

Legitimacy and Local Leadership in Fiscal Consolidation

Consolidation Programs for German Local Governments

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Abstract

German federal states initiated consolidation programs for highly indebted local governments which are designed as a “help for self-help”. These programs provide conditional grants in return for municipal consolidation efforts and should encourage municipal leadership. For legislators at the federal state level the programs are an innovative approach that strengthens local financial autonomy and decentralized decision-making. However, although municipal councils decide on the participation in the programs and on specific consolidation means some researchers and local politicians perceive the programs as part of a broad trend to strict fiscal rules and austerity which erodes local self-government. Therefore, I will contribute a first explorative case study of three independent cities to evaluate the output- and input-legitimacy of the current program implementation. Moreover, I will investigate the role of local leaders, namely the mayor and the treasurer (“*Kämmerer*”), and the impact of their leadership style in facilitating these dimensions of legitimacy.

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1. Introduction

Budget surpluses at all political levels seem to prove that German public finances are in a good condition. However, for the local level large differences between and within the German *Länder* (federal states) have to be considered. In highly indebted local governments fiscal consolidation is a losing game for municipal leaderships. Low prospects of success and high electoral risks discourages local leaders. Therefore, ten out of thirteen territorial federal states initiated consolidation programs for local governments which are designed as a “help for self-help” offering conditional grants in return for local consolidation means (Junkernheinrich and Wagschal 2014, pp. 29–30). Estimations state that fifteen percent of first tier local governments participate in such programs (Ernst & Young GmbH 2013). The participation in the programs and specific local means are mostly decided by the councils. For legislators at the *Länder* level the programs are an innovative approach that strengthens local financial autonomy and decentralized decision-making. In this view the programs make fiscal consolidation possible by providing additional funds and encouraging municipal leaders. In contrast, some researchers and local politicians perceive the programs as part of a broad trend to austerity which erodes local self-government (Holtkamp 2013). As both perceptions lack of empirical evidence I will contribute a first evaluation of the output- and input-legitimacy of the program implementation in three independent cities. Moreover, I will investigate the role of local leaders, namely the mayor and the treasurer (“*Kämmerer*”), in facilitating these different dimensions of legitimacy. More specifically, I will try to answer the following research questions:

- (1) Did the consolidation programs and their local implementation increase performance in fiscal policy and local government (output-legitimacy) in an inclusive decision-making process at the local level (input-legitimacy)?
- (2) Did the programs encourage leadership styles which are able to foster input- and output-legitimacy of fiscal consolidation?

My approach is an explorative comparative case study of three independent cities in three different *Länder* (Wuppertal in North-Rhine Westphalia, Mainz in Rhineland-Palatinate and Kassel in Hesse). The empirical material of this paper consists of 33 guided interviews with local actors (treasurers, councillors, administrators, actors from interest groups), actors from supervision authorities and from federal state ministries. Moreover during, local newspapers,

council, minutes, municipal press releases and documents from council fractions were examined during a research period from 2011 to 2013. All documents and transcribed interviews were analysed with the software MAXQDA with a combined deductive and inductive approach.

In the following second chapter I will briefly describe the fiscal challenges of local governments in Germany, the mechanisms of the consolidation programs as well as the horizontal power relations at the local level. Subsequently, I will provide some basic information on the selected cities in the third chapter. In the fourth chapter I will investigate the implementation of the consolidation programs in the three cases and try to answer my first research question. Subsequently, I will deal with my second research question on leadership in the fifth chapter and summarize my preliminary results in the sixth chapter.

2. Local government finance and municipal leadership in Germany

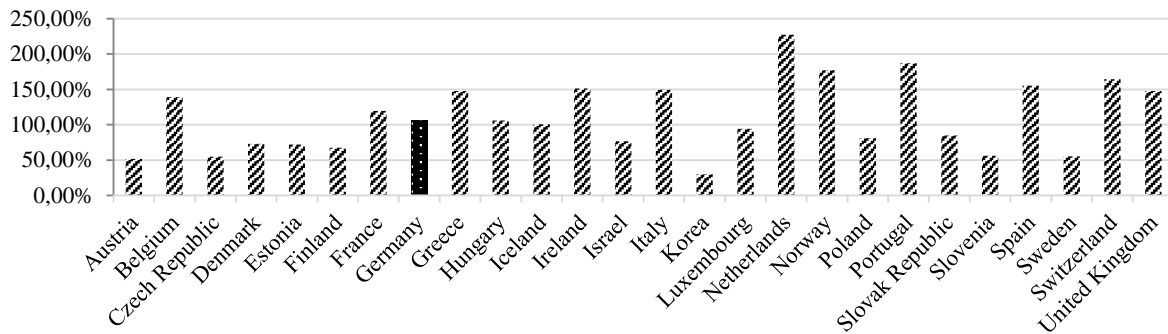
2.1. Fiscal challenges of the local level in Germany

The German local level has a strong constitutional role but municipalities are subordinated to the *Länder*, which determine many aspects of local government finance and supervise fiscal policies of the local level. The municipalities levy business as well as real property tax and receive a share of income tax. Additionally, the municipalities obtain non-earmarked grants allocated by equalization schemes in the *Länder* and earmarked grants from upper levels. Municipalities fulfil voluntary tasks (e.g. culture or sports), implement many social policies as obligatory tasks (e.g. social welfare or childcare policies) and are responsible for about 60 percent of all public investments (Deutscher Städtetag 2014). Compared to OECD-countries, Germany seems to be in mid-position according to fiscal challenges at the local level (Figure 1). However, local government debt is unequally distributed between and within the federal states. Particularly independent cities with a population from 100.000 to 500.000 are affected by a vicious circle of budget deficits, high expenditures for social policies and economic weakness (Holtkamp 2010, p. 25, Junkernheinrich 2011, p. 44, Junkernheinrich and Wagschal 2014, p. 308). Furthermore, a remarkable share of local government debt consists of short-term borrowing which is not related to asset values.¹ Research identified exogenous reasons for fiscal problems that local government can hardly influence (e.g. socio-economic conditions, task shifting of upper level governments, inadequately local government codes or

¹ Long-term debt is relatively harmless when used for profitable investments which are useful for future generations (pay-as-you-use). In contrast, short-term borrowing or cash credit ("*Kassenkredite*" or "*Liquiditätskredite*") should (according to regulations in the local government codes) only compensate short-term variations of income. However, there is no doubt that German local governments misuse cash credit to finance structural deficits Herrmann (2011, p. 10).

fiscal rules) and endogenous reasons which are provoked by local failures and insufficient local leadership (e.g. party polarization, mal-investment, risky financial transactions) (Bogumil *et al.* 2014, Junkernheinrich and Wagschal 2014).

Figure 1: local government debt in percentage of yearly local government revenues in 2011



Source: own calculation based on OECD op. 2013.

Reforms of local government finance or related aspects were either blocked (e.g. reform of the business tax at the federal level) or had only limited impact on fiscal outcomes (e.g. reforms of local government codes and fiscal rules at the *Länder* level). However, as the economic and financial crisis increased doubts on the solvency of public debtors new incremental problem-solving strategies like consolidation programs became necessary (Heinelt and Stolzenberg 2014).

2.2. Consolidation programs of German *Länder* for the local level

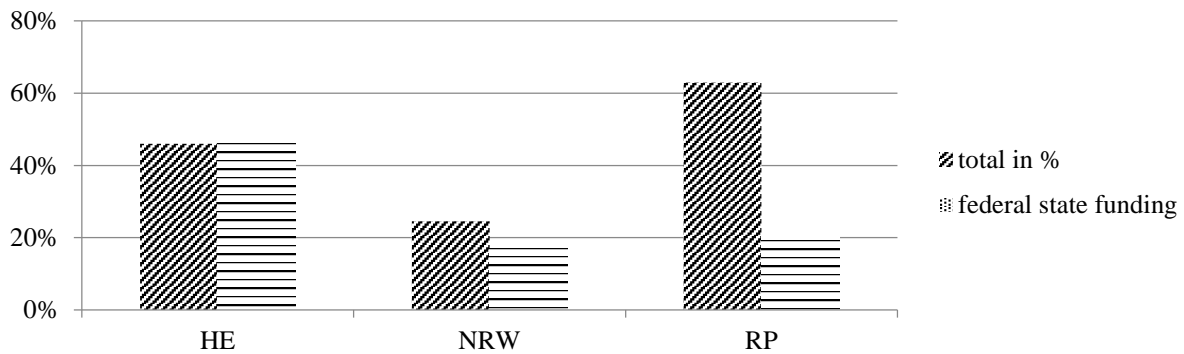
For my empirical research I chose the programs of Rhineland-Palatinate, North Rhine-Westphalia and Hesse which are three of the “crisis *Länder*” of local government finance. These programs have the highest amount of funding and aim to reduce short-term debt (Rhineland-Palatinate) or total debt (Hesse) or focus on balanced budgets of participating local governments (North Rhine Westphalia). Moreover, the volumes and sources of funding differ (see Table 1 and Figure 2).

Table 1: funding of consolidation programs

federal states	benefits in total (in million euro)	funding period	sources (in million euro)		
			state	equalisation schemes and “solidarity funds” of the local level	own contribution
Rhineland-Palatinate	3,825	2012-2026	1,275	1,275	1,275
North Rhine-Westphalia	5,76	2011-2020	3,995	1,762	-
Hesse	3,200	-	3,200	-	-

Sources: Ministerium für Inneres und Kommunales Nordrhein-Westfalen, Heinelt and Stolzenberg 2014, p. 8.

Figure 2: funding in percentage of local government short-term debt



Source: Stolzenberg and Heinelt 2013, p. 469.

The selection of local authorities and the allocation of additional state grants bases in all states on detailed fiscal criteria. Furthermore, a decision of the municipal council is usually required to participate in the programs. The councils of participating local governments decide on a consolidation treaty with the federal state or on a consolidation plan that has to be approved by the supervision. These contracts or plans contain concrete consolidation measures which local governments chose to reach a balanced budget or to achieve a certain fiscal amount of consolidation. In periodic reports, local governments have to prove their compliance to committed means and non-adherence could be sanctioned with the revocation of the contract or a reclaim of the financial support. In North Rhine-Westphalia, which has comparatively strict fiscal rules for local governments (Holler 2013) the program is combined with the threat of a state commissioner who takes over the tasks of mayor and council.

2.3. Strong mayors and the role of the treasurer

All mayors in the *Länder* of the three cities under research are directly-elected but the “strong-mayor”/“executive mayor” in Rhineland-Palatinate and North Rhine Westphalia and the “collective mayor”/“collegiate leader” in Hesse can be found (Mouritzen and Svara 2002, pp. 55–56, Heinelt and Hlepas 2006, p. 36). Despite these differences all German mayors of bigger cities act in a system of “variations of »semi-presidentialism«” (Bäck 2005, p. 85) which means that councils elect deputy mayors with own competencies (specified by the mayor, the council or both). One of these deputy mayors is normally the treasurer whose position is a hybrid between a political and an administrative actor. Expertise in fiscal policies and administrative experience is normally required to be elected. The treasurers influence fiscal policies in all phases of policy-making as they prepare the budget draft which remains mostly unchanged in the following budget process (Holtkamp 2000, p. 214). Moreover, the

treasurer is powerful in the budget implementation as he enacts spending freezes and prepares supplementary budgets. Furthermore, the treasurer represents the municipality in bargaining processes with the supervision authority and regulates the flow of information. This is an important task in highly indebted local governments because multi-level bargaining tends to shift power from the head of an organization (the council) to the interface between different levels of government (treasurer and mayor) (Grande 2000, pp. 18–19, Geißler 2011, p. 140).

3. Socio-economic and political context of the three cases

Despite the consolidation programs and the vertical power relations socio-economic, fiscal and political conditions differ between the three selected cities. In Kassel and Wuppertal, the decline of the industrial sector caused socio-economic challenges (e.g. high social welfare rates) which are the main drivers of fiscal challenges. In contrast, Mainz is situated in an economically prospering region and is characterized by a diversified economy. Nevertheless, Mainz and Wuppertal have the highest total debt and the highest short-term debt. Both cities were not able to balance their budgets for decades. Kassel had some rare budget surpluses in the last years and was able to limit local government debt. In all cities fiscal consolidation did not start with the consolidation programs and interventions of upper levels were not new phenomena. For example, Wuppertal was under strict supervision including non-approved budgets and provisional budget management for years (“*Nothaushaltsrecht*”).² As the city implemented twelve consolidation programs since the nineties the potential for consolidation-means was mostly exhausted. Mainz and Kassel also have a long history in fiscal consolidation but interventions of supervisions have not been that strict.

Table 2: socio-economic and fiscal data of case study cities

		Kassel	Mainz	Wuppertal
population		197,571	202,756	349,770
social welfare rate	in %	7.4	3.6	8.7
disposable household income	in €per capita	17,038	20,078	20,309
total debt	in €per capita	3,819	5,565	4,832
short-term debt	in €per capita	2,320	4,053	4,169

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.

² Therefore, only expenses for legal or contractual obligations were allowed and investment borrowing including the participation in co-payment requiring economic development programmes was restricted.

Different council coalitions including the parties of the mayors and treasurers governed the three cities (no cohabitation government). Treasurers were the first deputies of the mayors in Mainz and Wuppertal and had important additional competences all cases like the management of municipal owned companies, the municipal staff (Wuppertal), social policies (Kassel) or sports (Mainz). In Wuppertal and Kassel mayor and treasurer were at least in their second term of office and the council coalitions governed for at least two election periods. In contrast, the actor constellation in Mainz changed in the last years. The current council coalition broke through a long tradition of informal cooperation of all political parties (“*Mainzer Modell*”) which had led to a clientelistic system of mutual favours. A new mayor and a new treasurer came into office. Both competed in the last mayoral election but they emphasized that the election campaign was fair and non-polarizing.

Table 3: actor constellation of local government

	mayor		Treasurer		council coalition
	inauguration	party affiliation	inauguration	party affiliation	
Wuppertal	2004	CDU	1998	CDU	CDU, SPD
Mainz	2012	SPD	2010	Greens	SPD, CDU, FDP
Kassel	2005	SPD	1991	SPD	SPD, Greens

4. Legitimacy in fiscal consolidation

4.1. Dimensions of legitimacy

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*” (Council of Europe Strasbourg, 15.X.1985). However, especially “North and Middle European” local governments like the German municipalities should effectively fulfil tasks of service delivery and act as an autonomous level of democratic decision-making (Hesse and Sharpe 1991, Haus 2014, p. 128). Therefore, they have to enhance two dimensions of legitimacy which Scharpf categorized as input- and output-legitimacy (Scharpf 1999). Input-legitimacy (“government by the people”) means that political decisions have to base on authentic preferences of citizens (Scharpf 1999, p. 16) and rest upon “*vote*“ and “*voice*“ (Haus 2014, p. 217). Output-legitimacy (“*government for the people*“) means problem-solving capacity and comprises effectivity and efficiency of policies (Scharpf 1999, p. 12). Some authors added throughput-legitimacy as a third criterion which encompasses the fairness and transparency of decision-

making processes (Papadopoulos 2003, pp. 484–485, Wolf 2006, pp. 212–214). However, due to limited space I will concentrate on input- and output-legitimacy.

Table 4: dimensions of legitimacy

	principle	criteria	crisis symptoms	operationalization
input-legitimacy	participation, “voice” and “vote”	support/acceptance	decreasing trust, electoral turnout	possibility of local choices, involvement of councillors, civil society and citizens
output-legitimacy	effectiveness/efficiency	problem-solving capacity	decision blockades, deficits in implementation	fiscal indicators, impacts of fiscal consolidation, innovations of local governance

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

4.2. Output-legitimacy

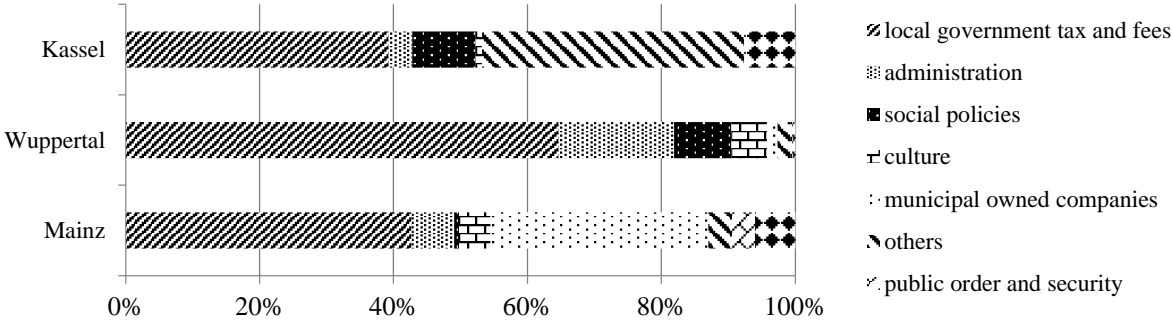
To evaluate output-legitimacy I will comparatively examine the concrete consolidation means, the budgetary results, the development of local government debt and investments in the selected municipalities. Moreover, I will investigate if the cities could weaken the negative impacts of fiscal consolidation on service-delivery and if far-reaching innovations in local government were implemented. *Wuppertal* increased real property and business tax and tried to decrease the expenditures for municipal administration by reducing staff. Together with Mainz the amount of fiscal consolidation (1,100 Euro per capita for the whole consolidation period) is the highest among the three cases. The city plans to balance the budget in 2017 but until then local government debt will still increase. Moreover, the socio-economic development of the city stagnated and negative impacts of long-standing fiscal austerity and high tax rates caused a multitude of visible negative impacts (e.g. a lack of preventive social policies, deteriorated infrastructures and missing competitiveness). Expenditures for investment were usually much lower than in the other two cases and innovations in local government were rare during the research period. Parochialism, short-sighted policies and different urban political cultures blocked inter-municipal cooperation (e.g. merging orchestras or fire services) which could streamline municipal services. In contrast, the co-production of public services (e.g. in sports, education and infrastructure) played a remarkable role in compensating municipal austerity.

Like in Wuppertal fiscal consolidation in *Mainz* is mainly revenue-based but the city concentrated on real property tax and profit-transfers from municipal-owned companies. Although the fiscal amount of the consolidation means is high the municipality still plans with budget deficits for the following years and local government debt will further increase. In contrast to Wuppertal concrete impacts of fiscal austerity and reductions of municipal services were limited. During the research period the city initiated two remarkable innovations of local

government which indeed were not consolidation means fixed in the consolidation treaty. In response to political scandals under the former municipal leadership the local government reformed the management of municipal owned companies and introduced a public corporate governance index. Moreover, the city successfully issued a municipal bond which is a new fiscal instrument for German local governments.

The local government of *Kassel* explicitly refused to increase tax rates and focused on fees (e.g. parking fees) as well as marginal decreases of social policy expenditures. Compared to the other cases, the amount of fiscal consolidation was much lower (see Figure 3). Nevertheless, Kassel reached a balanced budget in the last two years. Therefore, the city already achieved the objective of the consolidation treaty agreed for 2019. Moreover, as the additional funding from the *Land* was transferred directly to repay local government debt the municipality remarkably reduced liabilities. Despite strong party polarization all actors agreed that the socio-economic development of Kassel was successful in the recent years. A well-known city ranking awarded Kassel as “Germany’s most dynamic city” in 2011 because the city reduced unemployment, increased income as well as economic growth and provided good services in education, health care and culture (Institut der deutschen Wirtschaft 2011). Thus, the municipality was able to consolidate the budget through rising revenues from business tax and income tax without implementing increases of tax rates or drastic cutbacks. However, this implied that the additional funding was a windfall profit which enabled the municipality to reduce local government debt and interest payments without an equivalent reward. Local actors lament missing investment capabilities due to strict supervision but impacts of fiscal consolidation were negligible compared to Wuppertal. Furthermore, local government did not initiate innovations in local government. The institutionalization of metropolitan governance with the surrounding county following the best practice of the Hanover region failed and the city refused to pursue this reform.

Figure 3: distribution of consolidation means in different policy sectors



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

The comparison of output-legitimacy brought ambivalent results. Two of the cities, Wuppertal and Mainz, decided far-reaching consolidation means but the impact on fiscal indicators is limited. In contrast, Kassel reduced municipal debt and reached a balanced budget but did not implement strict consolidation means. Negative impacts of consolidation on the socio-economic development were only virulent in the case of Wuppertal. In the other cases “soft consolidation” or good socio-economic circumstances enabled a stronger resilience. Moreover, except the case of Mainz, local governments did not accompany consolidation means with any policy innovations. As supervisions insisted on measurable and checkable means for consolidation treaties and plans the scope for experiments with uncertain outcomes was limited. A summary of the indicators for output-legitimacy showed that the cities of Mainz and Kassel were partly successful whereas the performance of Wuppertal lagged behind (see Table 5).

Table 5: output-legitimacy summarized results

	Kassel	Wuppertal	Mainz
amount of consolidation means	0	1	1
budget surpluses	1	0	0
reduced local government debt	1	0	0
share of investments	1	0	1
prevention of negative impacts of austerity	1	0	1
innovations in local government	0	0	1
summarized results	4	1	4

4.3. Input-legitimacy

To evaluate input-legitimacy I will ask if local choices were possible or if strict requirements of the *Länder* level prevailed. However, different policy choices of municipalities are not sufficient. Councils should be involved in decision-making beyond the formal need for affirmation of consolidations means. Moreover, I will look for participative or associative approaches which could foster input-legitimacy by involving civil society actors or citizens. In contrast to the other two cases *Wuppertal* was obliged to take part in the consolidation program by the federal state. However, the *Land* did not prescribe specific consolidation means. Nevertheless, although local choices were possible the involvement of the council remained disputed. The treasurer and the heads of the council coalition prepared the consolidation means in closed workshops and discussed every single proposal. The council coalition relied on their broad majority and refused to consider the proposals of the opposition (e.g. a higher increase of the business tax, reduction of neighbourhood councils) although the biggest oppositional fraction was also in favour of the consolidation program and a revenue-

based consolidation. Due to the regulations of the local government code the municipality consulted the neighbourhood councils (“*Bezirksvertretungen*”) on aspects of consolidation policies which affected the districts. Hence, neighbourhood councils could not influence the whole local consolidation plan but they successfully avoided a closedown of decentralized administrative units (to the expense of reduced opening hours and the centralization of some tasks) and got some leeway in the implementation of parking fees or planned disposals of playgrounds. Civil society groups were only involved in agenda-setting. The local citizen movement “Wuppertal wehrt sich”/“Wuppertal resists” was quite active and visible before the introduction of the consolidation program but lost its drive and did not influence the enactment of the consolidation plan. The local government of Wuppertal followed the example of other cities which used participatory budgeting in fiscal consolidation (Holtkamp and Bathge 2012). Citizens provided own proposals for cutbacks or revenue increases via e-participation, citizen assemblies or by letters. Though, the council did not pick up the proposals for their decisions on the budget or the consolidation plan.

In the case of *Kassel* closed groups of the ministry of finance, the ministry of interior, the supervision and the local government bargained on possible consolidation means. The city was able to decide on own consolidation means and made local choices as the *Land* made no specifications on concrete consolidation measures. A broad majority in the council including the biggest opposition party supported the participation in the consolidation program. However, the collective executive body (“*Magistrat*“) mainly determined the local choices. These pre-decisions of the executive were mostly not controversial within the council coalition but the opposition parties refused to support these consolidation means. Proposals of the opposition (e.g. reduction of municipal staff and voluntary tasks) were rejected by the majority. Neighbourhood councils (“*Ortsbeiräte*“) were consulted but their “voice” did not affect the consolidation plan at all. Furthermore, the local government did not involve civil society actors and citizens in decision-making. Nevertheless, the public debate was visible and conflictual. A leftist initiative supported by trade unions and social welfare organizations criticized the increased fees as well as the cutbacks and proposed an increase of the business tax rate. Besides, the planned close-down of district libraries led to the first local referendum in *Kassel*.³

Although the *Land* insisted to increase the real property tax rates the city of *Mainz* was mostly able to make own choices to reach the objectives of the consolidation program. All

³ The majority of votes was against the close-down but the referendum initiative clearly failed to reach the quorum of 25 per cent of the eligible voters voting in favor of the initiative.

major council fractions agreed on the participation in the consolidation program. The council coalition set guidelines for the consolidation means which fixed that the consolidation should consist of one third efficiency means, one third cutbacks and one third revenue increases. An inter-party working group and a working group of the council coalition prepared lists of possible consolidation means that were checked by the administration and discussed with the supervision. Despite the existence of an inter-party working group the council coalition did not incorporate the proposals of the opposition (e.g. reducing municipal staff and horizontal cutbacks). Nevertheless, the council was able to shape the content of consolidation policies in the first phase of decision-making which was dominated by the executive in the other cases. Furthermore, like in Wuppertal neighbourhood councils influenced consolidation policies. As the local government tried to close some of the decentralized administrative units (“*Ortsverwaltungen*”), the district mayors (“*Ortsvorsteher*”) successfully resisted to these proposals. Like in the other cases citizens and civil society groups were not involved in consolidation policy at all.

Table 6: input-legitimacy summarized results

	Kassel	Wuppertal	Mainz
local choices of consolidation means	1	1	1
involvement of municipal council	0	0	1
involvement of other committees (neighbourhood councils)	0	1	1
involvement of civil society	0	0	0
involvement of citizens	0	0	0
summarized results	1	2	3

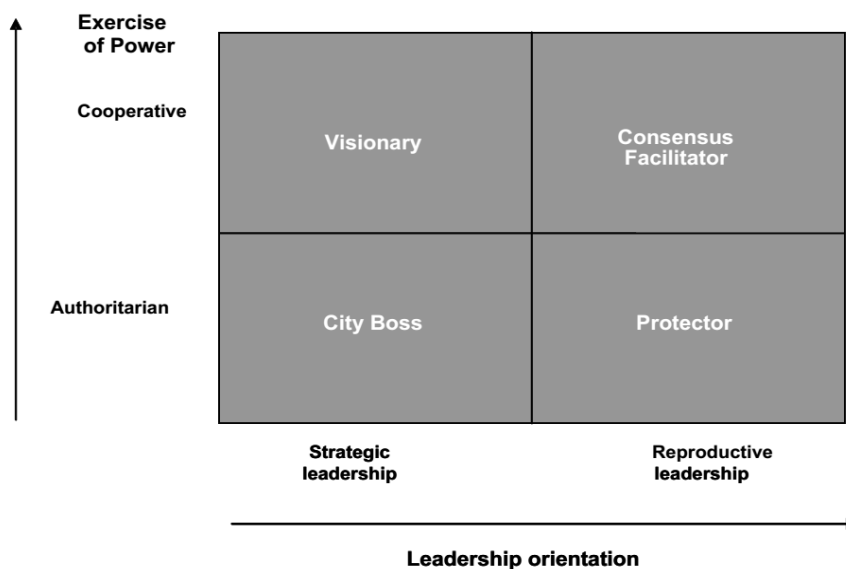
The summary of the results for input-legitimacy (see Table 6) shows that the patterns of “voice” and “vote” differed between the cities. It became clear that every municipality chose own consolidation means, and the *Länder* restrained to specify the content of consolidation plans or treaties. In every case the consolidation means were decided by a broad council majority without support of the opposition. Although the council coalition was the prevailing source of input-legitimacy the executives largely determined consolidation policy and councils were only involved in the latest phase of decision-making. Attempts to activate other sources of input-legitimacy were limited. Only neighbourhood councils were effectively involved in two cases where they successfully represented the interests of their districts. Civil society groups contributed to the agenda-setting (Wuppertal) or organized protest and a referendum (Kassel), but eventually did not influence policy choices. The same applies for citizens. The only process of participatory budgeting in Wuppertal failed to incorporate their “voice” in decision-making.

5. The impact of leadership orientation and exercise of power

5.1. Leadership and legitimacy

Local government reformers and advocates of the local governance perspective perceived leadership as an opportunity to overcome the “democratic deficit” (missing accountability and participation) and the “performance deficit” (missing problem-solving capacities) of the local level (Wollmann 2008, pp. 279–280). Strong leadership should provide partnership skills as well as accessibility (Greasley and Stoker 2008) and guide local policies in times of rapid policy change and interventions of upper levels (John and Cole 1999, p. 113). Institutional reforms in Europe strengthened the role of local political leadership since the nineties but it is mostly unclear if the new institutional structures fulfilled their promises. Research on German municipalities provided some evidence that stronger mayors could enhance output-legitimacy in fiscal policies (Bogumil *et al.* 2014) and citizens’ satisfaction with the performance of local government (Cusack 1999). Nevertheless, institutional reforms cannot determine certain leadership styles which are also influenced by character traits, personal skills, party systems and political culture (John and Cole 1999, pp. 100–101).

Figure 4: leadership styles



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

Research differentiates leadership styles according to the dimensions of “leadership orientation” and “exercise of power” (Getimis and Hlepas 2006). Thus, political leaders are either strategic - setting long-term goals, encouraging innovations and coherent programs - or reproductive - reacting on emerging challenges with short-term day-to-day guidance (Getimis

and Hlepas 2006, p. 179). Furthermore, leaders act either cooperative - establishing partnerships, focusing on bargaining and deliberation - or authoritarian - deciding top down and intervening hierarchically (Getimis and Hlepas 2006, p. 182). The combination of these different leadership characteristics results in four ideal types of leadership styles: the “visionary”, the “consensus facilitator”, the “city boss” and the “protector”/“caretaker” (John and Cole 1999, pp. 102–103, Getimis and Hlepas 2006, p. 183, see Figure 4).

Research which focuses on the effectivity of fiscal consolidation prefers mayors and treasurers who hierarchically enforce fiscal consolidation as “city bosses” (Holtkamp 2010, pp. 57–59). From a local governance perspective the leadership-legitimacy nexus is more complex. In this view “city bosses” as well as “visionaries“ are expected to ensure local “capacity to act” and long-term “output-legitimacy” because they will not merely focus on reaching short-term fiscal objectives. Though, the “city boss” is perceived to be unsuccessful in respect to input-legitimacy whereas the “visionary” is expected to achieve the best performance. These leaders are able to establish coalitions that share the same problem perception (input-legitimacy) and control fragmented administrations and polarized party structures. They are also expected to safeguard accountability and “common interests” by connecting participatory elements of decision-making, multi-level bargaining and decision-making in local representative bodies (Haus and Heinelt 2005, pp. 25–26). The “consensus facilitator” may also be able to involve different actor groups. Nevertheless, the results of this leadership style might be insufficient because these leaders can neither execute short-term fiscal goals hierarchically nor enforce long-term strategic goals. The “caretaker” probably shares these weaknesses of the “consensus facilitator” because he cannot cope with complex policy situations and tends to preserve the status quo. Furthermore, like the “city bosses” these leaders cannot built inclusive coalitions and do not want to share power with other actors (John and Cole 1999, p. 102, Getimis and Hlepas 2006, p. 183) which probably endangers input-legitimacy.

Table 7: theoretical expectations on the leadership-legitimacy nexus

	output-legitimacy	input-legitimacy
Visionary	+	+
city boss	+	-
consensus facilitator	-	+
caretaker	-	-

The mentioned dimensions and ideal types of leadership styles focus on the role of the mayor but can be transferred for the investigation of the role of the treasurer in bigger cities. When I refer to “leadership” I always incorporate the mayor and the treasurer. Respective the

“leadership orientation” it can be expected that treasurers have strategies which tend to focus on fiscal policies. In contrast to the mayor they usually do not have to deal with ambiguity between fiscal policy and other policies because their performance is evaluated mainly by fiscal indicators (Geißler 2011, S. 262, Seils 2005). Treasurers are probably more engaged as “policy leaders” than as “public leaders” or “proactive leaders” (Mouritzen and Svara 2002, p. 49) and their institutional role probably leads to a focus on output-legitimacy. They have to secure the support of the council which decides on their re-election but the acceptance of the citizens is not as crucial for them as for the directly elected mayors. Treasurers can enable other actors to take part in decision-making by translating expert knowledge of fiscal policies into knowledge of everyday life for councillors and citizens. However, they can also act as “city bosses” or “caretakers” enforcing opaque decisions and protecting their knowledge edge. All in all, it could be expected that the treasurer acts as a “city boss” or as a “protector” focusing on output-legitimacy in fiscal policies with varying time-horizons (long-term vs. short-term fiscal goals).

5.2. Leadership orientation

To assess the leadership orientation I will ask for the problem perception of mayors and treasurers in order to see if this perception could lead to a proactive habit in implementing the consolidation program. Moreover, I will try to identify their strategy in fiscal consolidation (e.g. a prioritization of municipal tasks) in the interviews and documents as well as in the outputs of consolidation policy. Furthermore, I will also try to find out if the fiscal strategy is embedded in broader strategy of urban and economic development. In *Wuppertal* mayor and treasurer share the problem perception of many local actors. Their explanation of fiscal challenges views the city as a victim of economic restructuring suffering from negligence of economic development policies of upper levels. Despite this problem perception the leadership proactively welcomed the program as the “*renaissance of local decision-making*” which made local choices possible after years of strict supervision. The treasurer emphasized that they defined priorities for consolidation policies and recognised horizontal cutbacks as inadequate. Actually the leadership declared voluntary municipal tasks as important (e.g. business development) or less important (e.g. culture) and tried to allocate funding due to these priorities. Though, these choices were only partly visible in the concrete consolidation means which were dominated by tax increases. Strategic choices in tax policy were limited to the mix of different tax increases which was mainly a question of political enforceability. However, tax increases relieved leadership because they provide low cognitive challenges,

low resistance and a high budgetary impact compared to detailed cutbacks. The leadership orientations in Wuppertal focused solely on fiscal policies and were not explicitly combined with a strategy of urban and economic development. Although the leaders were involved in the development of official strategic guidelines (“*Wuppertal 2025*”) they did not connect them with their fiscal policy strategy.⁴

The city of *Mainz* is the only case where leadership reflects on endogenous causes of local government debt. As mayor and treasurer were relatively new in their offices they could openly discuss fiscal challenges as a policy heritage of former local governments. The current mayor came into office when the local government already took the main decisions on the consolidation means. Therefore, he was involved only in the implementation of the measures but he supported the guidelines set by his predecessor and the treasurer. Like in Wuppertal the leadership welcomed the consolidation program as the last chance to set own priorities before the supervision restricts the remaining scope of action. Horizontal cutbacks were rejected like in the two other cases and it was partly possible to identify strategic goals in fiscal consolidation. The objective was to ensure municipal services and capacities that were supposed to be necessary to cope with the challenges of a growing city (e.g. housing policy and childcare). Tax increases were perceived as a possibility to assure these abilities and to avoid negative impacts on social policies. Moreover, the leadership enriched the debates on planned investments considering future costs and benefits systematically (e.g. the town hall and community centres). These debates were identified as a major lack in previous investment policies. Therefore, I can confirm that leaders made strategic choices in fiscal policies in Mainz and at least implicitly embedded these choices in broader reflections on urban development.

Compared to Mainz and Wuppertal the leadership orientation in *Kassel* was much easier to identify. Mayor and treasurer emphasized a strategy of “fiscal consolidation through economic growth”. Like in Wuppertal they perceived fiscal problems as solely caused by exogenous reasons. Due to the leaders municipal administration worked already efficient and municipal tasks and expenditure were always modest. Therefore, the only way of consolidation was to increase revenues. In contrast to Mainz or Wuppertal the leadership disagreed that increases of tax rates were appropriate but they also emphasized that the agreed cutbacks and increased fees had only a minor impact on successful fiscal consolidation. For them the only way to consolidate the budget was to create the conditions for economic growth

⁴ The only exception is the so called “New Deal” for Wuppertal that promises a decrease of business tax rates if the local economy creates a certain number of jobs in the next years.

which facilitate increased tax revenues (especially business tax) and reduced expenditures for social policies. Hence, they excluded consolidation means, e.g. increased rates of business tax or other local government taxes, which in their view could endanger growth. Although this strategy seems to be naïve at the first glance, the approach was successful in the recent years and explicitly combined fiscal choices with strategic approaches of economic development.

The comparison of leadership orientations shows that endogenous causes of local government debt were recognized only in one case. Surprisingly, this was not a precondition for a proactive habit in the implementation of the consolidation programs which were perceived as an opportunity to set own strategic goals in fiscal policies. In two cases the leaders were also able to combine these fiscal choices with broader strategies of urban and economic development. At the first glance, strategic leaders (Mainz and Kassel) achieved better outcomes in terms of output-legitimacy than reproductive leaders (Wuppertal). However, at the second glance the impact of leadership was mixed. On the one hand, it was not necessary to make holistic strategic choices to reach a high fiscal amount of consolidation means (Wuppertal). On the other hand, strategic leadership was not sufficient to improve key budgetary data (Mainz). Moreover, strategic leaders did not necessarily promote innovations in local government but they prevented negative impacts of consolidation means by choosing measures under consideration of social or economic guidelines. For input-legitimacy the leadership orientation did not play a major role. To be more specific, strategic choices of leaders were not automatically shared by other actors (Kassel) and incremental fiscal policies could be more widely accepted (Wuppertal).

5.3. Exercise of power

I will investigate the exercise of power in the three cases with respect to the ability of mayors and treasurers to cooperate with upper level governments, within the local executive, with the council coalition and the opposition and with civil society as well as citizens. The mayor of *Wuppertal* was significantly involved in the work of local government associations and headed a network of highly indebted German cities that should represent the interests of these cities at the federal level. Moreover, the mayor and the treasurer promoted the idea of a consolidation program before its introduction. Both leaders have a clear separation of tasks and the cooperation within the local executive was soundless. The mayor acted merely as a public leader who concentrated on the relations to upper levels whereas the treasurer was a policy leader engaged in local policy-making. Furthermore, mayor and treasurer worked closely with the coalition parties but did not involve opposition which criticized them for

backdoor politics and disabling discourse and accountability. They implemented participatory budgeting, which was initiated by the council, but the leaders perceived this participative innovation as meaningless in fiscal policies. Citizens and civil society only played a role in the co-production of public services and initiated some remarkable bottom up projects but the cooperation between leadership and civil society was described as rather complicated.

The leaders of *Mainz* had no major role in local government associations or other inter-local networks on fiscal policies. However, strong personal ties and short distances between the local government of the federal state capital and the federal state government opened other possibilities for interest representation. As the executive consisted of three parties and mayor and treasurer were competitors in the last mayoral election, the cooperation within the executive leadership could be challenged. However, the objective of fiscal consolidation was shared among all executive actors. Like in Wuppertal the mayor merely acted as public leader and the treasurer dominated policy-making and administrative details. However, both of them were also important partisan leaders and took part in the public debate on consolidation policies. Like in Wuppertal the involvement of the opposition was not possible. However, the current leadership highlighted the accountability of the separation between majority and opposition as Mainz had ambivalent experiences with coalitional leadership (see chapter 3). Participatory budgeting was announced by the mayor and the deputy mayor in their electoral campaigns but due to high workload it was delayed up to now and limited to a web-based open budget. Civil society groups had no major role in the consolidation policy but in contrast to Kassel the political leadership was able to prevent major conflicts by seeking compromises with groups affected by consolidations policy.

The mayor and the treasurer of *Kassel* also established a good partnership with the federal state government in implementing the consolidation program. Like his colleague from Wuppertal the mayor had a major role in the association of cities of the federal state (chairman since 2014). Due to these networks and the importance as biggest recipient of state grants in the consolidation program in Hesse, the leadership had a good bargaining position with the federal state government and consequently used these opportunities. The mayor and the treasurer dominated consolidation policy, but the mayor was more active in the local debate on fiscal policies than his colleagues in the other cases. Both leaders involved the other members of the collegial executive body and partly their council coalition. They discussed consolidation means in closed rounds between the executive and the council majority because they thought that it was impossible to mobilize support from outside. Their focus on economic growth was a source of conflict within the council coalition. Most of the consolidation means

were not contradictory within the coalition but the measures of economic development and investment policies were disputed (e.g. the airport, industrial zones or swimming baths). Nevertheless, the leaders made no attempts to involve the opposition which reflected the conflictual political culture in the city. Moreover, the treasurer pronounced his doubts on the involvement of civil society groups and citizens in decision-making. Hence, the leadership gave up attempts of participatory budgeting after negative experiences with citizen fora. They perceived citizen participation in fiscal policies as too costly in relation to the number of participating citizens and the quality of citizens' proposals. Indeed, the leadership fostered partnerships in economic policy (e.g. with the university) but consolidation policy was exercised strictly top down. Hence, civil society groups criticised that local government bypassed local democracy in implementing the consolidation program. However, the leadership refused to make concessions.

It can be concluded that all leaders under research were able to fade out conflicts with upper levels and established good partnerships with federal state governments. Moreover, mayors and treasurers cooperated with each other in all cases and could involve other deputy mayors. The patterns of involvement of the council differed but all leaders successfully cooperated with the coalitions and did not involve the opposition. Furthermore, mayors and treasurers did not include civil society or citizens systematically in decision-making. Mayors and treasurers executed their power mainly hierarchical and merely involved those actors who were crucial for the implementation and enforceability of consolidation policy in the short-run. However, the leaders in Mainz and Wuppertal were able to anticipate the resistance of civil society groups and systematically tried to find compromises. In contrast, the leadership in Kassel underestimated potential conflicts.

6. Legitimacy and leadership - summarized empirical findings

The first research question which asked for the input- and output-legitimacy of consolidation programs and their local implementation led to ambivalent results. The consolidation programs partly caused remarkable efforts of fiscal consolidation at the local level but their impact on budgetary results and local government debt was limited. This proves that "help for self-help" is not sufficient. Upper level reforms have to tackle remaining weaknesses of the system of local government finance systematically to enhance output-legitimacy (e.g. increasing municipal spending for social policies). The programs did not exhaust the potential of decentralization because they lack of incentives for a combination of fiscal policies with socio-economic development and innovations of local government like territorial reforms or

inter-municipal cooperation. Moreover, upper level governments should support local governments in attenuating negative impacts of fiscal austerity by promoting preventive social policies and municipal investments. For input-legitimacy I cannot confirm the fears that consolidation programs caused an erosion of local self-government. Local governments chose own consolidation means and obtained high additional funding to reach agreed fiscal objectives. Therefore, the programs left leeway for democratic processes at the local level. The *Länder* formulated minimum requirements like the support of the councils for program participation and specific consolidations means. A stronger involvement of the council, neighbourhood councils, civil society actors and citizens in policy-making cannot be prescribed by upper levels and has to be promoted at the local level. Therefore, the consolidation programs enabled decentralized decision-making but the municipal governments mostly did not use this opportunity to facilitate democratic processes at the local level. The dominance of executive leaders in fiscal policy remained unaltered but the case studies confirmed that different leadership styles partly influenced the enhancement of input- and output-legitimacy (see Table 8).

Table 8: empirical findings on the leadership-legitimacy nexus

	Kassel	Wuppertal	Mainz
output-legitimacy	4	1	4
input-legitimacy	1	2	3
leadership style	city boss	caretaker/ protector	visionary

The strategic and cooperative leaders (“visionaries”) in Mainz and the strategic and authoritative leaders in Kassel (“city bosses”) achieved a higher output-legitimacy compared to the reproductive and authoritative leaders (“caretakers”/“protectors”) in Wuppertal. The comparison showed that strategic leadership was not necessary to establish an ambitious consolidation plan. However, strategic approaches were required to combine fiscal policies with visions of the socio-economic development of a city. Increasing local government taxes and fees relieves the budget in the short-run. Though, in the long-run leaders need to create conditions that enable higher own tax incomes and lower expenditures for obligatory social policies. More specifically, strategic approaches are necessary to attract businesses and inhabitants. Furthermore, strategic leaders need to develop priorities for municipal services. Surprisingly, all leaders under research formulated priorities and rejected incremental policies like horizontal cutbacks. Indeed, these priorities were only partly visible in policy outcomes. For input-legitimacy, the differences between the three cases were not that clear but I could also confirm the expectations. The “visionaries” in Mainz were able to involve the council

and the neighbourhood councils to a stronger extent than the “city bosses” and “caretakers” in Kassel and Wuppertal who merely relied on top down policies dominated by the executive. Despite these differences, participative or associative innovations like participatory budgeting were not comprehensively used in all cases to enhance input-legitimacy.

Leadership styles influenced the different dimensions of legitimacy but the styles also depend on various conditions beyond personal skills. Therefore, the replacement of political leaders will not necessarily lead to leadership styles that facilitate stronger input- and output-legitimacy if fiscal, political and socio-economic conditions remain the same. For empirical research leadership remains a challenging topic because researchers have to look behind the smokescreen of self-marketing of experienced political leaders. Future quantitative and qualitative research has to operationalize carefully the aspects of leadership under research. The paper showed that it could be useful to focus on specific policy sectors instead of conducting holistic and biographic research on urban leadership. Furthermore, as fiscal challenges will probably persist the role of local leadership under conditions of austerity will remain on the research agenda.

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