

Reforming Public Administration at Sub-national Levels of Government in Germany:

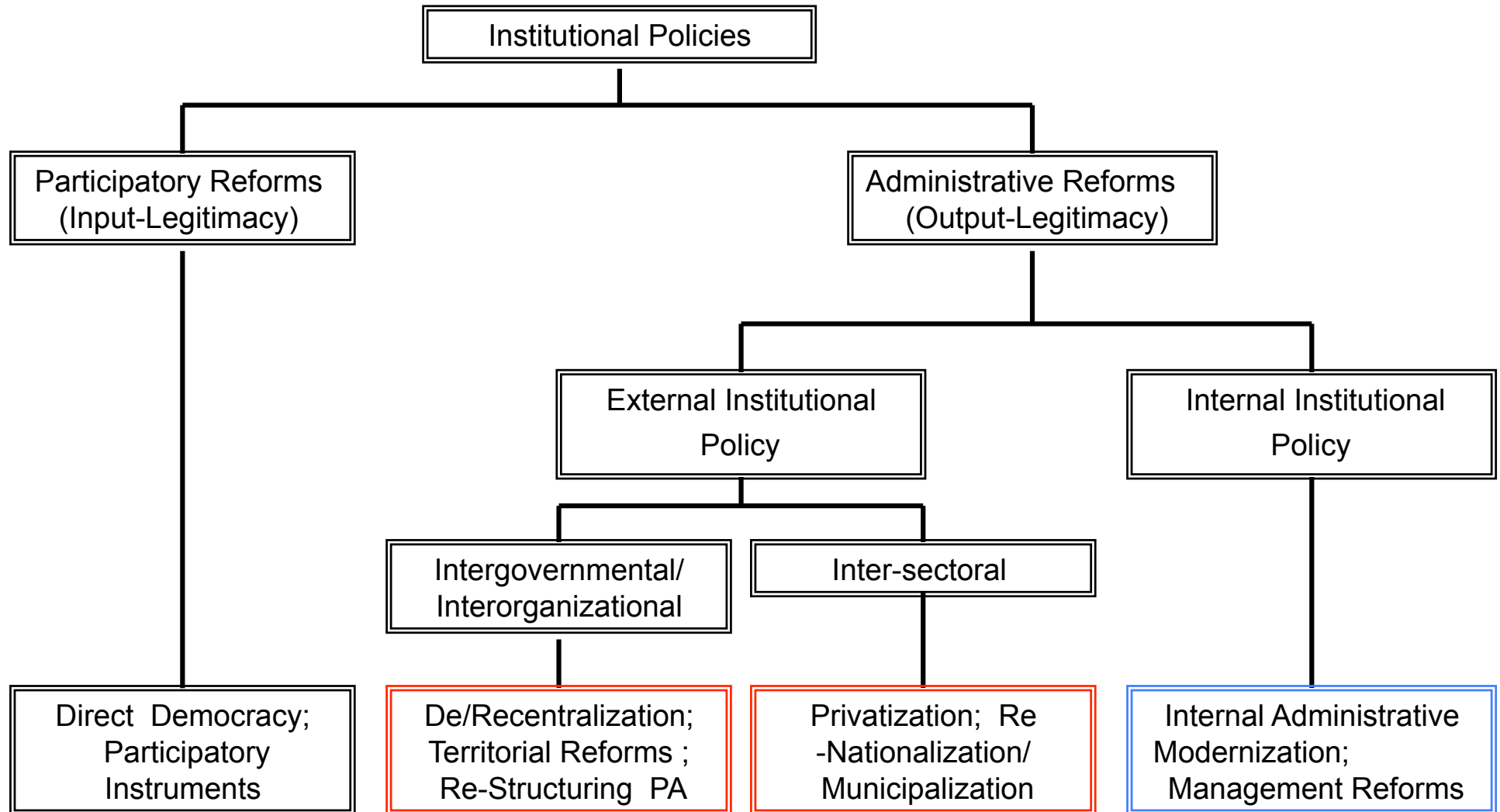
Decentralization and Privatization

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Structure

1. Types of Institutional Reform Policies
2. Approaches of Reform in Germany (Selection)
 - Decentralization/Functional reforms
 - Privatization/ Re-Municipalization
3. Measuring the Effects of Administrative Reforms
4. Conclusion

Institutional Policies



Functional Reforms/ Decentralization

- First Decentralization Wave in the 1970s (West Germany);
Second Wave 1990s (East Germany);
- Reintroduction of local self-government in East Germany as
a comprehensive decentralization of administrative powers;
- Amalgamations of municipalities in East Germany
(Brandenburg reduction of municipalities: -76% since 1990;
Saxony: -70%).
- Recent attempts of *Länder* governments at transferring
further State tasks to the counties
- Predominant strategy: administrative decentralization

Functional Reforms/ Decentralization: The New Reform Wave

- Catalysts:
 - Budgetary problems in the federal states/municipalities,
 - De-regulation discussions,
 - Change in demographics,
 - Institutional imitation (but without “genuine” learning).
- All federal states seized → but:
- Differing strategies; federal administrative variance;
- Similarity: Actors have “rediscovered” administrative policy for political profiling;

The Example of Bade-Württemberg

- Resolution of single purpose state authorities (-350) in 2005
- Integration of state authorities into the counties
- Transfer of tasks to LGs (e.g. environment, social policies)
- 20,000 employees affected (12,000 communalized)
- Efficiency rate of 20% within 5 years
- Problem: first structural decisions, then task review
- Fiscal effects and savings much more important than functional impacts/quality improvements

Functional Reforms/Decentralization: Results

- More institutional variety in administrative federalism;
- Strengthening of local governments' multi purpose profile;
- Administrative upgrading of the counties;
- Retreat of single purpose State authorities from the local level;
- Increasing institutional variability within the federal system of Germany
- Territorial limits of communalization (counties BW);
- No additional powers for the local councils (only for executives)

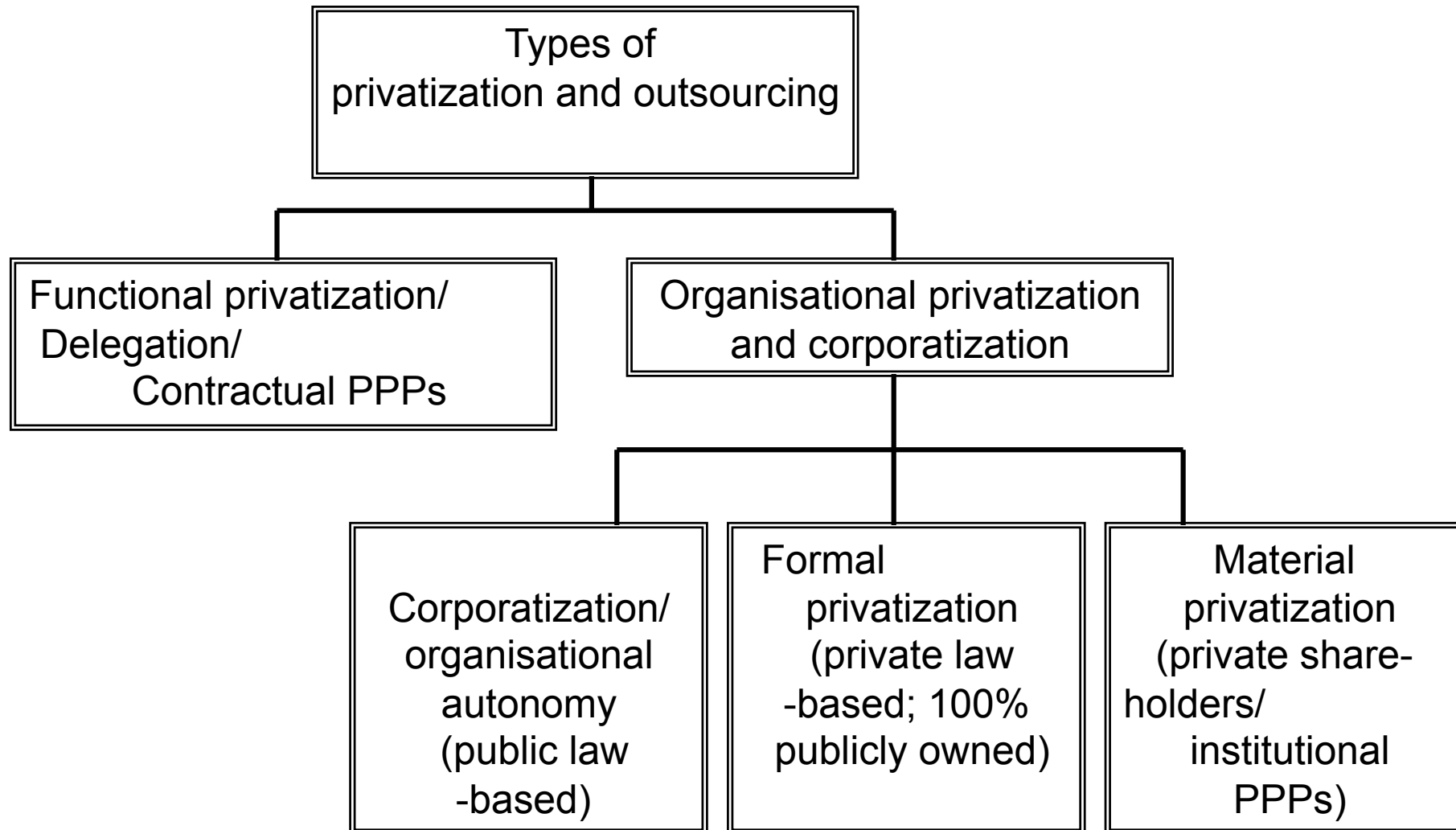
Functional Reforms/ Decentralization: Negative Consequences

- Task transfer combined with resource cutbacks (local personnel reductions of 25% since 1990) →
 - Decreasing specialization (performance deficits),
 - Reduction of voluntary tasks/privatization
- Overburdening of fiscally weak local authorities;
- Shrinking room for manoeuvre/ decreasing financial discretion
- Abolishment of voluntary tasks; privatizations;
- Administrative decentralization as integration of local governments into state administration

Decentralization: Comparative Observations

| Institutional Changes | Germany | France | England |
|---|---|---|--|
| Sub-national Structure of Administration | Withdrawal of single purpose state administration; dissolution of state authorities | Weakening of single purpose state administration; however, institutional persistence | Inflation of de-concentrated state administration; agencies/ quangos |
| Territoriality/ Functionality | Strengthening of territorial multi-purpose organization; but financial crisis | Strengthening of the territorial multi-purpose organization; but units are too small | Weakening of the territorial multi-purpose organization |
| Local Autonomy | Weakened → More and more state tasks | Strengthened → but variances | Weakened → State intervention/ agencies |
| Local Democracy | Formal administrative decentralization; but politicization of state tasks | Formal political decentralization; but in fact strengthening of local executives (mayors) | Administrative de-concentration; weakening of local councils |

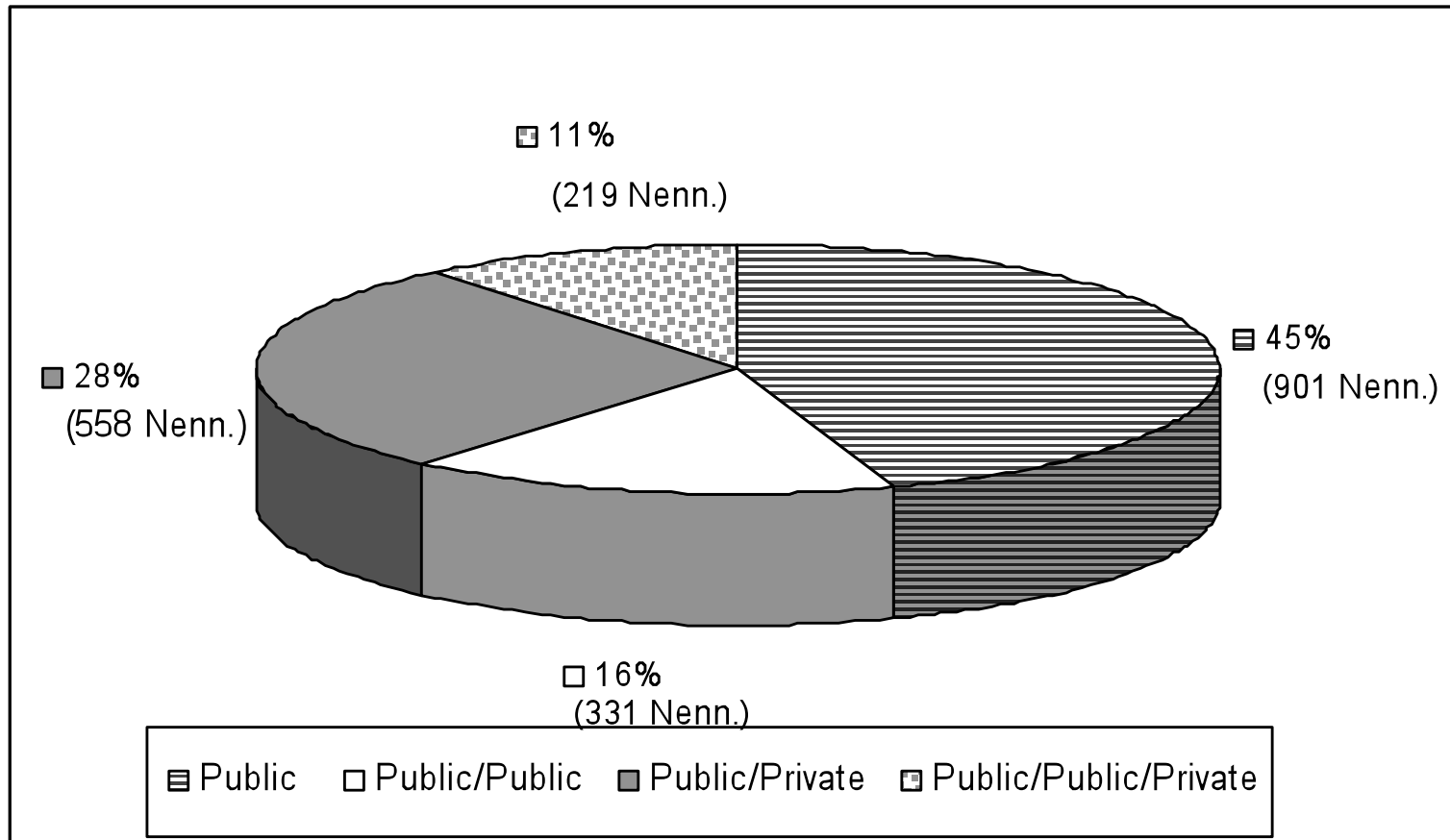
Privatization of public services: Types



Privatization of public services

- Far-reaching changes in the utility sector triggered by EU market liberalization and local government privatization policies
- Protected “local markets” opened up to competition
- Budgetary crisis obliged LGs to privatize/ abolish their voluntary services
- Increasing role of private actors in local service provision
- Only 1% of the German cities (> 20,000 inh.) have *not* outsourced services
- 83% have outsourced 5-13 services (functional privatization)
- Big cities’ energy companies: only 30% entirely owned by municipalities; 70% with private share holders; 20% municipal *minority* holdings
- Private firms with shares of 40% of the cities’ companies (organizational privatization)
- 11% of municipal companies are private *majority* holdings
- „Corporatization“ as an increasing trend → 80% of corporatized services are private law corporations

Privatization of public services

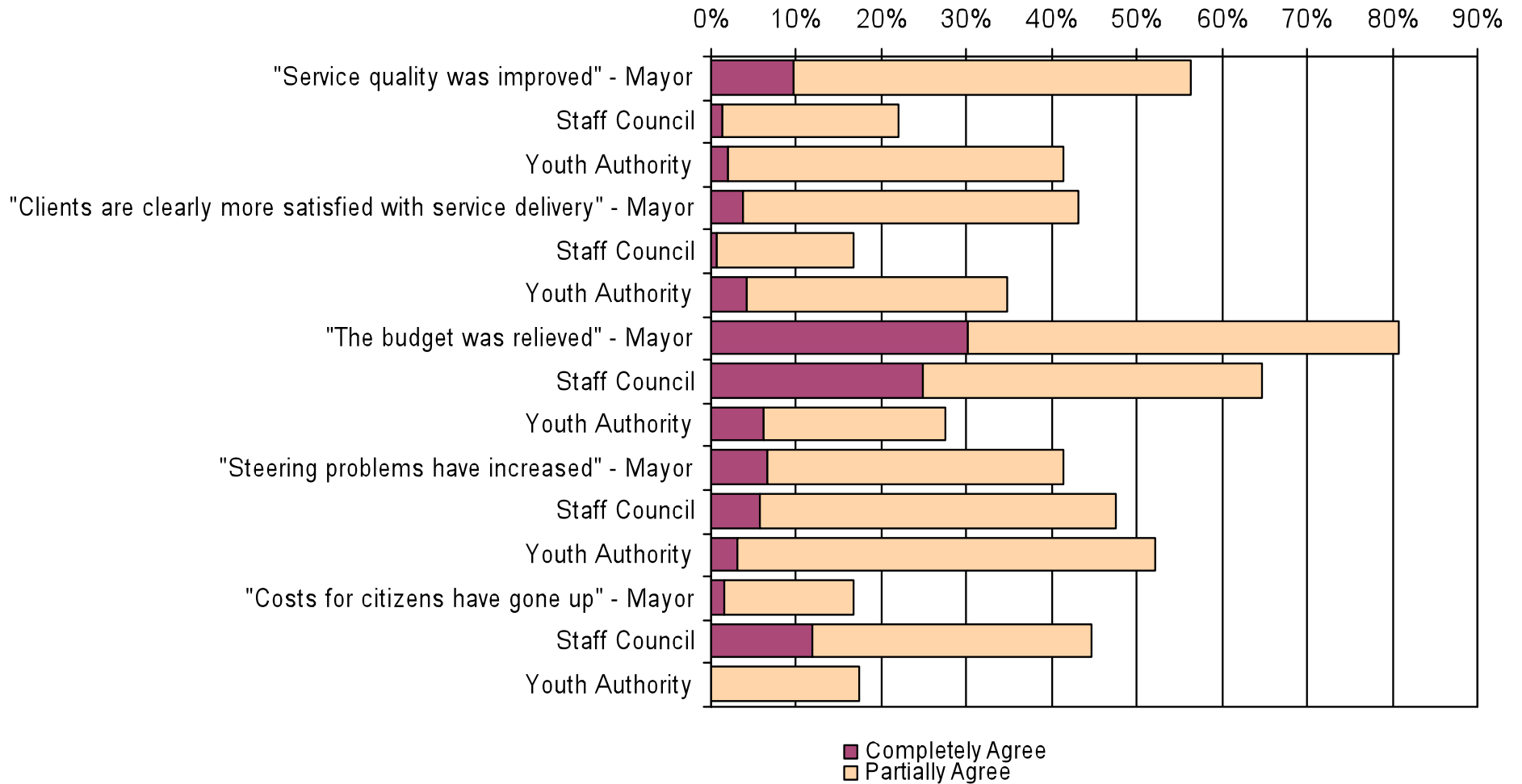


Distribution of Ownership (Source: Reichard 2006; Edeling et al 2004)

Privatization of public services – Effects

- Increase of costs (for 40% of the staff councils; 20% of mayors)
- Release of local budget (for 80% of mayors)
- Dismissal of personnel (32.000 in the sector of electricity; 6.000 in the sector of gas etc.)
- Deterioration of working conditions and of remuneration in privatized companies
- Loss of revenues for the communes (electricity)
- Increase of “transaction costs” (spending on coordination, control and steering) between local authorities and corporations/“satellites”
- Minority of staff councils (20%) and of heads of department (40%) observed an increase in quality

Privatization of public services – Effects



Source: Survey Research Project "10 Years New Steering Model in Germany"
 Mayor n=460 , Staff Council=270, Youth Authority n=87.

Privatization of public services – Effects

- Problems of cross-financing → Fare increases in less profitable municipal companies (public transport)
- Institutional fragmentation → problems of horizontal steering/cross-policies coordination
- Weakening of the principle of “territoriality” in favor of “functionality”
- Local councils’ self-deprivation of political powers
- Citizens’ deprivation of influence in local services
- Tendency of re-municipalization (re-buying of companies)

Re-municipalization - Return of the "Public"?

- New keywords in the debate:
 - "Rediscovery of the value of the State" (Engartner 2008)
 - "The pendulum is swinging back" (Gruner et al. 2009)
 - "The municipalities are discovering the charm of household waste" (Vollmers 2006)
 - "Hostile takeovers where once the other way around" (Paffhausen; Potsdamer Stadtwerke 2007)
 - "Catharsis in Freiburg and Dortmund" (Engartner 2008)
- "Rehabilitation" of the state/public good?

Re-municipalization - Return of the “Public”?

- Increasing Re-municipalization debates/steps
- E.g. Waste disposal: “Orange Revolution” (Engartner 2008)
- Pioneer municipalities: Re-municipalization of waste management in 2006 (already mid 1990s electricity grid)
- 2007: 10% of German municipalities had planned re-municipalization of waste disposal
- 2009: 44 cities/districts carried out re-municipalization in the field of waste management
- City waste management is competitive; up to 30% cheaper than private companies
- Performance improvements (more frequent waste collection)
- Unclear: spectacular exceptions or a trend?

| Municipalities in NRW with > 30,000 PT | Waste | Sanitation | Hospitals |
|--|--------------|-------------|-------------|
| Formal Privatization | 12.5% | 13.6% | 0.0% |
| Functional Privatization | 20.8% | 4.5% | 0.0% |
| Material Privatization | 4.2% | 0.0% | 0.0% |
| Municipalization/ Remunicipalization | 12.5% | 4.5% | 0.0% |
| N | 24 | 22 | 14 |

Re-municipalization - Return of the “Public”?

- Direct democracy as a brake to privatization or driving re-municipalization
- Citizen initiatives for the prevention of privatization or re-municipalization (Düsseldorf, Hamm, Steinheim, Munster)
- Bayern: 30% of all initiatives deal with local infrastructure (in the field of drinking water all were successful)
- Initiatives also against contracting out (swimming pools, libraries, cultural institutions → e.g. Erlangen)
- Council majorities fear citizens initiatives → this can prompt them to retract plans for privatization (Bielefeld, Munster)
- Directly elected mayors as promoters of re-municipalization (effective political strategy with regards to local electorate)

Interim Assessment

- Vertical/ horizontal re-organization of public functions as major reform trends in Europe
- Decentralization:
 - Strengthening of the multi-purpose local government model (North Middle European Group of LG)
- Privatization as counter tendency
 - Weakening of the multi-purpose local government model
 - Re-Municipalization as new tendency?
- Question: How to measure the effects of administrative reforms on performance?

Measuring Effects of Decentralization

| Dimensions of Performance | Performance indicators |
|---|---|
| Democratic control | <ul style="list-style-type: none"> ▪ Formal decision-making competencies of local council ▪ Actual increase in political discretion ▪ Participation of interests groups/ citizens in decision-making |
| Horizontal and vertical coordination | <ul style="list-style-type: none"> ▪ Conflict intensity of interactions between sectors/across levels ▪ Capacity of problem solving ▪ Creation of coordination units/institutions |
| Efficiency | <ul style="list-style-type: none"> ▪ Achieved savings (costs, personal) ▪ Changes in output (number of cases) ▪ Ratio input-output |
| Effectiveness | <ul style="list-style-type: none"> ▪ Legal quality, formal correctness of service delivery ▪ Professional quality of service delivery ▪ Proximity to citizens/ Customer orientation |
| Equity | <ul style="list-style-type: none"> ▪ Equal treatment of citizens in different communes |

Measuring Effects of Decentralization (Services to the Citizens)

| France | Germany | England |
|---|---|--|
| Horizontal Coordination | | |
| Strengthened inner-administrative coordination across sectors; Increased inter-communal cooperation | Bundling of all relevant services on one level; more integrated case management | Weakened horizontal coordination between inter-related policy fields |
| + | + | - |
| Vertical Coordination | | |
| Decreasing vertical steering due to "non-tutelle"; Negotiation instead of hierarchical steering; weakening of state control | Weakened State control; less hierarchical steering across levels within the policy sector | Strengthening of central government intervention/regulation |
| - | - | + |



Measuring Effects of Decentralization (Services to the Citizens)

| France | Germany | England |
|--|---|---|
| Efficiency | | |
| Incentives to improve cost efficiency; yet: high transactions costs; more public employment /resources necessary; no emp. evidence for savings | Strong incentives to improve cost efficiency (efficiency rate); same functions with less personnel; severe cutbacks | Significant cutbacks; task fulfillment with less resources |
| - | + | + |
| Effectiveness | | |
| Maintained legal quality; increased citizen proximity and local policy orientation | Improved services especially due to case management | No clear evidence; increasing disparities between local units |
| + | + | ~ |

Conclusion and Prospects

- **Convergence** between countries: recognizable at a high degree of abstraction
 - Discourses/ reform instruments (NPM/privatization)
 - Reform paths (decentralization, territorial consolidation)
- **Divergence** between countries: recognizable with a more exact/sharp analytical focus
 - Reform measures (e.g. political vs. adm. decentralization)
 - Effects (Losses/increases in efficiency/democracy/autonomy)
 - ➔ strongly policy-related
- **Persistence** of different administrative cultures in Europe despite similar reform trends (e.g. Anglo-Saxon vs. Continental)
- **Prospects** for future research: More systematic evaluation of administrative reforms from a comparative perspective