

**Figure 7: Evaluation of results and processes of municipal fiscal consolidation.**

| | Principles | Criteria | German cases | Greek cases |
|---|---|---|---|---|
| **Output-legitimacy** | Effectiveness/efficiency | Fiscal balances and local government debt | - | + |
| | | Compliance towards fiscal rules/conditions | -/+ | + |
| | | Administrative modernization | - | -/+ |
| **Input-legitimacy** | Participation, “voice” and “vote” | Local scope of action | + | - |
| | | Involvement of councillors | -/+ | -/+ |
| | | Stakeholder and citizen | -/+ | -/+ |
| **Throughput-legitimacy** | Fairness and transparency | Publicity of consultations and decisions | + | -/+ |

# 4 RECOMMENDATIONS: INSTITUTIONS, STRATEGIES AND LEADERSHIP

The assessment and evaluation of municipal fiscal consolidation revealed the **strengths and weaknesses of reform approaches** at the central, state and local level. In Greece the national government initiated a comprehensive territorial, functional and fiscal reform that enabled remarkable efforts to carry out fiscal consolidation. However, the reforms lack fiscal decentralization and suffer from implementation deficits. In Germany conditional bailout programs motivated local government to foster their own consolidation efforts. On the one hand, program implementation was noiseless and consensual, on the other hand, the impact on fiscal outcomes and administrative innovation was limited. Their problem-solving capacity is restrained not only by specific program designs but also by theoretical limitations of conditionality as a governing instrument.

At the local level we found city-specific attempts of fiscal consolidation in both countries. In the decentralized German system the variation was bigger but also, in Greece, municipal leaders enforced different strategies. Incremental measures were predominant in both countries, with tax increases implemented in Germany and horizontal cutbacks carried out in Greece, but some municipalities in both countries also tried to modernize the administration and to set priorities in service provision. The approaches are influenced by different political cultures, different impacts of the financial and economic crisis, **different local government systems and by varying leadership styles**. Given that the last two factors can be influenced by central and federal state policymakers as well as by municipal leaders, the following recommendations focus on these two factors.

## 4.1 REDESIGNING LOCAL GOVERNMENT SYSTEMS

### 4.1.1 RECOMMENDATIONS FOR GREEK CENTRAL GOVERNMENT ACTORS

**Fiscal Decentralization**

- The Greek national government should decentralize powers of taxation in order to eliminate fiscal illusions and promote political accountability. A municipal real property tax provides a revenue base for local government that can be projected into the future and an equalization scheme could smooth differences in tax capacity.

**Consulting Local Government Associations**

- The national government should further integrate local government associations and municipalities into the process of legislation. The example of the conditional bailout programs in Germany shows that implementation deficits can be avoided.

**Output-Oriented Steering**

- The German conditional bailout programs show that output-oriented steering works to enhance fiscal rules. As a result, detailed top-down specification of municipal consolidation measures should be avoided, in order to enable local flexibility.

**Municipal Financial Service**

- Municipal financial service in Greece should be equivalent to the state tax authority with all powers, including powers of investigation. Municipal financial services and tax authorities should be obliged to exchange information and mutually provide direct access to their records and data.

**Municipal Revenue Collection**

- Shortcomings in municipal revenue collection show that national supervision should use all powers for monitoring orderly and timely revenue collection by municipal authorities.

**Checks and Balances**

- The mayor-centred Greek local government system endangers participatory innovations and the sustainability of consolidation. Therefore, a more proportional electoral system in combination with a balanced "constitution" for municipal government should be introduced.

**Strengthening the Treasurer**

- The Greek local government system should provide more institutional powers and legitimacy to treasurers (vice-mayors of finance). The German cases show that council-elected treasurers with high levels of political skill and administrative expertise are strong promoters of fiscal discipline.

**Participatory Governance**

- The “Deliberation Committee” envisaged in the Kallikratis plan should become mandatory for municipalities. Our research in Greece proves that this committee could mobilize civil society actors who would deliberate and formulate an opinion on budget plans.

**Economic Development Policies**

- Greek central government should promote local economic development policies in order to combat negative impacts of austerity policies in the cities.

### 4.1.2 RECOMMENDATIONS FOR GERMAN FEDERAL STATE ACTORS

**Reforms and Conditional Bailout Programs**

- Federal states should combine conditional bailout programs with reforms of the system of municipal financing and fiscal equalization schemes in federal states because “help-for self-help” cannot remove the exogenous reasons for local government debt.

**Clear Rules Instead of Bargaining**

- Conditional bailout programs require clear aims with long-term prospects for a structural balanced budgets and new leeway for local politics. In addition, conditional bailout programs should have objectives for local consolidation plans that prevent single-case solutions achieved through bargaining.

**Cooperative Legislation and Implementation**

- Cooperative legislation (consultation with local government associations) and cooperative implementation of conditional bailout programs (consultation with the municipalities) could broaden acceptance of conditional bailout programs.

**Output-Oriented Steering**

- Steering approaches of federal states have to be limited to long-term measurable outputs without detailed restrictions on contents and priorities of local consolidation policies. Strengthening local choices in consolidation is necessary to attenuate negative impacts of consolidation policies.

**Reliability of Regular State Grants**

- Our case studies in Germany show that funds from the conditional bailout programs should not replace regular state grants. Parallel cutbacks in fiscal equalization schemes have a discouraging effect on local actors.

**Comprehensive Reforms and Windows of Opportunities**

- As the Greek experience has shown, comprehensive reforms of the local government system and the system of local government financing are possible during a severe crisis. Policymakers in Germany should prepare reform ideas and wait for a similar "window of opportunity".

## 4.2 ENHANCING MUNICIPAL LEADERSHIP AND STRATEGIC MANAGEMENT

### 4.2.1 RECOMMENDATIONS FOR GREEK MUNICIPAL ACTORS

**Participatory Governance**

- Municipal leaders should activate the "Economic Committee" and the "Deliberation Committee." This will enable all parties to openly discuss and debate financial issues through more transparent and participatory processes.

**Leadership**

- Municipal political leaders should enact "visionary" and "consensus facilitating" leadership skills in order to achieve efficient, legitimate and sustainable outcomes.

**Enhancing Transparency**

- The administration should act as a "communicating mediator" between political leaders and the citizens, based on transparency and accountability to the public. Open budgets and open data can enhance the transparency of municipal budgets at little expense.

**Mobilizing External Funding**

- Municipal leaders should strengthen local development policies, mobilize resources and prepare innovative proposals in order to attract private investments and EU-funded projects.

**Tailor-made Consolidation Measures**

- Tailor-made mixtures of increased revenue and decreased spending are necessary for each city, based on specific local needs and opportunities. Horizontal cutbacks should be avoided. This should be underpinned by detailed cost-benefit studies.

**Consolidation Concepts and Scenarios**

- Local authorities should decide on comprehensive lists of consolidation measures and publish them. They should formulate alternative scenarios for consolidation measures, which illustrate the impacts of different choices including non-decisions.

**Civil Society and Co-Production**

- Municipalities should cooperate with civil society organizations to counteract municipal cutbacks and to enable the coproduction of services.

**Meritocracy in Administration**

- Mayors should promote meritocratic assignment of administrative staff at all layers. Staff spending should be redistributed towards professional staff in IT services or financial departments.

### 4.2.2 RECOMMENDATIONS FOR GERMAN MUNICIPAL ACTORS

**Transparent Priorities**

- Transparent political priorities are necessary in the first phase of consolidation policy to set clear guidelines for the administration. Municipal leaders have to define which policy fields are important and which are subordinated.

**Discourse on Endogenous Reasons**

- The recognition of endogenous reasons for local government debt and a public discourse about these reasons can foster own problem solving capacities and active engagement in fiscal consolidation.

**Municipal “Debt Brakes”**

- Local authorities can decide on their own “debt brakes” or other fiscal rules for their municipality to enhance the commitment to fiscal consolidation of all the actors involved.

**Handling Public Demands**

- Strong organized groups will probably dominate local debates. Local leaders should be actively engaged in public debates. Evidence on representative opinions and the illustration of fiscal constraints help them to resist these demands.

**Balanced Consolidation Mix**

- Consolidation policies and the mix of revenue- and spending-based consolidation means has to be suitable for the specific challenges of the cities and their administrations. A middle ground between tax increases, prioritization of services and administrative innovations seems to be the most appropriate policy.

**Governance of Municipally Owned Companies**

- Municipally owned companies should be restricted to public services which do not overburden local steering capacities. The Greek attempt to limit the fragmentation of municipal companies could be an example.

# REFERENCES


Barber, B.R., 2013. *If mayors ruled the world: Dysfunctional nations, rising cities*. New Haven, Conn.: Yale University Press.

Bertelsmann Stiftung, 2015. *Wegweiser Kommune* [online]. Available from: https://www.wegweiser-kommune.de [Accessed 27 May 2015].

Bogumil, J., Holtkamp, L., Junkernheinrich, M., and Wagschal, U., 2014. Ursachen kommunaler Haushaltsdefizite. *Politische Vierteljahresschrift (PVS)*, 55 (4), 614–647.

Council of European Municipalities and Regions, 2013. *Decentralisation at a crossroads: Territorial reforms in Europe in times of crisis*.

Davey, K., 2011. *Local Government in Critical Times: Policies for Crisis, Recovery and a Sustainable Future.* Strasbourg: Council of Europe texts.

Ernst & Young GmbH, 2014. *Kommunen in der Finanzkrise: Status quo und Handlungsoptionen: EY Kommunenstudie 2014, Ergebnisse einer Befragung von 300 deutschen Kommunen*.

Getimis, P., Stolzenberg, P., Terizakis, G. and Hlepas, N., 2016. *Cities in Times of Crisis: Fiscal consolidation in Germany and Greece*. Baden-Baden: Nomos.

Getimis, P. and Hlepas, N., 2006. Aspects of Leadership Styles: An Interaction of Context and Personalities. *In:* H. Bäck, H. Heinelt, and A. Magnier, eds. *The European Mayor*: VS Verlag für Sozialwissenschaften, 177-199.

Haus, M. and Heinelt, H., 2005. How to achieve governability at the local level? Theoretical and conceptual considerations on a complementarity of urban leadership and community involvement. *In:* M. Haus, H. Heinelt, and M. Stewart, eds. *Urban governance and democracy: Leadership and community involvement*. London, New York: Routledge, 12–39.

John, P. and Cole, A., 1999. Political leadership in the new urban governance: Britain and France compared. *Local Government Studies*, 25 (4), 98–115.

Landeshauptstadt Magdeburg, 2011. *Konsolidierungsvorschläge zur Amortisation der FAG-Mindererträge 2012*. Änderungsantrag (DS0455/11/31).

Landeshauptstadt Mainz, 2013. *Liste der Konsolidierungsmaßnahmen der Landeshauptstadt Mainz*. Anlage (0903/2013).

Meneguzzo, M., Sancino, A., Guenon, M. and Fiorani, G., 2013. New development: The crisis and European local government reforms. *Public Money & Management*, 33 (6), 459–462.

OECD, 2013. *Government at a glance 2013*. Paris: OECD Publishing.

OECD, 2013a. *National accounts of OECD countries: General government accounts.*

OECD, 2013b. *Subnational governments in OECD countries* [online]. Available from: http://dx.doi.org/10.1787/888933106952 [Accessed 19 May 2015].

OCDE, 2015. *Fiscal Decentralisation Database* [online]. Available from: http://www.oecd.org/tax/federalism/oecdfiscaldecentralisationdatabase.htm [Accessed 10 June 2015].

Stadt Wuppertal. *Haushaltsanierungsplan 2012-2021*.

Statistische Ämter des Bundes und der Länder, 2014. *Sozialberichterstattung in der amtlichen Statistik: Empfänger von sozialen Mindestsicherungsleistungen.*

Statistische Ämter des Bundes und der Länder, 2015. *Bevölkerungsstand, -vorausberechnung* .

**Research team**

**Greek Team**
Prof. Dr. Nikolaos Hlepas (scientific coordinator)
Prof. Dr. Yannis Psycharis
Ass. Prof. Dimitris Kallioras
Alexia Timotheou (MSc.)
Dimitris Apistoulas (PhD cand.)
Despoina Nassaina (PhD cand.)
Efthymia Georgaki (PhD cand.)
Maria-Artemis Kolliniati (PhD cand.)

**German Team**
Prof. Dr. Hubert Heinelt (program responsible)
Dr. Giorgos Terizakis (scientific coordinator)
Prof. Dr. Panagiotis Getimis
Philipp Stolzenberg (researcher)

**Further Information**

www.repos-project.eu

**Project Partners and Funding**


TECHNISCHE UNIVERSITÄT DARMSTADT

HELLENIC REPUBLIC
National and Kapodistrian University of Athens

European Union
European Regional Development Fund

HELLENIC REPUBLIC
Ministry of Culture, Education and Religious Affairs
General Secretariat for Research and Technology

HELLENIC REPUBLIC
MINISTRY OF ECONOMY
INFRASTRUCTURE, MARITIME AFFAIRS & TOURISM

COMPETITIVENESS AND ENTREPRENEURSHIP
OPC II

NSRF 2007-2013

regions at the centre of development

Co - financed by the Hellenic Republic and the European Union - European Regional Development Fund, in the context of the O.P. Competitiveness and Entrepreneurship (OPC II) and the R.O.P. Attica, R.O.P. Macedonia - Thrace

SPONSORED BY THE
Federal Ministry of Education and Research