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**Yukai WANG / Gisela FÄRBER (ed.)**

**COMPARATIVE STUDIES ON  
VERTICAL ADMINISTRATIVE REFORMS  
IN CHINA AND GERMANY**



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**Yukai WANG / Gisela FÄRBER (ed.)**

**Comparative Studies on  
Vertical Administrative Reforms in China and Germany**

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## Preface

June 2016

The “Sino-German Comparison of Vertical Administrative Reforms” is an international cooperation project initiated during the preparation period of China Society of Administrative Reform (CSOAR) from 2009 in cooperation with the German Research Institute of Public Administration and the German University of Administrative Sciences Speyer. It was supported by the Sino-German Public Policy Dialogue Program of the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ). In 2010, the Sino-German cooperation project had officially launched and lasted for more than 3 years till its closure in October 2012.

There are two reasons for choosing the topic of vertical administrative reforms for cooperation. On the one hand, the social and economic structures of China have been changing significantly after more than 31 years of reform and opening-up. Changing the dual structure of urban and rural areas, boosting the strategy of urban-rural integration, accelerating the progress of industrialization and urbanization, expanding prefectural right of economic and social development, promoting counties directly under the management of provincial governments and achieving equivalence of public services etc. have a magnificent and profound impact on China's longitudinal administrative levels, provincial, municipal and prefectural jurisdiction, public governance mode, finance and taxation, investment, and personnel management system. On the other hand, although Germany is a federal state, it has abundant historical accumulation and practical exploration in terms of various vertical levels of governments and administrations. It has accumulated plenty of experience especially in promoting urban-rural integration by functional and territorial reforms. There are many things that both parties can learn from each other, which deeply requires comparative studies.

Both parties have hosted four major international academic conferences over more than three years: the first was the academic seminar of "Sino-German Comparison of County Governance" hosted by the Chinese Academy of Governance in October 2010 followed by the "Territorial and Functional Reforms in China and Germany - A Comparison of Reforms of Sub-provincial / Sub-state Governance - " hosted by the German University of Administrative Sciences Speyer in September 2011. The third was the academic seminar of "County Public Finance Reform under Urban-Rural Integration" hosted in

Hangzhou, China, in March 2012; the fourth was the academic closure conference "Administrative Reforms in China and Germany against the Background of the Financial Crisis" hosted by the Chinese Academy of Governance in October 2012. Among all those academic conferences, the participants not only include experts and scholars from both China and Germany as well as scholars from other European countries, but also a certain number of officials from actual government sectors. They conducted profound comparison and discussion as well as provided a batch of papers with high academic level.

During more than three years of cooperation, both parties have appointed experts, scholars and government officials to visit the other country for field study and academic communication many times. It gave them a better understanding of each other, enhanced their relationship, strengthened cooperation, which is beneficial for both parties. The 31 papers collected in this book are the outstanding results of mutual cooperation.

This book has a collection of 31 pieces of research results of Chinese and German experts, scholars and government officials. They are categorized into four sections:

1. Introduction and analysis of the current situation of Sino-German administrative systems, such as experimental units of counties directly under the management of provincial governments in the progress of China's urbanization, comparison of the Sino-German intergovernmental jurisdiction division, history of the German administrative regions and local finance of Germany etc.;
2. Sino-German challenges faced by the administrative systems, such as challenges of reform of counties directly under the management of provincial governments in China, urban-rural imbalance in the progress of modernization of Germany and impacts of population change on local administration management.;
3. Sino-German exploration and experience in administrative reform, such as experience and inspiration of the administrative hierarchy reform of Hainan, China, efficiency and expectation of strategies of "urban-rural integration" in Chengdu, China, inter-municipal cooperation in Germany – design and limits of shared service, multilevel function reformation of Rhineland-Palatinate, Germany;
4. Sino-German strategies of administrative reforms under the financial crisis, such as influences of economic and financial crisis on German administration, strategies of China's urban-rural integration and optimization of

longitudinal administrative levels under financial crisis, promotion of equivalence of public services with fiscal balance.

After publication of the Chinese conference papers “中德行政体制改革比较研究”, the English version of the conference papers has suffered an unfortunate delay due to problems of translation. The papers represent the differences in cultures of academic publication between both countries. As only very few information about the vertical administrative reform in China and corresponding reforms in Germany are available in English the publication will fill this knowledge gap. Both partners have agreed to continue common research on the implementation of the administrative reforms in China and Germany, their implementation and actual complementary issues of reform.

It should be highlighted that without the sponsorship of GIZ, the "Sino-German Public Policy Dialogue" Program would not be implemented successfully, and CSOAR as well as the two Speyer institutions have also provided us with great support. Moreover, GIZ covered the traveling costs of the German and European experts to and in China and those of the Chinese partners in Germany. Hereby, as the directors of this program, we would like to express our sincere gratitude to GIZ, CSOAR, Chinese Academy of Governance, German University of Administrative Sciences Speyer, German Research Institute of Public Administration Speyer and all the experts, scholars, government officials and related personnel who put efforts in the program and the book. We also thank Dominique Köppen, Stephanie Hengstwerth, Patricia Sander and Ursula Jungkind for all their efforts to prepare the proofs.

Meanwhile, valuable opinions are welcome from readers and friends who are interested in this book!

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# **1. THE CHINESE AND THE GERMAN ADMINISTRATIVE SYSTEM IN COMPARATIVE PERSPECTIVE**



## Research on Vertical Administrative Reform in China

WANG Yukai

China has conducted research and implemented reforms on administrative hierarchy during its 30 years of reform and opening up. As a whole, however, there are still many problems, among which the most serious one seen from vertical perspective is excessive administrative levels and costs, and imbalance between responsibility and capacity of public services and the ability, impeding county economic development. Thus, how to deepen administrative hierarchy management becomes an important task of administrative reform under current conditions.<sup>1</sup>

### 1. We should reduce management levels and empower local governments

(1) *We should observe the policy of putting county directly under the control of provincial government in the implementation of urban-rural integration strategy.* Since the Party put forward in the Third Plenary Session of the 16th CPC Central Committee the strategic goal of basically achieving economic and social integration of urban and rural areas in 2020,<sup>2</sup> issues regarding urban-rural integration again drew people's attention. This paper believes that urban-rural integration cannot be interpreted as the urbanization of a rural area, nor as the general sense of urbanization. Actually, it means the process of integration of urban and rural areas in a state and society at a certain stage of economic and social development. This process will last long and the integration will not happen at once. Accordance to the experience of international community, the best period for urban-rural integration is when the urbanization rate is about 50%.<sup>3</sup> The rate of China at present has achieved 45.8%, an indication of the best time for the integration.

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- 1 Current administrative hierarchy of China including five levels: central, provincial, municipal, county and township levels.
  - 2 The urban-rural integration strategy was put forward in Third Plenary Session of the 16th Central Committee of the Communist Party of China in November, 2003.
  - 3 Accordance to the experience of international community, the best period for speeding up urban-rural integration is when the urbanization rate is about 50%.

Seen from the perspective of system, urban-rural integration should include three basic elements.<sup>4</sup> Firstly, it should systematically ensure that various elements of urban and rural areas flow free and are not limited. Secondly, as the policy goal of the government, it should be a unified policy for both areas rather than two policies- one for urban area and the other for rural area. Thirdly, a unified institutional arrangement and design should be adopted in both areas. Based on the above institutional framework, urban-rural integration should conform with three goals. Firstly, in terms of politics, we should make traditional farmers and citizens have equal social status and common political rights. Secondly, in terms of economy, we should make productivity developed at the same level through promoting urban-rural integration, especially rural productivity. Thirdly, in terms of public service, we should make both urban and rural resident enjoy almost the same living standard and quality. In general, there are three ways to realize urban-rural integration.<sup>5</sup> Firstly, we should break the system and policy restrictions on separated administration of urban and rural areas. Secondly, we should unify the planning, construction and management of urban and rural areas. Thirdly, we should achieve the harmonious, coordinated and sustainable development of urban and rural economy and society.

According to the above idea, this paper believes that an accurate judgment of reality is undoubtedly the most important prerequisite and foundation for implementing this strategy. It should be noted that China has made great achievements during its 30 years of reform and opening up and witnessed the rapid industrialization and urbanization, but it has not achieved urban-rural integration. Instead, basically industrialization and urbanization develop in parallel. It should also be seen that three decades of reform and opening up has greatly improved living standards of Chinese people, including that of farmers, and brought the number of impoverished people down from 250 million to 17 million, which can be one of world wonders. But it does not narrow the gap between urban and rural areas which even continues to expand with figures showing that the urban-rural income gap has changed from 2.22:1 in 1978 to 3.33:1 at present. Besides, historic changes that urban and rural areas have undergone have not shaken the foundation of separated administration of urban and rural areas and brought out excessive metropolitanization.

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4 “System” here refers to administrative hierarchy system.

5 It refers to process and ways of urban-rural integration.

There are many reasons for the above issue, three of which can explain it from the perspective of system. Firstly, public policies formulated by the government has always been subject to separated administration of urban and rural areas. Thus, there is not a unified policy goal and arrangement. Secondly, China implemented the policy of “putting county under the control of municipal government” in 1982, which has facilitated the development of prefecture-level cities. Based on the statistics, 275 out of 330 prefectures implemented the aforementioned policy in 2002, covering one billion people. However, some municipal governments block capital projects, contain economic development and occupy resources of counties. Such phenomena has to some extent intensified separated administration of urban and rural areas. Thirdly, township governance structure does not adapt to and to some extent have adversely affected the development process of urban-rural integration. All above indicate that it is necessary for us to make adjustment and implement reform on current administrative system.

(2) *We should accelerate adjustment of vertical power structure of prefecture: the establishment of institutional framework of urban-rural integration.* According to the central government, the adjustment of administrative hierarchy should be coupled with the strategy of empowering developed counties and strengthening their economy so as to reduce management levels and empower local governments. Accelerating the reform of putting counties directly under the control of provincial governments is a significant step in implementing vertical management. There are two main models of this reform in China, Hainan Model<sup>6</sup> and Zhejiang Model<sup>7</sup>. Hainan provincial government has never implemented the policy of putting county under the control of municipal government from 1988, when Hainan province was just built. In 2008, it continued to streamline administration and delegate power, empowering municipal and county governments to deal with 100-plus matters. In Zhejiang Province, financial power is held by the provincial government while administrative power by municipal governments. Reforms like Zhejiang Model mainly aim to expand the power of county governments in economic management, which is different from the situation in social management and public services. This paper believes that Zhejiang Model is still the best choice

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6 Hainan Model refers to the policy Hainan provincial government has implemented to put county directly under the control of provincial government rather municipal government since 1988 when it was built.

7 Zhejiang Model refers to the policy Zhejiang provincial government has implemented to put county administration directly under the control of municipal government and county finance of provincial government.

for other regions. But with the deepening of reform, it can be projected that more regions would choose Hainan Model during the Twelfth Five-year Plan period, not only financial power but also administrative power of county governments are directly under the control of provincial government. Besides, the rapidly developing modernization, highway and E-government have provided guarantees for implementing the policy of putting county under the control of municipal government, increasing the number of entities directly governed by provincial government, and expanding management range.

According to this paper, the administrative hierarchy should be based on local conditions and can coexist with other management structure. For instance, after implementing the policy of putting counties directly under the control of provincial government, economically developed regions in the east can consider to cancel and integrate some township governments into agencies so as to flatten management structure. In middle and western regions, township governments can be maintained with financial affairs of towns handled by counties so as to avoid increasing burden on people because of their existence and to assume public services within their financial capacity. We can make effort from the following aspects.

Firstly, we should make a bit of adjustment in the provincial and county administrative divisions, increasing the number of municipalities. But such adjustment may not lead to the increase of organizational system at the provincial level. Instead, only by setting cities like Dalian, Qingdao, Xiamen, Ningbo and Shenzhen as municipalities can we increase the number of provincial units. According to area and population of each region in China, this paper believes that we should at least have 40 provinces and municipalities<sup>8</sup> in total in the future.

Secondly, we should further separate duties and powers of central, provincial, municipal and county governments. We should define responsibilities in social management and basic public services that governments at different levels shall take, and set up transfer payment systems respectively at central and provincial level.

Thirdly, we should promote the transfer of power from provincial and municipal governments to county governments. Counties are important carriers for industrialization and urbanization, but much power is held by provincial

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8 Currently there are four municipalities directly under the central government, including Beijing, Shanghai, and Tianjin and Chongqing, and the figure will be at least 40 if big cities like Dalian, Qingdao, Xiamen, Ningbo and Shenzhen are set as municipalities. The number of provincial administrative units is small.

and municipal governments so that county governments do not have enough financial power to handle administrative affairs, social and public management. We should promote provincial governments to empower county governments by the reform of governing counties by provincial governments so as to balance financial power and authority.

Fourthly, it is of vital importance for us to establish a standard provincial transfer payment system after county finance is included into provincial finance since each province has almost 100 counties with uneven development. By doing so can we implement the policy of empowering developed counties and strengthening their economy which is fair to all counties rather than making developed one stronger while developing one weaker.

Fifthly, it can be considered to upgrade administration of key counties on the basis of strict demonstration and scientific calculations, or to promote Party secretaries and governors at county level to prefecture level or sub-prefecture level, and heads at township level to department level. By doing so can we stabilize grass-roots management teams and mobilize the initiatives of cadres.

## **2. We should push forward the equalization of basic public services and restructuring public service system**

To push forward the equalization of basic public services is a great strategic move put forward in the 17th CPC National Congress<sup>9</sup> and a major goal for administrative system reform in the period of the twelfth Five-year Plan. It can be seen that the equalization of basic public services we have push forward at present stage is at a lower level. That is to say, we should achieve the equalization for 21% of the world's population with 6-7% of the world's GDP, which is undoubtedly a great initiative. According to experts' estimates, we should invest at least six trillion yuan in order to achieve the equalization at lowest level and 45 trillion yuan at the average level of moderately developed countries.<sup>10</sup> It is obvious that we still lack economic capacity to reach such a high level. Thus, we should start from a low level.

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9 It refers to the 17th CPC National Congress held in 2007.

10 It is a research paper put forward by China Institute for Development and Reform. According to experts' estimates, we should invest at least six trillion yuan in order to achieve the equalization at lowest level and 45 trillion yuan, which is undoubtedly huge investment.

Since livelihood issues are prominent, to achieve equalization of basic public services will definitely be the focus of administrative system reform during period of the twelfth Five-year Plan. We should strive to push ahead our work from six aspects.

(1) *We should set a goal for equalization of basic public services.* Goals for realizing equalization of basic public services should include three aspects- the equalization between urban and rural areas, between regions, and between different social groups. We should do our work under the guidance of these goals.

(2) *We should strengthen governmental responsibilities.* It is inevitably for the government to play an important role and assume major responsibilities in the process of promoting equalization of basic public services. This paper believes that the governments should shoulder the following responsibilities in this process. *Firstly, it should ensure the fairness and justice of the formulation and implementation of public policies,* including choosing value orientation of public policy, preventing the change of governmental interests into departmental interests, and making a coordinated strategic plan on equalization of basic public services. *Secondly, it should reform and improve public fiscal system.* This move includes adjusting fiscal expenditure structure, allocating more fund to and keeping sustained growth of investment in public service sector, further deepening reform of fiscal administration system under provincial level to basically realize the equalization, and improving and regulating transfer payment system from the central government to local governments. *Thirdly, it should promote governments' capacity of public services with the focus on transform governmental duties and functions.* The administrative system must meet the requirement of effectively performing public service functions. It should accelerate the pace of e-government and improve technical means and ways to supply basic public services and so on. *Fourthly, it should establish a governmental performance evaluation system of basic public services.* This includes working out basic standards and setting up a strict accountability system of basic public services.

(3) *We should establish a unified public service system.* We should give emphasis on gradually establishing a unified public service system while advancing the equalization of basic public services. This is a arduous task for us. According to the current situation of China, the establishment of a unified public service system should mainly include the following aspects. Firstly, we should comprehensively promote rural compulsory education reform with the focus

on implementing the guarantee mechanism of educational appropriation, implement the new rural cooperative medical care system and rural subsistence allowances system, and facilitate the reform of township fiscal administration system based on the principle of managing and utilizing township finance respectively by county government and township government. Secondly, we should reasonably segregate duties of governments at all levels in basic public services, like compulsory education, basic medical care, public health service, public employment service, basic social security and other aspects. Thirdly, we should address the problem of inadequate basic public services for migrant workers. In other words, we should put forward nationwide policy to plan and solve this problem.<sup>11</sup>

(4) *We should explore a mechanism of public service involving multiple roles.* It can be seen that implementing the equalization of basic public services is a great cause, so it is impossible for the government to take on everything. The government, apart from fulfilling its responsibilities, should mobilize social and market forces, and explore a mechanism of public service involving multiple roles so as to speed up the equalization of basic public services. Rapid development of market reform and the growth of social organizations in the past have laid an important foundation for us to explore a mechanism of public service involving multiple roles.

### **3. We should deepen the fiscal system reform and resolve the issue of relationship of financial resources and authority between central and local governments**

According to the report of the 17th CPC National Congress, we should push forward the equalization of basic public services and the construction of main functional regions and improve the public finance system.<sup>12</sup> Therefore, we should accelerate the administrative system reform, effectively transform government functions, and facilitate the transformation of the government from a omnipotent one to a public service-oriented one, which will fully perform its duties in economic regulation, market supervision, social management and public services. In this process, we should first gradually establish

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11 Basic public services for migrant workers mainly refer to the urbanization of those migrant workers who have left the rural area and entered into the town, which needs a large sum of input from the state to address their needs for most basic public service.

12 It refers to a policy on improving public finance put forward in the 17th CPC National Congress held in 2007.

and improve the public finance system which is the basis for the government to fulfill its responsibility in public services.

In recent years, with the rapid growth of fiscal revenue, the central government focuses its spending on sectors like health, education and social security in order to solve livelihood issues and promote economic and social development in a comprehensive and coordinated way. The key point for consolidating financial results of livelihood is to improve systems, including fiscal system and transfer payments. As to the financial system, we should further clarify the authorities between governments at different levels in basic public services, including compulsory education, public health, social security, the environment and other aspects, and improve the fiscal system so as to keep balance in financial powers and authorities. As to the transfer payments system, we should firstly improve the guiding ideology of transfer payments system. That is to say, we should adopt general transfer payments completed with special transfer payments to enhance local governments' capacities in public services with the basic goal of achieving the equalization of public services across the country. Secondly, we should try to implement both vertical and horizontal transfer payments modes. Thirdly, we should phase out and include tax refund<sup>13</sup> in general transfer payments. Fourthly, we should scientifically define the standard of special transfer payments and control the access to and the scale of them. Fifthly, we should improve the building of a legal system for transfer payments by defining the principle, content, form, budget and oversight in legal form. In addition, we should increase investment in basic public service sector. With economic development and the improvement of the market economic system, some quasi public products and services like infrastructures can be funded by private capitals so as to reduce government spending, which thus can be transferred to increased costs in basic public services like education, health care, welfare services and so on.

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13 Tax refund refers to a tax revenue returned from the central government to the local government based on the tax-sharing system and pursuant to relevant regulations.

#### **4. We should advance reform on the system of selection and appointment of leading cadres and improve public governance capacity of local governments**

The Fourth Plenary Session of the 17th CPC Central Committee has set the basic principle featuring democracy, openness, competitiveness and excellence for the personnel system of cadres in the future.<sup>14</sup> It can be envisaged that this principle not only direct us to reform the personnel system of cadres, but also provide institutional guarantee for us to speed up the reform. It can be envisaged that this principle, not only for the next reform of personnel system we pointed out the direction, but also to accelerate the pace of reform of the cadre and personnel system during the second five, provide a guarantee. According to the spirit of the central government, we should expand the scope of directly elected grassroots leadership. At the meantime, this paper believes that we should pay attention to elections of Party and government leadership both at township and county level. In view of the special administrative status of counties, excellent performance in the election and appointment of county leadership will have significant influence on the overall public governance. Thus, this paper will provide several suggestions as follows.

Firstly, we can consider to choose several pilot counties for the reform on personnel system of cadres and for the direct election of township Party and government leadership, which should implemented under the direct control of the central government.

Secondly, we can consider to make significant adjustments in township leadership. This paper suggests that Party secretary of the county should not serve as NPC director at the same time, otherwise the supervisory function of NPC cannot be realized.

Thirdly, at county level, the posts of Party secretary and head of the county are suggested to be assumed by a person through direct election, who is supervised by both county people's congress and Commission for Discipline Inspection (which is suggested to be managed by another one at higher level). In fact, these two bodies just need to oversee one person (who acts as Party secretary and head of the county).

Fourthly, Party secretary and head of the county is suggested to be elected through the inner party election and the National People's Congress.

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14 It refers to principles for the reform of personnel system of cadres proposed in the Fourth Plenary Session of the 17th CPC Central Committee in April 2009.

Specific procedures are as follows. Firstly, several qualified candidates of Party secretary will be directly elected by Party members through inner election. Secondly, head of the county will be selected from these candidates through the county National People's Congress. Besides, candidates of head of the county can also be chosen from Party members by over ten representatives of the county National People's Congress. Thirdly, head of the county will be elected from the above candidates by all representatives of the county National People's Congress. This person will also be Party secretary of the county. No matter in inner party election or in the National People's Congress, multiple candidates should be given the right of expression so as to ensure the fairness and justice of elections. The above means of elections of county leadership will be a fundamental solution to strengthen responsibilities of Party and government leadership for Party members and the masses, but also a good demonstration of democracy, openness, competitiveness and excellence. Historic changes will be found in county political ecology.

## **Public Administration going down to Rural Areas: Organizational Designs in History**

Stefan FISCH

The "Peasants' War" against the lords and nobles, which occurred about 500 years ago, was the most fundamental conflict of interests in pre-modern European societies. The central question was how the products of agriculture should be shared between the peasants who produced them and the nobles who guaranteed in some way that the peasants could do so by giving them land and protecting them. In the year 1525, peasant protest in several German regions culminated in their very unequal war against the nobles and their armies. In the end, about 100,000 peasants (out of 300,000 fighters) were killed, which was about 1 % of the total German population.

About 350 years later Friedrich Engels reflected on this conflict in his book on the Peasants' War in Germany, following Marxist lines of thought. He saw the war as a fundamental class struggle with revolutionary qualities and as a predecessor to the proletarian class war which he and Karl Marx expected in the near future. Stressing this aspect, Engels omitted the strong non-revolutionary elements in the peasants' movement, a theme which has since been well researched. The peasants felt themselves treated in an unjust manner. Their conception of justice was based along the lines of a very traditional unwritten 'good old law' passed down from former times. For them, it was the nobles who had purposely broken this timeless and unchangeable law through changes that increased the charges and the obligatory labour which fell upon the peasants.

Newer research focussed on the time of reconciliation after the Peasant's War has examined whether the relations between the peasants in their humble dwellings and the lords in the castles changed afterwards? And was this change reflected in law, especially on the local level? This new research on this topic has been based on court records and decisions of that time which only became readily accessible to research in the 1960s at the earliest. While conflicts of interests of course continued to exist, as a result of the Peasants' War they were mitigated far more than before by the then emerging rule of law in many regions of Germany (not in all, however). This rule of law was a new thought, as it opened even to humble peasants a way access relatively

independent judges at a court. Conflicts between the two groups were increasingly solved at law courts after 1525, up to the highest court of all, the famous 'Imperial Chamber Court'. This Imperial Court was established in 1495 and in 1527 it began to sit for more than 150 years in the Town Hall of Speyer, then a Free City in the Empire. The court ended its activity only in 1806, when the Empire in its traditional form ('Holy Roman Empire') disappeared under Napoleon's pressure. Not only were there many cases brought to the court by peasants against noblemen, but a substantial part of these cases were won by the common people. After 1525, these common people, mostly peasants, had organized themselves more and more through regular meetings and begun to decide commonly on their local affairs. The historians observe a certain juridification (*Verrechtlichung*) of power relations, instead of the use of brute force, and also local self-organization spreading over the countryside, not only in Germany. In 1789, in revolutionary France the common people in the 40,000 villages were quite familiar with the ways and means to defend their own interests. They even could write down their propositions for a better society and transfer them to their elected representatives in the capital.

However, the peasants' world was not only determined by the local nobleman's claims for charges and labor from the peasants. Within the scheme of different power layers in the early modern period there was also the superior authority of the monarchs who built their states and the supreme authority of the Emperor in Vienna. In their search for regular income through general taxation and for young men to serve as soldiers these monarchs began to more and more effectively penetrate the local communities. As early as about 1600 we find the first maps showing new administrative boundaries within a monarch's territory which corresponded to the districts of newly nominated local office-holders of the central authority. With a steadily growing public administration (for taxation, recruitment, justice) its radius of action grew, extending further and further away from the capital. Nonetheless, in the 17th and 18th century the new officials did not yet really penetrate the whole territory of a monarchy out to its most distant reaches.

In the French Revolution, after 1789, a critical examination of the territorial structures of public administration took place in France. What had grown up accidentally over two centuries or more was to be renewed as a rational organization of the country's public administration. Nothing was more rational than geometry, and so a very interesting concept for the new administrative division of France was proposed. It was a standardized system based on the idea of equality (the fundamental value of the revolution) in the chain

of administrative hierarchy. In its radical version this project meant, that the new 'departements' of France should be as similar as possible to each other, that means in the shape of a square, and that their subdivisions should also. This was the break-through of a new rationality of administrative organization. Each department should consist of equal parts, namely 9 (3 x 3) smaller parts, and each of them again of 9 smallest parts. For France as a whole, the about 80 departments would have been subdivided units (at least in this geometry-based rationality) to about 720 smaller units and further down to 6,480 smallest ones, covering the about 40,000 villages.<sup>1</sup> In reality, it was impossible for the legislator of 1790 to organize France by squares in squares in squares, as described. However, the establishment of 'departements' was a radically new organization. It served as a basis to destroy cultural and historical traditions and, thereby, the identities of the former provinces, which were regarded as obsolete by the central authorities.

In Germany, as the states began to distribute their agents in their rural areas, they had to cope with well-established traditions of local self-organization in many regions, which had been progressively strengthened, especially in the aftermath of 1525. Thus we find in Germany a variety of different models of administrative organization of the rural areas. This continued despite the influence of the French Revolution, when German rulers sought to prevent a revolutionary movement by piecemeal reforms 'from above'. The question of territorial organization was not approached in strictly rational manners and with total contempt of historical structures as it was in France. The two most important states in post-Napoleonic Germany were the Kingdom of Prussia (with its capital in Berlin) and the Kingdom of Bavaria (with its capital in Munich). If we look at them more closely we see that they shared (also with France) a hierarchical structure of new territorial administration, but they differed from each other in the extension of this structure.

Prussia had by 1815, after a thorough reform of its institutions, five levels of administration and kept this structure up to 1933. Under the central ministries of the King there was a second layer of about a dozen (their number varied slightly over time) provinces under a 'chief'-president (Oberpräsident)

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1 Designer of the project was Jacques-Guillaume Thouret, deputy for Rouen and president of the National Assembly in 1789/90. In 1789 he added to the Declaration of Human Rights the central idea that "Nothing may be prevented which is not forbidden by law, and no one may be forced to do anything not provided for by law" (art. 5); in 1794 he was no longer regarded as sufficiently radical and sentenced to death. The original map of 1789 in the French National Archives is online at: [http://www.histoire-image.org/site/etude\\_comp/etude\\_comp\\_detail.php?i=280](http://www.histoire-image.org/site/etude_comp/etude_comp_detail.php?i=280)

who centralized the action of about two to six presidents of administrative districts (Regierungsbezirk), the third layer of administration, in his province. His title 'chief'-president may sound rather odd, but it made clear that he, while being president of the district of his province's capital town, was in rank and influence above the presidents of the other districts in the province. On the third layer of Prussian public administration, that of districts (Regierungsbezirke), decisions were made by majority vote of five or so high state officials, one of whom acted as president of the Regierung (Regierungspräsident), who met regularly as a so-called (regional) 'government' (Regierung). Unlike the model of revolutionary France, the Prussian administrative structure was not shaped along strictly rational lines, but with great respect to historically rooted structures and different regional identities. When Marx and Engels grew up in the Kingdom of Prussia they were in a top-down organized system administrated on the levels of the state (King and the King's government), one of the 12 provinces (Province on the Rhine, with Koblenz as capital),<sup>2</sup> and then one of about 40 administrative districts of the second layer (Marx by the 'government' of Trier, Engels by the 'government' of Düsseldorf).<sup>3</sup> These greater units, provinces and 'governments', were again subdivided, in a fourth layer, into counties and (greater) autonomous cities which were treated like counties but not subdivided further. So Marx and Engels were each administrated on the level of one of about 400 counties in Prussia (city-county of Trier and county of Elberfeld, respectively). Engels grew up at Barmen which was one of the two municipalities (the other one being Elberfeld) forming a county also called Elberfeld.<sup>4</sup> Furthermore, under the county level there were about 50,000 local units in Prussia acting as the fifth and lowest administrative layer. These were mainly municipalities (Gemeinden) with a certain degree of autonomy, but up to the democratic Revolution of 1918 Prussia also had more than 15,000 areas under the exclusive authority of their noble land-owner (Gutsbezirk), without any participation of their population of no less than 2 million Germans (= 4 % of the total population) in 1890.

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2 See a map (about 1900) at: <http://commons.wikimedia.org/wiki/File%3AProvinzen-und-Regierungsbezirke-Preu%C3%9Fens.jpg>

3 See a map of 1905 at: [http://commons.wikimedia.org/wiki/File%3ARheinland\\_Regierungsbezirke\\_1905.png](http://commons.wikimedia.org/wiki/File%3ARheinland_Regierungsbezirke_1905.png)

4 See a map of 1817 at: [http://www.solingen-internet.de/si-hgw/images/preussischer-regierungsbezirk\\_duesseldorf.jpg](http://www.solingen-internet.de/si-hgw/images/preussischer-regierungsbezirk_duesseldorf.jpg); the municipalities of Barmen and Elberfeld joined in 1929 to form the city of Wuppertal, as it is known today.

So the general administration of the Kingdom of Prussia exhibited a centralized and hierarchical structure based on orders being given from the top and going down to the bottom. However, there was on the lower layers of the local level (especially in the bigger city-counties, but also in the small municipalities) a certain element of local participation by the common people. In some places this came from a change in institutional design after the Peasants' War, and for Prussian cities in general, it was implemented following a famous reform in favor of local autonomy in 1807 (Städteordnung).

A highly important and interesting innovation in Prussia was to have a self-government element parallel to the general administration on the second layer of public administration, that of the 12 provinces, as well. The highest state official in the province, the chief-president (Oberpräsident), had two very different functions at the same time: to obey to the orders from Berlin and to simultaneously act as the voice of his province to the same central authorities in the capital. The reason for this consultative role of the chief presidents was their quasi-automatic membership in the Prussian State Council (Staatsrat). Before the first freely elected parliament was established in 1848, the State Council was a highly influential quasi-parliament consisting of the highest-ranking personalities (the Royal princes, the field-m Marshals, the King's ministers, and so on), and it continued in this function even later on.

If we look a bit closer at the real tasks of an "Oberpräsident" in Prussia, we find that in addition to those resulting from the mainly hierarchical structure of public administration there were also very 'modern' elements such as negotiating and bargaining. It was he who was responsible within his province for those matters 'which were not mere administration' from above, but which needed negotiations:

- between the state and religious authorities,
- between the state and military authorities (who were a world apart up to the revolution of 1918), and
- between the state and organizations within the civic society, especially the representatives of those privileged groups who participated actively in provincial self-government. The reason was that some structures of self-government existed on the provincial level, especially with the provincial assembly, a quasi-parliament (without real legislative powers, and restricted to the provincial affairs) of some relevant stake-holders, though not all (the various trade unions for instance were excluded, as usual at that time, and also national minorities like the Polish).

On the whole, we get the impression of a relatively responsive administrative structure on the lower levels of public administration, albeit particularly responsive to the ideas and proposals of rather privileged groups. Of course, this responsiveness depended to a high degree on the personal abilities of the holders of office and a certain 'good will' of the central government at Berlin. However, in general, there was some freedom of action to administer different provinces (as Rhineland and Westphalia in the industrialized West compared to Brandenburg and Pomerania in the agricultural East of the Kingdom) in different ways.

Looking at the second kingdom in Germany, Bavaria, there were as in Prussia both elements present: a certain self-government and a strong general state administration. However, due to the different size of the state the public administration was organized as a system of only four layers, with the King and his ministers, as in Prussia, on top. However, at the second layer in Bavaria there existed neither provinces nor the Prussian office of "Oberpräsident" to act as a transmitting actor between his province and the central state. Administratively, on the second layer Bavaria was divided into eight government districts, seven in the 'mainland' and the eighth one (the Palatinate, of which Speyer was the capital) about 200 km away on the left bank of the Rhine river. The third layer consisted of more than 150 counties and about 30 independent cities with their local authorities,<sup>5</sup> and the fourth layer were the smaller municipalities in the countryside.

So, the structures of public administration were similar in both cases. Apart from the top level of the King and his ministers, Bavaria and Prussia shared, if we look at it from the bottom, the municipalities, the counties and independent cities, and those administrative units grouping them together. The specific additional element in Prussia (with 64 % of total German territory and 60.6 % of the population as of 1890)<sup>6</sup> that was lacking in Bavaria (14 % of Germany and 11.3 % of Germans) were the provinces which grouped and coordinated the layer which was to supervise the counties and independent cities. If we compare merely the quantitative dimensions, the average

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5 See the government districts, called circles (Kreise), and counties in Bavaria in a 1862 map (the Palatinate is not shown at its real geographic position) online at: [http://www.historisches-lexikon-bayerns.de/thumbnail/artikel/artikel\\_44535\\_bilder\\_value\\_1\\_regierungsbezirk1.jpg](http://www.historisches-lexikon-bayerns.de/thumbnail/artikel/artikel_44535_bilder_value_1_regierungsbezirk1.jpg)

6 Hohorst, Gerd / Kocka, Jürgen / Ritter, Gerhard A.: Sozialgeschichtliches Arbeitsbuch. Materialien zur Statistik des Kaiserreichs 1870 - 1914, München 1975, table 13, p. 47 (in general, the book gives valuable data in the field historical statistics for Germany 1871 to 1914).

Prussian province accounted for 5.4 % of German territory and 5.1 % of the German population, the same as half of Bavaria. Or the other way round: the Prussian province with the biggest territory, Silesia with its capital at Breslau (since 1945, Wroclaw in Poland) was 68 % the size of all Bavarian territory, and the Prussian province with the biggest population, the highly industrialized Rhineland with its capital at Koblenz, had 84.1 % the total Bavarian population.

Provinces as parts of the Prussian state were comparable to whole states in the German Empire of 1871. For Prussia this posed a problem of size and power in relation to the smaller states. After the collapse of Hitler's 'Great'-German Empire in 1945 two German states arose, later to be reunified in 1990. In the Federal Republic of Germany we still find Bavaria as a state while some Prussian provinces have become federal states either as they were (Schleswig-Holstein and Brandenburg), or with some additional territories (Niedersachsen, Sachsen-Anhalt, Hessen), or as an amalgamation of two former Prussian provinces (Northern Rhineland-Westphalia). In the latter case, the self-government structures of the two provinces survived under new names (Landschaftsverband).

This development shows that the question of administrative layers is not only important in the organizational design of territorial administration. It is also of essential importance in the development of sustainable structures that allow for the participation of those who are administered and open a span of maneuvers for the leading administrators to take action for the public good.

**Further English reading:**

*Blickle, Peter*: The Revolution of 1525: The German Peasants' War from a New Perspective, Baltimore 1985 (standard title with fresh insights, translated in English).

*Clark, Christopher*: Iron Kingdom. The Rise and Downfall of Prussia, 1600 – 1947, London 2006 (New comprehensive study from outside Germany).

*Engels, Frederick*: The Peasant War in Germany, in: Collected Works of Karl Marx and Frederick Engels, vol. 10: 1849-1851, New York 1978, p. 397-482; see also online <http://www.marxists.org/archive/marx/works/1850/peasant-war-germany/index.htm>

## **The Pilot of Province Governing Counties Structural Reform and Its Implication for Policies in the Progress of Urbanization**

ZHANG Zhanbin

Since the 16th CPC National Congress, the Party Central Committee (PCC) and the State Council take the province governing counties reform very seriously. A few key areas and links achieved great progress, which have crucial impact and far-reaching significance in balancing urban and rural development, expanding county economies, reducing administrative levels and enhancing administrative efficiency. Meanwhile, we need to notice that the province governing counties reform has an overall background, which China's urbanization is entering an accelerating period. It involves the adjustment and coordination of multi-stakeholders. For further promotion of the province governing counties structural reform, we need new institutional arrangements in terms of economic and social administration authority of counties, fiscal management system, cadre management system, judicial management system, working system of NPC and CPPCC and other aspects according to the development requirements of new urbanization. In 2010, the State Commission Office for Public Sector Reform (SCOPSR) confirmed to conduct pilot of province governing counties reform in 30 counties (cities) of 8 provinces: Anhui, Henan, Heilongjiang, Jiangsu, Hubei, Hebei, Yunnan and Ningxia. We planned to complete the pilot in about 3 years in order to accumulate experience for promoting province governing counties structural reform after the 18th CPC National Congress. According to our tracking, observation and research for many years, the article analyses – the new propulsion of province governing counties reform: carrying out counties specifically designated in the provincial plan or entirely administrated by provinces in pilot counties.

### **I. Propulsion methods of province governing counties reform in pilot provinces**

According to national progress of the province governing counties reform, SCOPSR and the pilot group actively explore new approaches and methods of province governing counties on the basis of implementing fiscal system of province governing counties and enlarging economic administration author-

ity of counties (cities). In July 2010, SCOPSR published *Notification with regard to launching pilot of province governing counties structural reform*, requesting pilot provinces achieving breakthroughs on key issues and touching underlying problems.

First to extend seconomic and social administration authority of pilot counties. It requests extending decentralization efforts; researching and adjusting the relationship between vertical management, sending department and pilot counties; the implementation of adjustment of administration authority needs to be conducted in the framework of laws and policies and carried out with necessary procedures; hurrying up to establish supervision and restriction system in compliance with the empowerment of governments of pilot counties.

Second, further implementation of fiscal system of province governing counties. We need to straighten out the expenditure liability and fiscal distribution relationship of provinces , prefecture-level cities and pilot counties on surface, strengthen the fiscal system of provinces with matching finance and governance and study the financial administration authority of standard pilot counties. Provincial finance needs to increase support of pilot counties and encourage establishing award mechanism of prefecture-level cities helping pilot counties. For prefecture-level cites that increase support of pilot counties and achieve distinct results, provinces can give them certain awards of transfer payment.

Third is adjusting judicial management system. From the local actual conditions, we need to actively explore judicial management system suitable to province governing counties. As to the establishment of judicial organs, it does not only need to abide by regulations of organization laws of the Court and Procuratorate, facilitating people and ensuring normal and effective conduct of trials and legal supervision works, but also follow the principal of simple, united and effective without needless duplication. Moreover, it brings related requirements of cadre management system, administrative division, adjustment of work system of NPC and CPPCC.

From Anhui, Henan, Heilongjiang, Ningxia, Jiangsu and other provinces, pilot counties have defined their own reform emphasis, which explore the path of thorough reform of national province governing counties. The following are the propulsion methods of four province governing counties (cities) of representative provinces organized from related papers and materials.

*i. Pilot scheme of Anhui Province basically achieved province governing counties*

Pilot counties of Anhui Province: Guangde County, Xuancheng City and Susong County, Anqing City

*Expanding economic and social administration authority.* We are giving pilot counties the same economic, social, cultural and other administration authority as cities with districts. Apart from specific statements of national laws and regulations, economic and social management affairs originally approved or managed by cities divided into districts shall be approved or managed by pilot counties themselves; anything that needs approval of cities with districts and the province shall be directly approved by the province. As to items that need to be approved by cities with districts according to regulations of the State Council and other related departments, it shall be delegated by entrustment, authorization or other methods.

*Adjusting management system.* Party committee and government of pilot counties are directly responsible for and report to provincial party committee and government; NPC Standing Committee of pilot counties directly report to and accept supervision of provincial NPC Standing Committee; CPPCC of pilot counties directly report to and accept direction of provincial CPPCC; the Commission for Discipline Inspection of pilot counties are directly responsible for and report to provincial Commission for Discipline Inspection; NGOs of pilot counties directly report to and accept business direction of provincial NGOs; according to laws, regulations and party constitution, party committee of pilot counties and all government departments accept direct business direction or leading of provincial party committee and government departments.

*Reforming organization and cadre management system.* Party chiefs of pilot counties are under direct management of provincial party committee. Provincial party committee entrusts organization department of provincial party committee to manage other leading cadres above vice-county level (including Court, Procuratorate and other high cadres); organization department of provincial party committee approves and manages the transfer of cadres above vice-county level; leaders of environment, audit and other departments of pilot counties are directly assisted to manage by provincial departments. Representatives and commissioners who attend provincial party congress, NPC, CPPCC and other conferences on behalf of pilot counties are still elected in the cities with districts of pilot counties.

*Straightening out relationships*, which are for the purpose of completing government function of pilot counties and strengthening government capacity of regional economic and social development of pilot counties as a whole. Management institutions that Provincial Industry and Commerce, Local Tax, Quality Supervision and other departments set up in pilot counties change from vertical management under province to party committee and government of pilot counties. It receives business direction from provincial departments. Cadres of Land and Resources department of pilot counties change to be managed by county party committee. Roads and other vertical management institutions under municipal change to be managed by party committee and government of pilot counties and are directly guided by provincial departments in business.

*Judicial management system.* Judicial business management system with clear declaration of laws and regulations stay the same.

*ii. Pilots in Henan Province mainly adopt economic and social counties specifically designated in the provincial plan*

Pilot counties (cities) of Henan Province: Gongyi City under the governance of Zhengzhou City; Lankao County, Kaifeng City; Ruzhou City under the governance of Pingdingshan City; Hua County, Anyang City; Changyuan County, Xinxiang City; Dengzhou City under the governance of Nanyang City; Yongcheng City under the governance of Shangqiu City; Gushi County, Xinyang City; Luyi County, Zhoukou City; Xincai County, Zhumadian City, etc.

*Expanding economic and social administration authority.* Provincial government gives government of pilot counties (cities) municipal economic and social administration authority. Pilot counties are entitled with economic and social administration authority that provincial cities (including cities with districts) are entitled with by laws, regulations and rules. Pilot counties report their statistics (including department statistics) directly to provincial counterparts and copy to their provincial cities. The economic and social statistics of pilot counties are numbered into the total amount of their provincial cities. Pilot counties carry out the system of direct financial management of the province. All sorts of supporting funds of pilot counties (cities) undertaken by provincial cities are still undertaken by provincial cities; the provincial finance undertakes supporting funds that require provincial cities giving to pilot counties in new national and provincial policies.

*Adjusting management system.* Government work of pilot counties is directly under the lead of provincial government. All government departments of pilot counties are directly under the lead or receive business direction from provincial departments. Economic and social development affairs of province to pilot counties are separately managed. Items of pilot counties that need superior approval and examination are changed to direct approval and examination of province. Leading system of party committee, NPC and CPPCC, Court and Procuratorate system as well as cadre management and social stability, authority and responsibility of pilot counties stay the same. To facilitate the propulsion of pilot work, party secretaries and county magistrates of pilot counties upgrade to deputy departmental level. As to administration of other cadres, the basic guiding thought of the province is to upgrade by development level of counties (cities), rather than upgrade by promotion. For those counties (cities) that develop very fast after governance of province, if their economic aggregate and prefectural population reaches to certain scale, cadres can be considered to manage by deputy departmental level. For those counties with continuous decrease of main indexes, adjustment of the post of main leaders can be made, or the pilot qualification can be cancelled.

*Straightening out relationships.* Industry and Commerce, Local Tax, Quality Supervision and other vertical management departments under provincial and Land and Resources department of pilot counties are directly guided by provincial departments. Opinions of party committee and government of pilot counties are important basis for provincial departments assessing and examining county departments work and appointing cadres.

*iii. The pilot of Jiangsu Province adopts the method of provincial government directly leading pilot counties (cities)*

Pilot counties (cities) of Jiangsu Province: Kunshan City under the governance of Suzhou City; Taixing City under the governance of Taizhou City; MUYANG County, Suqian City

*Adjusting administration system.* In condition of remaining administrative division, statistical standards affiliation and cadre management system of pilot counties unchanged, provincial government directly leads government work of pilot counties (cities). According to laws, regulations and rules, all government departments of pilot counties receive business guidance or lead of provincial departments.

*Expanding administration authority.* Emphasizing on transformation of functions and enhancing efficiency, pilot counties (cities) are given the same administration authority as cities with districts. Administration authority of prefectural governments regulated by laws, regulations and rules shall be performed by government of pilot counties (cities); administration authority of government and affiliated departments of cities with districts regulated by laws, regulations and rules shall be delegated to government of pilot counties (cities) and affiliated departments by legal authorization or entrustment; administration authority of provincial government and affiliated departments regulated by laws, regulations and rules can authorize or entrust administration authority of government and affiliated departments of cities with districts, or authorize or entrust government and affiliated departments of pilot counties (cities) to perform.

*Straightening out relationships.* Local Tax Bureau of pilot counties change from vertical management under province to provincial Local Tax Bureau management. Land and Resources Bureau and its cadres of pilot counties (cities) change to be managed by provincial Office of Land and Resources.

*iv. The pilot of Ningxia Autonomous Region adopts entirely administrated by provinces*

Pilot counties of Ningxia: direct pilot management of autonomous region – Yanchi and Tongxin County of Wuzhong City

*Adjusting management system.* Cancellation of administrative relationship of prefecture-level city and pilot counties. Party committee and government of pilot counties directly report to party committee and government of autonomous region. During the election of cities and counties, prefecture-level cities and pilot counties select their own representatives of NPC and commissioners of CPPCC to attend NPC and CPPCC conference of autonomous region separately. Main leaders of party and government of pilot counties are managed by party committee of autonomous region. Other members are managed by organization department of party committee. Party chiefs upgrade to deputy departmental level; deputy secretary and executive vice county magistrate upgrade to division level.

*Adjusting judicial system.* Second instance cases of Court and Procuratorate of pilot counties and legal supervision directly connect with Supreme People's

Court of autonomous region and People's Procuratorate of autonomous region. To facilitate the masses and law enforcement, Supreme People's Court of autonomous region and People's Procuratorate of autonomous region appoint Intermediate People's Court and People's Procuratorate of Wuzhong City by law to take charge of the trials of first instance of important cases and second instance of Primary Court and Procuratorate as well as legal supervision.

*Expanding economic and social administration authority.* Apart from specific statements of national laws and regulations, economic and social management affairs originally approved or managed by prefecture-level cities shall be managed by pilot counties. Adjusting and completing vertical management department system under autonomous region at the same time, central vertical management department and bank, power supply and other public service industry can make adjustment according to the need of structural reform of autonomous region governing counties.

## **II. Counties specifically designated in the provincial plan is the major mode of province governing counties reform of pilot counties (cities)**

Judging from the reform mode of 30 pilot counties (cities) of 8 provinces, most counties (cities) adopt the propulsion method of specific designation of provincial economic and social development. Specifically designated cities have a long history in our country. Connecting with province governing counties reform, its feature of streamlining administration and institutional decentralization show up.

### *i. Advantages of administrative system of specific designation*

Province governing counties reform emulates administrative system of specific designation, which makes sense theoretically, but whether national specific designation or provincial specific designation needs administrative power and development resources of a higher level. The basic idea of this administrative reform is to close the relationship between provinces and counties, providing counties with more complete administrative power. There are at least a few reasons why counties specifically designated in the provincial plan are used to promote province governing counties reform:

First is the result of balancing interests of multiple parties. The reform task is very difficult and complicated nowadays. Every step of moving forward comes with huge obstruction, which are not due to external society but the inner system, and even some from the high level. On the one hand, people worry that province governing counties reform would affect the decision-making and implementation of prefecture-level cities planning development space of counties (cities) under their governance. The natural connection between prefecture-level cities and counties (cities) are cut off, and industry accumulation and expansion among middle and small sized cities would be restricted. The function of central cities cannot be enhanced, and the development of prefectural (municipal) towns would be separated. On the other hand, people realize that adjusting power relations of provinces, cities and counties and releasing the energy of economic and social development are the basic logic of systematic reform since the reform and opening-up of China. Both the formation and development of city governing counties system and structural reform of province governing counties fit with this basic political logic. In order to giving attention to both sides, the reform mode of counties specifically designated in the provincial plan carried out naturally. By choosing this mode, it balances the interest demand of central government, provinces, prefecture-level cities and counties (cities). It is a compromising progress to achieve propulsion as well as taking care of interests of all parties.

Second is helpless choice of supervision of counties (cities). The validity of supervision will be severely challenged after province governing counties reform. Due to the increase of span of management, provinces are undertaking huge guidance and supervision pressure because of the existence of numerous supervision loopholes; prefecture-level cities would be in the dilemma of invalid supervision due to the change of their authority-responsibility relationship with counties (cities); counties (cities) would be facing the test of supervision level because of lack of supervision capacity, and even some opportunists try to avoid supervision. Choosing specific designation mode is to combine close supervision of prefecture-level cities to pilot counties with distant supervision of provinces to pilot counties.

Third is looking for a good transition for the propulsion of province governing counties reform of counties under the governance of large provinces. Province governing counties reform of counties under the governance of large provinces is the difficulty of reform. On the premise of administrative division not being reformed, the propulsion of province governing counties reform is limited. Developing counties specifically designated in the provincial plan in

the economic society, direct lead of provincial government to government of pilot counties, prefecture-level cities leading party committee, NPC and CPPCC of pilot counties, and efficient departmentalization of prefecture-level cities can alleviate the provincial pressure to some extent, so that the scope of province governing counties reform can be expanded accordingly, which is the transition of promoting province governing counties reform without changing administrative division. Overall, the core content of this pilot of structural reform of province governing counties for most provinces is to give government of pilot counties (cities) the economic and social administration authority of what provincial cities have. The economic and social development affairs of pilot counties (cities) are managed by provinces on the mode of specific designation. The administration organization system and administrative division of pilot counties (cities) stay the same, so as party committee, NPC and CPPCC system, judicial system, cadre management, social stability administration authority and responsibility.

*ii. Difficulties faced by reform of counties specifically designated in the provincial plan*

*Increase of difficulty of balancing interests of prefecture-level cities and pilot counties (cities).* In the reform plan of some provinces, balancing interests of prefecture-level cities and pilot counties is all requested, which is extremely difficult in the actual propulsion. Before the pilot reform, prefecture-level cities spared no effort to support economic and social development of pilot counties (cities) because of highly relevant interests of economic and social development between prefecture-level cities and pilot counties (cities) under their governance. After specific designation of pilot counties (cities), they no longer have connections with prefecture-level cities in terms of revenue. Revenue created by pilot counties are shared between province and pilot counties, while prefecture-level cities are just outsiders. Since the development of specifically designated counties (cities) only affects related economic indexes of prefecture-level cities, and prefecture-level cities can no longer acquire large amount of revenue, they certainly no longer put into resources. We felt that even if provincial government launches award mechanism to encourage prefecture-level cities helping pilot counties (cities), it will not so effective. Moreover, prefecture-level cities have limited authority in terms of the appointment and transfer of major cadres of specifically designated counties (cities), which increase the difficulty of communication and cooperation between specifically designated counties (cities) and prefecture-level cities.

*Rough system.* The relationship between most pilot counties and prefecture-level cities is leading and being led as well as cooperation and competition. According to the requirements of counties specifically designated in the provincial plan, party committee of pilot counties report to prefecture-level cities, and NPC, CPPCC and the system stay unchanged. In this case, economic and social development is managed by provinces while cadres and personnel are managed by cities, which inevitably leads to conflicts, putting both cities and counties into an embarrassing situation. From a few pilot counties (cities) we noticed that NPC and CPPCC system does not make adjustment accordingly, which affects normal performance of rights and implementation of duties of prefectural NPC representatives and CPPCC commissioners. It must have an influence on the economic and social development of pilot counties (cities) on the long run.

*Blocked communication of cadres.* Under the system of city governing counties, the selection and adjustment of county cadres and cultivation and use of reserved cadres are carried out by prefecture-level cities. After counties specifically designated in the provincial plan, it is co-managed by province and prefecture-level cities generally. Since there is competitive relationship between pilot counties and prefecture-level cities, prefecture-level cities will not care as much as they used to be in terms of allocating cadres of pilot counties, which will gradually increase the burden of province. Currently, there are about 30 to 40 county cadres in a county (city), and they are allowed to re-allocate in the scope of prefecture-level city. After province governing counties, there is a link missing in the middle. County-level cadres moved from county to county, county to city and city to province, which resulted many problems of cadre transfer and management.

### **III. A few aspects that the pilot of in-depth province governing counties reform need to strengthen**

In view of province governing counties reform in the past, unilateral delegation of power was hard to implement in real, and the problem of deficient vitality of counties (cities) development has not been solved fundamentally. The major problem was mismatching reform policies, and the key field and link achieved no breakthrough. Province governing counties is a large trend. Places with conditions need to shorten transitional period and finish pilot as soon as possible in order to accumulate experience for full-scale reform.

*i. Strengthening transformation of governmental function  
of pilot counties (cities)*

It must be pointed out that whether the structural reform of province governing counties is effective depends on whether governmental function can achieve actual transformation. We cannot simply consider prefectural economic development issue as administrative division issue, let alone raising unrealistic expectation of the performance of province governing counties system. We need to be conscious to notice that governmental function transformation is the political path of full-scale propulsion of the construction of well-off society, as well as the core of carrying out administrative reform of our country. As to pilot counties (cities) of province governing counties reform, further transformation of function is the premise and foundation of institutional innovation, systematic innovation, mechanical innovation and procedural innovation. Thus, we shall spare no efforts to promote the following works in the pilot. First is highlighting management and service, strengthening social management and public services ability of pilot counties and constructing service-oriented government on the basis of governmental function transformation. Second is promoting in-depth institutional reform of villages and towns of pilot counties according to the requirements of balancing urban and rural development. We need to accelerate the propulsion of expanding power and strengthening town, extend part of administrative function and social administration authority to villages and towns by lawful exploration, and move the center of administrative enforcement of law downwards. Circling around the reform of management and operation mode of institutional organization of the village and town, we need to build up public service platform which aims at promoting economic and social development ability of village and town service.

*ii. Strengthening the design of supervision and restriction system  
of pilot counties (cities)*

Province governing counties reform is a cutting-edge topic for prefectural supervision. The reform enhances the power of counties. But in current pilot plans, the supervision and restriction of county power is obviously not enough. It not only lack of the restriction design from top to bottom, the restriction construction from bottom to top, but also the inter-restriction mechanism of power at the same level. If province governing counties strengthens the county power which lacks of restriction the most and not

providing effective restriction, it will lead to control loss of central government and provinces to counties to some extent. According to the requirement of integration of power and responsibility, that is to say, power comes with responsibility; pilot counties (cities) shall undertake responsibility in accordance with administration authority when expanding their economic and social administration authority. Supervision and restriction of pilot counties needs to be innovative. It needs new design that in accordance with new administrative system.

- Firstly, provinces and cities shall supervise and urge counties (cities) to enhance administration by law and system construction. We shall insist on managing power, affairs and people by system, completing supervision mechanism and strengthening responsibility investigation. We shall complete scientific and democratic decision-making system and increasing government's decision-making level continuously.
- Secondly, we shall carry out in-depth mechanism reform of pilot counties according to the principal of simplifying unified performance and the requirements of mutual restriction and coordination of decision-making power, execution power and supervision power.
- Thirdly, we shall establish provincial supervision system. With regular supervision, irregular spot check, e-government affairs linkage and other method, we can establish complete supervision and restriction system in compliance with government power expansion of pilot counties, standardize power operation and strengthen administrative accountability.
- Fourthly, we shall strengthen the system of making government affairs public, unblock complaints channels reporting by the masses and consolidate social supervision by public opinion.

*iii. Strengthening the establishment of cooperation mechanism of prefecture-level cities and pilot counties (cities)*

Province governing counties reform enables the change of affiliation of pilot counties and original provincial cities. But since they belong to the identical economic plate and their connection of history, culture and social lives, they need further cooperation for mutual development. We shall strengthen the coordination and cooperation of pilot counties and their provincial cities, es-

pecially overall coordination of land utilization, urban-rural planning, industrial distribution, infrastructure construction, public services etc., accelerate information construction, prevent repeat construction, promote reasonable configuration and natural flow of market factors, achieve new city-county relationship of co-construction and sharing of major public infrastructure, complimenting each other's advantages, co-development and mutual benefit and win-win result. Provincial departments need to strengthen innovation of regional coordinative development mechanism and support industrial structure adjustment and fiscal and taxation system innovation that are suitable for administrative structural reform in order to create conditions for provincial cities implementing duties of coordinating regional development.



## **Vertical Government Relationship in China and Germany: A Comparative Perspective**

REN Jin

As one of the fundamental relationship within the national administrative structure, relationship between governments at all levels indicates the authority division among governments. Government structure and administrative system of Germany, a developed country in Europe, are perfect representative and illuminating sample for our study on power and function allocation between governments at all levels in Germany and China.

### **I. Significance, principle and method of power and function allocation between governments at all levels**

#### *i. Significance of power and function allocation between governments at all levels*

Relationship between governments at all levels indicates the authority division among governments. Power and function allocation between governments at all levels means to divide the national power vertically, reflecting the state structure in legislative and administrative level.

Comparing to unitary structure, the political mode, that is the power decentralization in federal system which distributes the state power throughout the country, will act as a whole in external, and takes a better consideration of the regional characteristics and diversity in a large extent. Power allocation among federal members could ensure the freedom of each other and protect the interest of each federal member. Meanwhile, power decentralization in federal system is conducive for citizens' better involvement of politics, and strengthening democratic principle. Additionally, power decentralization in federal system is of great significance in extinguishing power abuse, and promoting the competition between different federal members and different federations and their development. Federal members' authorization to local government is also meaningful in promoting local democracy.

Configuration optimization and rational allocation of unitary authority facilitate the formation of benign vertical interaction and positively influence

the governments at all levels under unitary authority. 150 years ago, Tocqueville said: “No matter how intelligent and capable a government might be, it cannot be perspective of the minutest detail in everything or of a great power on its own”<sup>1</sup>. A well-disposed inter-governmental relationship is based on a scientific power and function allocation between governments at all levels, which is also a normal feature of inter-governmental relationship between countries ruled by law. If power is excessively concentrated in central government or national department, this may lead to power abuse and depress local government. But if the power of central or national government is too weak, local government, which is entitled to great authority, may tend to secession. All these above will impair national power of China and might damage the stable political environment.

*ii. Principle and method adopted in power and function allocation between governments at all levels*

In a federal state, power and function allocation between governments at all levels covers two aspects below: power separation between federation and each federal member on one hand; power separation or authorization between federal members and local government on the other hand. In a unitary structure country, power separation between central and local government will dominate.

In a federal system, generally, the power of federation and each federal members is specified by federal constitution. For example, Article 30 of the Basic Law of the federal government of Germany (referred as Basic Law hereinafter) prescribes the general guideline of authorization allocation between federation and province, that is residual power shall be entitled to each provincial government, unless otherwise specified or authorized hereof, the execution of national power and attainment of national omission shall be the obligation of each provincial government. Relative provisions in the Basic Law clearly define the authority of federal and provincial government, including legislative authority, executive authority, judicial authority and financial authority.

The relationship between central and local government in a unitary structured county, or the relationship between federal members and local governments in a federal country, differs from the relationship between federation

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1 Tocqueville: *Democracy in America (Volume 1)*, Commercial Press 1997, page 100.

and each federal member within a federal country. For the federation, each federal member has its intrinsic power and retain all right and power that not be waived or prohibited by the federal constitution. Each federal member exists as a sovereign political entity relatively. However, relationship between central and local government in a unitary structured country differs from the relationship between federation and federal member in a federal country. Power of local government is authorized by the central government as the local government is not a sovereign political entity itself. Local government is established by the Constitution, or under the approval of central government on local's requirement, and most of its right also comes from authorization of the Constitution or legislation.

Power and function allocation between governments at all levels under unitary system is carried out in two modes: first, divide by the Constitution, including detailed illustration and principled summarization; secondly, divide by power authorization to local government by law.

*Constitution of most country gives principled summarization of the local government's power and function. For example, Article 28 of the Basic Law provides: we should ensure counties' independent right to deal with local affairs within the scope permitted by law. County is entitled to the autonomous administrative right within the legal scope.* State constitutions of some federal country set provisions on the power and function of state and local government.

*Constitution (1982) of China not only gives the principle to be observed in power and function allocation between central and local government, but also illustrates and summarize the duty and function of the National People's Congress and its standing committee, the State Council, local people's congresses at all level and its standing committee, and specifies the state council is responsible for the detailed allocation of power and function between national administrative organization in central and provincial government, autonomy zone, municipality directly under the central government.*

Local government in a unitary system acquires its power and duty by the authorization of the Constitution and law, such as the "*Organization Law of Local Government*", "*Legislative Law*", "*Law of Regional Ethnic Autonomy*", "*Basic Law of Hong Kong Special Administration Region*" and "*Basic Law of Macao Special Administration Region*" of China.

Relevant international convention expressively defines the principles to be observed and method to be used in the power and duty allocation between central and local government and between federation and federal member in

a unitary system. For example, according to the European Charter of Local Autonomy: (1) basic power and duty of local government should be provided by the Constitution or law without prejudice to the nature of power or duty acquired by local government for specific purpose prescribed by law. (2) In legal scope, for the items which do not exclude the power and duty of local government thoroughly, or not exclusively belongs to the function of any other government, local government has sufficient decision-making right. (3) Organization located nearest shall have the priority in implementing the public function of government. Allocation of governmental function and duty shall consider and balance factors such as the scope and nature of the work and the efficiency and economy. (4) Generally, power of local government is sufficient and exclusive, and immune from influence and restriction of any other organization of central or local government. (5) Local government shall be given the right to implementing the authorization from central or regional government considering the real situation the region.

## **II. Comparison of duty and function allocation between governments at all levels of Germany and China**

### *i. Duty and function allocation between governments at all levels of Germany*

In Germany, duty and function allocation between federation and state means the allocation of legislative right. Items such as diplomacy and national security are under the exclusive legislative right of the federation. Each state has no legislative right unless authorized by any federal law expressly.

For the items the federation and the state share the legislative right, such as preservation of culture relics, social relief, agriculture, forest and fishing, land law, land regulation and so on, the conditions of the right execution include: state government could not address certain problem through legislation; solving some problems according to law of certain state may lead to the impairment of interest of other state or group; in order to achieving the unification of judiciary or economy, especially for the those to attain the unification of living condition in an area related to several states. Each state has no legislative right for the items under parallel legislative right of the federation within legislation scope unless federation waives this right.

For the items under the principle legislative right of federation, such as hunting, protection of natural landform and scenic point, land allocation, regional planning and water management, application for residence and visa,

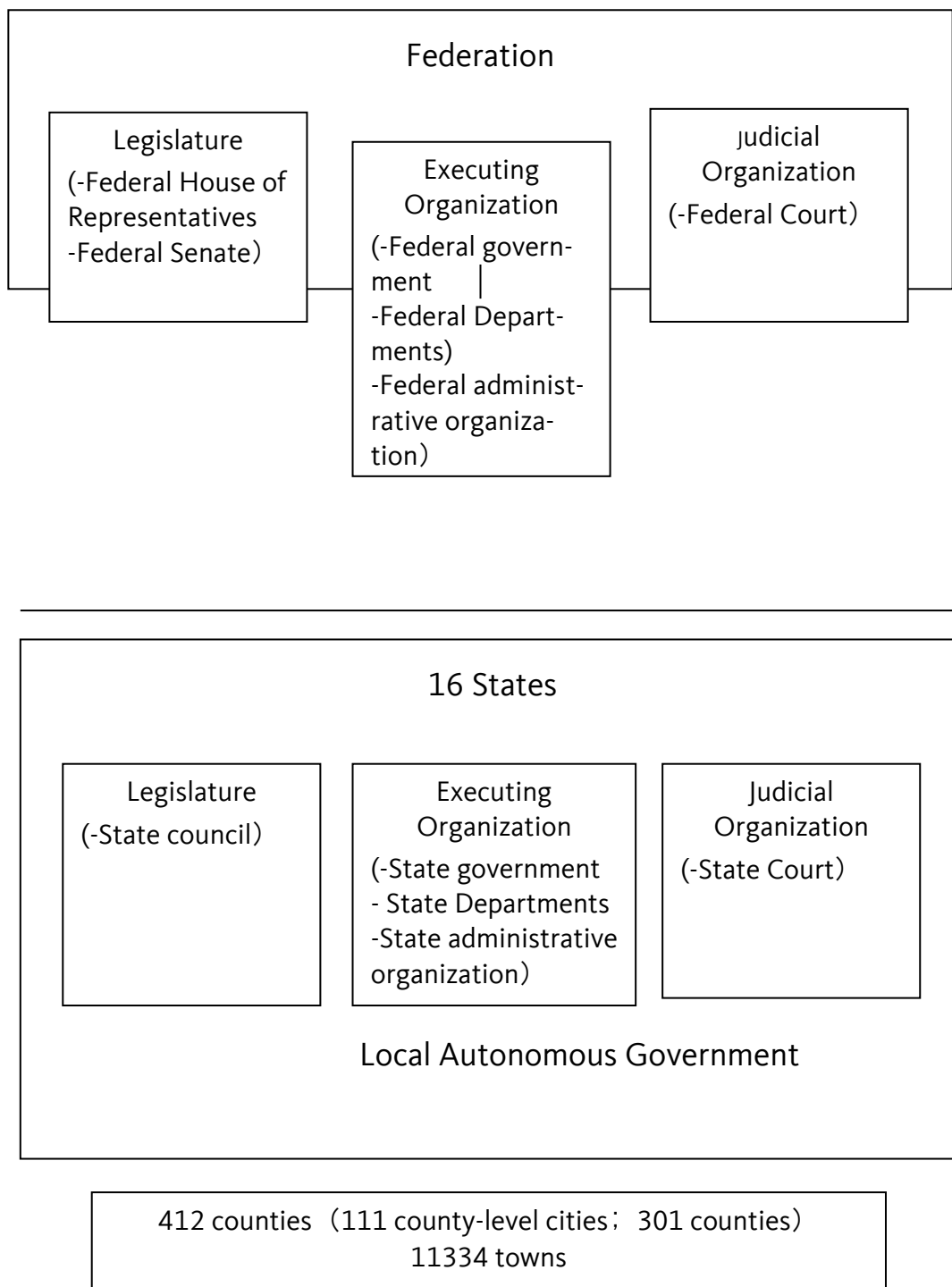
the federation should give principled provision, and detailed requirement should be given by each state.

Secondly, allocation of administrative right. Few works are attained to the federation directly, while majority of works are assumed by each state independently. According to the Basic Law, administrative work of the federation only covers fields as diplomacy, national security, federal finance, federal post and the customs. But the work of each state is relatively heavy and complicated. Specifically, each state have to implement the work within the legislative scope of state, including culture, education, police, town management and regional planning, additionally, they are also charge of the enforcement of federal law, such as the Environment Protection Law and Management Law of Industry and Commerce and the Law for Construction and Planning enacted by the federal government. Each state would implement this work as the administrative work of its own.

Thirdly, allocation of judiciary. In Germany, judicial power is executed by the Federal Constitutional Court, the Supreme federal Court and each federal court and state court. Judicial right of each state is relatively independent. In the federal judiciary system, judicial right is actually implemented by each state court firstly. The state court and local court takes charge of local trial and other cases in which no federation and other state get involved. In each state, there are state constitutional courts charging for the trial of disputes relating to the state constitution. The federation court takes charge of any cases relating to federal law, relationship with foreign country, federal affairs, disputes between federation and state and disputes between different states.

Last, allocation of finance. Federation and state make their budget respectively and independently. Federation and each state shall assume their fees and expenditure arising from work implementation; and Federation shall bear state's fees and expenditure arising from implementing the work delegated by the federation and the federation shall give finance support for major investment project to state and local government.

**Fig. 4.1: Federation, state and local government of Germany**



Data resource: Edited by the European Commission: *Structure and Operation of Local and Regional Democracy (Germany)* (France Strasbourg: European Commission Press 1999 Germany Version, Page11) and adapted from the data from Federal Ministry of Interior of Germany in September, 2011.

Federal government of Germany and 16 states are attached to specific jurisdiction. Federal government located in Berlin governs the affairs such as diplomatic policy, European policy, national security, judiciary, employment, social affairs, tax and health; each federal state takes charge of issues as domestic security, school, higher education, administrative management and local government. Duty of the federal government is focused on the legislation. Each federal state gives its influence on the legislation of the federation through their respective in the Upper House. On one hand, each state implements the federal law as well as the state law. Main reasons are: in the Germany ethnic nation, several independent states emerged in 1871 through union of independent country, and this has made it unnecessary to establish a greater federal administrative system.<sup>2</sup>

Local administrative function should be implemented by county and town government. According to the local autonomy principle of German, the local autonomous right is reflected by: (1) power and function of a town is entitled if the town assumes its obligation on the affairs within the administrative region; (2) county government functioned between the city and local government, acting the supplementary and balanced role. The county should assume all functions and duty out of the reach of town government within the region unless otherwise provided by law. County should take charge of all work relevant to the county region, resident in the county or the standard supply and assistances. The states could require the county and town government to assume certain duty by enacting certain law, but the county and town government could execute these duties within their authority. The state could retain the right to issue certain supervising indication, and the limit of the right shall be specified by law. Some states transfer their authority to city and county government. In the North Rhine-Westphalia, state government do not have normal local office in local government, and state-level city assumes the function and duty of state and city, and the power and function is divided between state and county observing to the illustrating principle.<sup>3</sup>

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2 <http://www.tatsachen-ueber-deutschland.de/en/political-system/main-content-04/the-state-the-legal-system-and-the-citizens.html>

3 Edited by the European Commission: *Structure and Operation of Local and Regional Democracy—German France Strasbourg*: European Commission Press 1999 Germany Version, Page 22.

**Fig. 4.2: Duty and Function Allocation between State and local government of Germany**

Service Item	Organizations Providing Services		
	State government	Local Government	
		County Government	Town Government
General administrative services			
Police	★	★	★
Fire Fighting			★
Civil Security	★		
Judiciary	★		
Civil Registration			★
Statistics	★		★
Voter Registration			★
Education			
Preschool Education			★
Primary School	★		★
Junior High School	★	★	★
Vocational and Technical Education	★	★	★
Higher Education	★		
Adult Education			★
Others			
Social Welfare			
Nursery and Kindergarten			★
Family Welfare Service		★	★
Welfare House		★	★
Social Insurance		★	★
Others			
Public Health			
Hospital	★	★	★
Hygiene	★		★
Residence and Urban Planning			
Residence			★
Urban Planning		★	★
Region/Land Planning		★	★

Transportation			
Road	★	★	★
Transportation	★	★	★
Urban Road			★
Urban Light rail			★
harbor	★		★
Airport	★		★
Environment and Public Hygiene			
Water supply and Wastewater			★
Garbage Collection and Disposal			★
Cemetery and Crematory			★
Slaughter House			★
Environment Protection			★
Consumer Protection	★		★
Culture, Entertainment and Physic Education			
Theater and Music Hall	★	★	★
Museum and Library	★	★	★
Park	★	★	★
Sport and Entertainment		★	★
Religious Facility			
Economic Affairs			
Gas Supply			★
Regional Heating			★
Water supply			★
Agriculture, Forest and Fishing	★	★	★
Electricity Supply		★	★
Economy Promotion	★		★
Trade and Industry			
Tourism			★
Other Economic Affairs			★

Data resource: Edited by the European Commission: *Structure and Operation of Local and Regional Democracy (Germany) (adapted in 1999) France Strasbourg*: European Commission Press 1999 German Version, Page26-28.

*ii. Power and function allocation between central and local government of China*

For the power and function allocation between central and local government, Constitution of China does not specify detailed items, but summarizes that: “power and function allocation between central and local government should give full play to the initiative and enthusiasm of local government and follow the unitary leadership of central government.” Constitution illustrates the power and function of the central governmental organization such as the National People’s Congress and the State Council, and national power authority at all levels and national administrative organization.

The Constitution and Legislative Law frame out the unit and multi-layer legislative system and basic structure of separation of legislative right between central and local government. The National People’s Congress and its standing committee are entitled to legislative right in the central government. Specifically, National People’s Congress enjoys the exclusive right for the amendment of the Constitution, and the State Council, the highest national administrative organization has the right to enact regulations in accordance with the Constitution and laws. Legislative Law gives explicit illustration of the items under the exclusive legislative right of central government.

Local legislative right could be divided into local legislative right and special local legislative right. Pursuant to the Constitution and Legislative Law, the National People’s Congress and its standing committee of each province, autonomy zone, municipality directly under the central government, and some big city may enact local regulation and law considering the facts and actual necessity of the administrative region with no prejudice to the provision of Constitution, law and regulations.

Except for the general legislative right above, three kinds of special regions enjoy greater legislative right comparing to ordinary local government: first, ethnic autonomy zone is entitled to enacting autonomous regulation and specific regulation. Secondly, economic zone is entitled to enacting specific economic laws and regulations. Thirdly, special administrative zones have their legislative right.

**Fig. 4.3: Power and function allocation between central and local government of China**

Item	Organizations in charge or providing services		
	central government	local Government	
		local government higher than county	town government
diplomacy	★		
national security	★		
<ul style="list-style-type: none"> <li>• economic affairs</li> <li>• urban and rural construction</li> <li>• economic and social development planning</li> <li>• budgeting</li> <li>• finance</li> <li>• resource and environment protection</li> <li>• urban and rural construction</li> </ul>	★ ★ ★ ★ ★ ★ ★	★ ★ ★ ★ ★ ★	★ ★ ★ ★ ★ ★
regulation and law	★		
Rules	★	★ provinces and larger cities)	
<ul style="list-style-type: none"> <li>• education</li> <li>• science</li> <li>• culture</li> <li>• hygiene</li> <li>• physical education</li> <li>• family planning</li> </ul>	★ ★ ★ ★ ★ ★	★ ★ ★ ★ ★ ★	★ ★ ★ ★ ★ ★
civil administration	★	★	★
police	★	★	★
judicial administration	★	★	★
Supervision	★	★	
ethnic affairs	★	★	
declare a region of emergency	★		

Data resource: Constitution of the People's Republic of China, Organization Law of Local People's Congresses at all levels and Local People's Government at different levels of People's Republic of China.

Administrative affairs in China are extremely complicated, but the Constitution only defines the function and duty of the State Council and local government in principle. In China, most functions and duties of the state administrative organization in central and provincial government, autonomous region, and municipality directly under the central government are divided by the State Council. Few laws have given specific division of the certain duty and function that shall be assumed by central and local government organization and institution.<sup>4</sup>

Factor that shall be taken into consideration for the State Council in the function and duty allocation of the state administrative organization in central and provincial government, autonomous region, municipality directly under the central government:

1. The geographic area relevant to the affairs leaded or conducted. Central government shall be responsible for the following affairs: national population census, national economy planning, construction and management of large railway and road and large power grid, planning and comprehensive improvement of Yangzi River, Yellow River and other big rivers, coordination and settlement of the environment pollution dispute involving several regions, coordination and integration of pollution prevention and control of national key water basin.
2. Nature of affairs governed. Fields about the national sovereignty such as diplomacy and national security, affairs that are vital for national economy such as finance, customs, national tax, management of foreign exchange, should be controlled by central government directly. And central government could set up accredited agency or branch for management or authorization of local government; education, science, culture, hygiene and physic education, environment and resource protection, urban and rural facility construction and finance, civil affairs, ethnic affairs, judicial administration, family planning, food security and other administrative affairs should be governed by both central and local government and their level-to-level management; tax and other authorization should combine the power division and overlapping enforcement between central and local government; audit, administrative supervision, statistics, public security should continue to be under dual

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4 For example, pursuant to the Article 4 of the Enterprises State-owned Assets Law, State Council should act as the sponsor for the large state-funded enterprises which is vital to the national economy and national security and the state-funded enterprises in the fields of key infrastructure or important nature resources; and the local government should act as the sponsor on behalf of the state for other state-funded enterprises.

control of central and local government, and their business shall be guided dominantly by certain department of central government or local government.

3. Working efficiency of administrative organization. Generally speaking, some affairs which could be addressed by local government efficiently shall be governed by local government; few affairs that is vital for the overall situation of economic or social development should be guided by the State Council and other relevant departments.

4. Restrictive provision of law. Legislative right or administrative right of some items belongs to central government according to law. For example, law reserving matters prescribed by the Legislative Law could not be determined by the State Council, not to mention local government.

### **III. Scientific allocation and standardization of duty and power between governments at different levels**

#### *i. Firmly transform duty and function of government at all levels*

According to the Structure and Operation of Local Democracy and Regional Democracy in European Countries (Germany), duty of the state and local government is comprised of general administrative services, education, social welfare, public health, residence and urban planning, transportation, environment and public hygiene, culture, entertainment, physical education and economic affairs. And some duties and functions are undergoing changes in the duty and function reform and local revolution of local government of Germany.

For a long time, authority boundary between central and local government is vague in China. Thus, a scientific and rational duty allocation among governments in all levels shall focus on the government function transformation. We should continue to separate government administration from the management of enterprises, state assets, public institutions and market intermediary organization, and give full play to the fundamental role of market force in resource allocation.

*ii. Scientifically allocate governmental function and duty among governments at different level*

All work in the central and local government in China are broke down and refined observing to the mechanism of “under unified leadership and level-to-level management”. Generally, same office and organization are set up in government at all levels, and assume the same duty and function, leading to the duty dislocation, vague duty boundary, and duty absence in the upper and lower government. Therefore, there is an urgent demand to reorganization of the duty among central and local government.

Subject to the requirement of promoting the reform on administrative system profoundly, governments at all levels should focus on the key points of management and service considering the actual situation and observing the requirement of promoting the governmental function transformation. Executing obligation allocation between central and local government may consider the factors as provision of law, nature and scope of the work, efficiency and economic efficiency of management and fairness. Function and management right belonged to central government shall be centralized to central government; functions aiming to local government shall be delegated to local government; for the common function shared by central and local government, central government is entitled to the decision-making and supervising right while the local government to the management and executing right.

Central government should reinforce the macro-management of economic and social affairs, and continue to reduce and delegate detailed work to lower government; focus their energy on development of strategic planning, policy and regulations as well as standards and rules; local government should ensure the firm enforcement of policy, law and regulation of central government, and improve the coordination of local economic and social affairs, the enforcement and supervision of enforcement and improve service and management for grass-root and the people.

*iii. Gradually realize the standardization of the relationship between central and local government*

Germany adopts the principle of the rule of law, which gives clear allocation and standardization of duty and function of federation, state and local government.

Take the adjustment of central and local government relationship since the reform and opening-up as an example. In 1987, 13th CPC National Congress put forwards that: “Any problem that could be solved appropriately by lower governments shall be delegated to them for their decision and implementation and this should be taken as a general principle.” For the relationship between central and local government, we should gradually specify the function boundary between central and local government under a unitary leadership, and ensure that local government shall takes full charge of local affairs respectively observing to the general policy and supervision put by central government. The principle above share some points with the “supporting principle” put forwards by the “Local Autonomy Charter of Europe” in 1985, which indicated that organization located nearest shall have the priority in implementing the public function of government, and allocation of governmental function and duty shall consider and balance factors such as the scope and nature of the work and the efficiency and economy. However, the principle that any problem that could be solved appropriately by lower governments shall be delegated to them for their decision and implementation” have not be implement well in practice.

The law establishment of relationship between central and local government is the legal guarantee for a scientific, rational, and stable relationship between central and local government. A modern country ruled of law may be set up after the standardization and legalization of the relationship between central and local government. Then, we will achieve a balance and stable relationship between central and local government. At present, most of the policy, law and regulation of central government are implemented by local government, the same as the authority of central government. However, the absence of standards and law on the power and duty allocation as well as the power execution, have promote the short-term behavior of local government and foster the willful power and interest expansion. Therefore, achieving a clear power allocation between central and local government is one of the objects to be attain in the construction of government ruled of laws.

*iv. Adjust the relationship between governments at all levels  
adapting to situation changes.*

A study on the comparison between local government systems indicates that, relationship between governments at all levels in a unitary structured country or a federal country should be adjusted catering to the environment in change. In recent years, the administrative reform in Germany highlights the

power division and delegation to each state government to realize the power decentralization among states. Some federal state delegated certain function of state (reform of function) to local government, achieving a larger scale reform carried on wider region (reform of function). Some county-level cities have been put under administration of county and many state affairs have been delegated to the bigger county.

Similarly, the promotion of administration reform of China is dispensable from the function adjustment of central and local government and we should give same space for difference function between central and local government, and the management function and scope between governments at all levels.

## Local Government in Germany: Key Features and Current Reforms

Sabine KUHLMANN

### 1. Introduction

The paper provides an overview on important key features of the German local government system and analyses current approaches of reform in the intergovernmental setting. After recalling the traditional local government system in Germany, a major approach of reform will be examined: the (vertical) re-definition of local governments' functions in relation to central/ State government, that is the devolution of state tasks to local authorities and changes of local governments' position in the intergovernmental setting, will be considered.

### 2. Basic Features of the German Local Government System and State-Local-Relations

Within the German federal and highly decentralized political system, the municipalities (*Gemeinden*), the county-free cities (that is, standing outside county boundaries = *kreisfreie Städte*), and the counties (*Kreise*) enjoy a constitutional guarantee as institutions of local government or, put in the traditional German parlance, "local self-administration" (*kommunale Selbstverwaltung*). This implies the right of the municipalities (and to a somewhat lesser degree of the counties - *Kreise*) "to attend all matters relevant to the local community in their own responsibility within the frame of the existing legislation" (Art. 28, paragraph. 2 Basic Constitutional Law). This "general competence clause" amounting to an "all purpose" model (*Allzuständigkeit*) mirrors a historical path dependency that dates back to the early 19th century, when the municipalities were recognized and mandated as functionally strong, multi-purpose *organizations*. Until today, a peculiar feature of the German model can be perceived in the fact that both "delegated" state tasks and local self-administration functions are institutionally integrated at the local level (Wollmann 1999). With particularly the counties and the county-free cities (*kreisfreie Städte*) embodying and carrying out this "dual function" model, the counties in most *Länder* also serve, with regard to some of the "delegated"

functions, as bottom level State administration. With this functionally strong model of local self-administration/local government, the German system belongs, along with the Scandinavian countries, Austria, Switzerland, and the Netherlands, to the 'North Middle European Group' of local governments (Hesse/Sharpe 1991: 603-621; Heinelt/ Hlepas 2006: 21-42).

The position of this two-tier local government system, that is, the municipalities and the counties, in Germany's intergovernmental setting is marked by some ambivalent, if not contradictory features. Germany's federal system consists, in constitutional terms, of two layers: the federal level (Federation, Bund) and the (16) *Länder*, while the municipalities and counties are, in terms of constitutional law, regarded as institutionally belonging to the organizational body of the *Länder*<sup>1</sup>. In practical and functional terms, however, the municipalities constitute a "third" layer and level by which the bulk of public tasks (including most of the pertinent legislation) is carried out. This primacy of the two-tier local government structure in its key role to implement and "deliver" public policies is also evidenced and supported by the fact that, under the Federal Constitution of 1949, the federal level is not allowed, with only a few exceptions, to have field office of its on the *Länder*, regional or local levels. In a similar vein, the *Länder* have largely refrained from establishing their own field offices on the sub-regional or local levels in leaving most public tasks to be carried out by the local authorities. In fact, in internationally comparative terms, because of the combination of political and functional strength to which, at least in most *Länder* with marked territorial reforms, the criterion of "territorial viability" may be added (see below), the German local government model can be counted among the strongest types of local government in Europe, besides the Scandinavian countries, particularly Sweden.

Yet, the autonomy of the local government units in carrying out their tasks has been restricted and constrained in crucial dimensions. First, Germany's local government level has been marked by a dense (and ever denser) array of regulations the layers and "cascades" of which are made up of federal legislation, *Länder* provisions and more recently European Union norms. Besides Germany's *Rechtsstaat* tradition, a main driver for the growth and persistence of regulation comes from the peculiarity that, under the German Constitution, the federal level is not allowed to have regional or local field

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1 With the exception of the city states ("*Stadtstaaten*") Berlin, Hamburg and Bremen which combine the status of municipalities with the constitutional status of *Länder*.

offices of its own to organizationally ensure the implementation of federal legislation and policies and, thus, resorts, too often detailed, if not over-detailed legal regulation as a crucial resource to direct and control implementation. Another crucial instrument of centralized guidance over the local level operations is public finance and the status of local government finance within it. A third dimension crucially impinging on central government/local government relations is the kind of supervision which the State, that is in the German case first of all the Land authorities, exercise over the decisions and activities pursued by the local authorities. With regard to their local self-government matters proper the local authorities are subject merely to the "legality control" which, however, becomes the more penetrating the more detailed the legal provisions are (which is particularly the case in self-government matters which the local authorities are legally mandated – as "mandatory" tasks – by the pertinent federal or Land legislation. Concerning "delegated" tasks of which the local authorities are put in charge to carry out the influence and guidance of the State authorities over the local level actors goes much further both in terms of instructions given how to implement the tasks and in terms of subsequent review. In fact the type of "delegated" tasks has the potential to "integrate" the local authorities into the State structure to the point of, as it were, "satellite" them, that is, of turning them into "local agents of the State".

### **3. Particularities of the East German transformation process**

Due to the unprecedented transformation process in East Germany, local government development in the last decade has differed from West Germany. In East German communes, public employment soared dramatically following reunification, in some large cities to as much as 5.000 or even 10.000 employees. This primarily refers to the fact that the social and cultural facilities of the former GDR, which had been managed by state institutions or nationally owned enterprises, were now (re) transferred to the local authorities ("recommunalized"). As a result, East German municipalities (and counties) had significantly more public personnel than their West German counterparts (Kuhlmann/Wollmann 1999). Thus, in 1991, the "personnel density" of East Germany local authorities amounted to 42 public servants per 1.000 inhabitants and was, thus, double of that in West Germany (21). In the subsequent period, both West and East German public authorities were increasingly faced with budgetary problems and the need to cut back public spending and personnel. Their enormous efforts at cutback management can

be seen from the fact that in East Germany the density of local public personnel per 1.000 inhabitants was halved between 1991 and 2001. Notwithstanding these enormous effects of cutback management, the “density” of local employment in East German municipalities, amounting to 21 employees per 1.000 inhabitants, continues to be remarkably higher than in Western communes (17).

**Tab. 5.1: Public Employment in German Local Authorities 1991-2001**

Year/ Change	East Germany		West Germany		Germany*	
	Number in 1.000	<i>per</i> 1.000 <i>inh.</i>	Number in 1.000	<i>per</i> 1.000 <i>inh.</i>	Number in 1.000	<i>per</i> 1.000 <i>inh.</i>
1991	662	41,6	1334	20,8	1996	25,0
1994	476	30,7	1330	20,2	1806	22,1
2001	309	20,6	1161	17,2	1470	17,8
<b><i>Change 1991- 2001 in %</i></b>	<b>-53,3</b>		<b>-13,0</b>		<b>-26,4</b>	

\* Note: differences due to rounding

Source: Statistisches Bundesamt 1991-2001

#### 4. Territorial Structure of the local level

As was already pointed out, the German local government system is characterized by a two-tier structure within which cities and municipalities serve as the bottom (local) level of self-administration whereas the counties are the upper (supra-local) tier – with the county-free cities (*kreisfreie Städte*) combining the municipal and the county functions. During the late 1960s and early 1970s the *Länder* to whose power it constitutionally falls to decide the territorial format of “their” municipalities and counties embarked upon territorial reforms which, reflecting their individual responsibility, showed significant variance between the *Länder*. As a result of these reforms, the local government boundaries are quite heterogeneous today. Whereas some German *Länder* (for instance North Rhine Westphalia with 373 municipalities embracing 48,000 inhabitants on the average) belong to the North European Type

of local government structures, others (for instance Rhineland-Palatinate with 2,400 communes and 1,700 inhabitants on average) are closer to the South European model. This is mainly because the *Länder* governments in these parts of Germany refrained from coercive mergers of communes. In those *Länder* inter-municipal cooperative bodies (*Verwaltungsgemeinschaften*, *Verbandsgemeinden*) were created as an additional institutional layer between the counties and the municipalities, meant to serve as administrative “muscle” of their member municipalities.

**Tab. 5.2: Institutional layers of the German local government system (2002)**

level	number of population	
	abs. in 1.000	average population
Counties	323	256.000
County-free cities	117	n.a.
Inter-municipal Cooperation-bodies*	1708	n.a.
Municipalities	13299	6.000

\* Without municipal special purpose associations

Source: Deutscher Städtetag 2002; Statistisches Bundesamt 2004.

By the end of the 1990s, further attempts at territorial reform have been undertaken in East Germany. Those were meant to overcome the atomized structure of local government through amalgamations of municipalities. For example, in the course of the territorial reforms in Brandenburg, the number of municipalities has been reduced from 1,739 (including 1,169 municipalities with less than 500 inhabitants) in 1990 to 419 in 2010 (cf. table 5.3). Similar steps have been pursued in Saxony where after the completion of a voluntary period legislations for redrawing local government boundaries have likewise come into force and the number of municipalities was reduced by 70%.

At the county-level, too, significant reform steps have been undertaken, particularly in Eastern Germany, in order to adapt the fragmented territorial structure to the new competencies of the counties after re-unification.

**Tab. 5.3: Territorial Structure and changes of the municipal level in Germany**

State	No. Of Municipalities		Change 1990-2010		Average no. of inhabitants 2010*	No. of inter-municipal bodies (2010)	% of municipalities belonging to an inter-municipal body in 2010
	1990	2010	Abs.	in %			
Brandenburg	1739	419	-1320	-76	6052	53	64,7
Mecklenburg-Vorp.	1149	814	-335	-29	2064	78	95,0
Sachsen	1626	485	-1141	-70	8701	99	51,7
Sachsen-Anhalt	1270	345	-925	-73	6991	45	73,9
Thüringen	1699	951	-748	-44	2407	121	87,1
all East German Länder	7483	3014	-4469	-60	3517	424	81,5
Baden-Württemberg		1102			9755	270	82,6
Bayern		2056			6089	313	48,0
Hessen		426			14256	-	0,0
Niedersachsen		1024			7785	137	71,8
Nordrhein-Westfalen		396			45447	-	0,0
Rheinland-Pfalz		2306			1755	163	97,9
Saarland		52			19942	-	0,0
Schleswig-Holstein		1116			2542	87	92,6
all West German Länder		8478			13446	970	49,1

\* Inhabitants of the county-free cities included

Source: Statistisches Bundesamt 2010 and own calculation

## 5. The responsibilities of local government

Compared with other local government systems German local government is well-known for its multi-function model and an unusually broad range of duties and responsibilities discharged by the cities, municipalities and counties.

**Tab. 5. 4: Territorial Structure and changes of the county-level in Germany**

State	no. of counties		change		average no. of inhabitants after reforms (in 1,000)
	prior to the reforms*	2010	abs.	%	
Brandenburg	38	14	-24	-63,2	143
Mecklenburg-Vorpommern	31	12	-19	-61,3	103
Sachsen	48	10	-38	-79,1	292
Sachsen-Anhalt	37	11	-26	-70,2	166
Thüringen	35	17	-18	-51,4	116
East Germany in total	189	64	-125	-66,1	164
Baden-Württemberg		35			250
Bayern		71			126
Hessen		21			222
Niedersachsen		38			183
Nordrhein-Westfalen		31			340
Rheinland-Pfalz		24			125
Saarland		6			172
Schleswig-Holstein		11			202
West Germany in total	409	237	-172	-42,0	203

\* For East Germany: 1990, for West Germany: 1968

Source: Wollmann 2004: 125; Büchner/Franzke 2001: 238; Statistisches Bundesamt 2010; own calculation

This reflects a main feature of the German constitutional and administrative tradition within which legislation is “centralized” at the federal level, whereas public administration and policy implementation, including the execution of federal laws and policies, falls to the *Länder* and particularly to the communes. According to estimates, approximately 70 to 85 percent of federal and State laws (as well as most of EU legislation) is executed by local governments (cf. Schmidt-Eichstaedt 1999, 330). Local governments have been,

from the 1960s onwards, discharging a growing number of tasks, which previously fell to the *Länder*-administration. This applies particularly to public welfare and health policy, but also to public housing and environment protection. Today, the main function of local governments are to be seen in welfare policy, especially in child and youth care, care of old, frail and disabled persons, in building and housing policy, urban planning and public transport (see table below). We must, however, take into account that a considerable part of local welfare services (e.g. kindergartens, care for the elderly, youth hostels) are not rendered by public agencies but – according to the "subsidiarity principle" – by non-public organizations, thus limiting the municipal sector, in principle, to an "enabling" (and funding) function.

**Tab. 5.5: Local government function measured by sectors of employment (2001)**

Sector of Employment	East Germany		West Germany		Germany**	
	Number in 1.000	Share in %	Number in 1.000	Share in %	Number in 1.000	Share in %
general administration	52,3	16,94	183,8	15,83	236,1	16,06
public security	26,0	8,41	88,2	7,60	114,2	7,77
schools	22,4	7,26	96,5	8,31	118,9	8,09
science, research, culture	18,1	5,86	51,5	4,43	69,6	4,73
social services/ Welfare	58,8	19,05	193,8	16,69	252,6	17,19
public health, sports, recreation	17,7	5,74	57,1	4,92	74,8	5,09
housing and building policy, public transport	25,0	8,09	95,5	8,23	120,5	8,20
public facilities, economic promotion	20,6	6,67	83,5	7,19	104,0	7,08
public enterprises	0,9	0,30	11,2	0,97	12,1	0,83
special institutions*	66,9	21,69	299,9	25,83	366,8	24,96
<b>Total**</b>	<b>308,6</b>	<b>100,00</b>	<b>1161,0</b>	<b>100,00</b>	<b>1469,7</b>	<b>100,00</b>

\* Hospitals and Public Enterprises with commercial double entry book-keeping

\*\* Note: differences due to rounding

Source: Statistisches Bundesamt 2001

Traditionally, German municipalities offer a multitude of local public services in their own “*régie*” - the “Regie-Model” thus being the predominant model of public service delivery in Germany. This is especially true for the public utility sector (water, energy, waste management), whereas social services are mostly provided by non-profit actors whereas local governments are restricted to an enabling and financing function (see further above). Public utilities are usually part of the multi-purpose local government model forming a

“protected market” within which the municipality acts as the sole supplier and enjoys a quasi-monopolistic status (Wollmann, 2002). Until the 1998 Energy Act (*Energiewirtschaftsgesetz*), which was aimed at implementing the respective EU-policy and thus substituting the law from 1935, more than 85% of the German population’s energy demand had been met by public suppliers most of which were a part of the “*Stadtwerke*” (see Bonde 2002, 234).

This model of local government “self-production” was however witnessing dramatic incisions resulting from EU-liberalization, NPM-reforms and local cutback policies. Privatization and outsourcing of local public services has particularly affected the public utility-sector in Germany (electricity, gas, water supply, waste disposal, public transportation). Due to EU-liberalization and the respective Federal legislation, these protected markets in the utility sector have been opened to market competition. In the energy sector not only have nearly all local companies meanwhile been formally privatized (as Ltd. companies – GmbH - or incorporations - AG) but also the sale of shares to private companies (“*materielle Teil-Privatisierung*”) is particularly advanced in this policy area. According to a survey conducted by the German Institute of Urban Studies (Difu) only 30% of municipal energy companies are still entirely the property of the cities whereas more than 70% have external share holders (for details see Libbe et al 2004, 75). Municipalities have minority holdings in roughly 20% of energy suppliers to big cities in Germany. Although the time honored “*Stadtwerke*” have not yet completely disappeared from the local landscape, energy supply in Germany is increasingly determined by private companies, especially by four big groups acting as regional monopolies (E.ON, RWE, EnBW and Vattenfall), whereas local governments have been partially displaced and lost their steering capacities. Private firms hold shares of nearly 40% of the cities’ companies and every tenth municipal company (11%) is, through a majority holding, the property of private firms (for details see Universität Potsdam/KGSt 2003, pp.22.). This conspicuously mirrors the increasing role of private actors in the local arena and local governments’ loss in powers and influence.

## 6. Local Democracy

In international comparisons, the German local government system is considered a ‘politically strong’ model (Wollmann 2008), which is inter alia reflected by the relatively high and stable turnout of local elections (60-70 per cent). A further indicator is the increasing importance of political parties in

the local councils amounting to what has been labelled as a 'local parliamentarism', similar to the national level. Political strength in general arises from the important position the German local government occupies within the entire democratic system and the political culture largely based on community identity and democratic participation at 'grass roots level'. However, traditionally the German model is shaped by the concept of a representative democracy according to which the predominant mode of citizens' participation is the right to vote the local council, whereas elements of direct democracy are weakly developed. The German municipal charters, which fall to the legislative competence of the *Länder*, are – for historical reasons – in some *Länder* inspired by the model a local presidential system showing strong elements of executive leadership and, particularly in the small communes, of consensus democracy (South German Municipal Charter). In others, they resemble more the type of a local parliamentary system (North German Municipal Charter) marked, specifically in the bigger cities, by party competition and patterns of majoritarian democracy. Table 5.6 summarizes the major elements of the 'traditional' German local government system

## 7. Further Decentralization of State Tasks

The scope and plenty of tasks of the municipalities and counties point at and substantiate the strong functional standing which local government has in the intergovernmental setting. Territorial re-organizations as well as the more recent devolution of state tasks have contributed to further strengthening the traditional multi-purpose profile of local governments. After a first wave of so-called 'functional reforms' in the 1970s in West Germany, in the course of which major state (*Länder*) functions have been devolved from the *Länder*-governments to the local level, German reunification and recent devolutions projects of most of the German *Länder* have initiated further decentralization. The state of Baden-Württemberg has played a pioneering role (see Banner 2006, 125-144). On 25 March 2003, the Minister President of Baden-Württemberg, *Erwin Teufel*, presented plans for a major re-organization and a complete re-distribution of tasks between state and local government, prelude to a whole series of equivalent reform initiatives in other German states. The core element in this so-called '*Teufel Reform*' was the complete dissolution of 350 of a total of 450 special-purpose state authorities, whose functions and personnel were transferred to the 35 counties and 9 county-free cities (see Bogumil/ Ebinger 2005). According to first implementation studies, counties have meanwhile just about doubled their staff, which is to be regarded as a substantial upgrading of the county level in terms of

personnel and competencies. At the same time, the State government in Bade-Württemberg is being rolled back to 'core functions', and will maintain own de-concentrated single-purpose administrative units only in the fields of tax administration, police and justice. The reform package has thus resulted in a clearer institutional separation of State functions and local government tasks. It has notably contributed to simplify and streamline the sub-national institutional landscape in Germany.

**Tab. 5.6: The traditional German Local Government System**

<b>criterion of analysis</b>	<b>properties</b>
<b>territorial structure</b>	<ul style="list-style-type: none"> <li>- 323 counties</li> <li>- 117 'county-free' cities</li> <li>- 12,682 municipalities</li> </ul>
	<ul style="list-style-type: none"> <li>- differences between the Länder (partly North/ partly South European model)</li> <li>- North Rhine-Westphalia: 373 municipalities with 48.000 inh.</li> <li>- Rhineland Palatinate: 2.400 municipalities with 1.700 inh.</li> </ul>
<b>functional responsibilities/ state-local relations</b>	<ul style="list-style-type: none"> <li>- communes as 'multi-function'/ 'all-purpose' institutions</li> <li>- integration of state and local self-administrative tasks</li> <li>- few single purpose state agencies</li> <li>- North Middle European Group of local governments</li> </ul>
<b>model of service delivery</b>	<ul style="list-style-type: none"> <li>- local self-production ('Regie')</li> <li>- exception: social services (non-profit-actors)</li> <li>- 'Municipal Utilities' (<i>Stadtwerke</i>) completely owned by local governments (utility sector)</li> </ul>
<b>administrative regime</b>	<ul style="list-style-type: none"> <li>- rule of law (Roman Law tradition)</li> <li>- Weberian model; legalist culture</li> <li>- tradition of strong decentralized structures, subsidiarity principle</li> </ul>
<b>local political system/ democratic regime</b>	<ul style="list-style-type: none"> <li>- representative democracy (only few exceptions)</li> <li>- partly presidential (South); partly parliamentary (North)</li> <li>- partly consensus-oriented (Southern/ small LGs); partly majoritarian (Northern/ bigger LGs)</li> </ul>

Compilation by the author

Nevertheless, the decentralization has proved limited in many respects. On the one hand, it is a 'pseudo' or 'false' decentralization in the sense that local councils are not granted any rights of political decision-making and control regards the new tasks transferred to them by State governments. Their 'Janus-faced' profile (see section 3), being de-concentrated State agencies on the one hand and local self-government institutions on the other, was reinforced, particularly with regard to the former one. Hence, the German counties mainly benefit from the devolution policies in their institutional role as the lower tier of state administration, whereas their local self-government profile and discretion are not affected. The reforms have insofar not contributed to enhance political accountability and democratic control, since State and local government tasks continue to be institutionally 'fused', to an even increasing degree.

Furthermore, the intermediate or regional level of State administration located in the four administrative districts (*Regierungspräsidien*) has been maintained and even strengthened in Baden-Württemberg. Instead of streamlining these territorial offices of State-government and thus completing the decentralization process, their functional responsibilities and human resources have considerably been boosted by the reform. This can also be explained by the fact that the State government in Bade-Württemberg has renounced any territorial reorganization in the direction of creating more viable regional-scale counties, as this is being envisaged, for instance, in the State of Mecklenburg-Western Pomerania (cf. Kuhlmann 2009). Accordingly, an intermediate level of State administration is still regarded necessary in order to guarantee effective State supervision and coordination. Finally, it should be added that developments in Bade-Württemberg also differ substantially from the reforms undertaken in other German States. For example, in Lower Saxony the intermediate-level State authorities have been dismantled, which has, however, not resulted in streamlining the sub-national institutional system but has brought about an increase in the number of special-purpose state authorities, greater fragmentation and sectoralisation of public administration (Bogumil/Kottmann 2006).

Concerning efficiency and possible savings expected from the decentralization of State tasks there is on the one hand evidence for improvements. The transfer of state tasks in conjunction with a State-imposed so called 'efficiency yield' (*Effizienzrendite*) of no less than 20 per cent in Bade-Württemberg produces, as it were, automatically cost savings for the German *Länder* governments who get rid of costly personnel and functions. On the other hand, the local governments can only achieve these savings through severe

cutbacks of personnel and spending not least by privatizing or outsourcing local services or diminishing service quality. Moreover, German local governments have faced a severe financial crisis during the 1990s, which has also obliged them to reduce non-mandatory services and, in extreme cases, has limited them to discharging delegated State functions. Against this background, empirical findings provide evidence for a decreasing policy effectiveness resulting from cutback-driven decentralization policies of the German *Länder*, but also from the reduced leverage single-purpose policy actors have within the multi-purpose local government system. Since local actors obviously give priority to attempts at reducing spending and relieving budgets, the quality and effectiveness of policy implementation in individual sectors of public activities (e.g. environmental protection, social integration etc.) is inadequate and even diminishing (see Bauer/Bogumil/Knill/Ebinger/Krapf/Reißig 2007).

## 8. Conclusion

In this concluding chapter, we address the question as to whether the institutional reforms scrutinized in this article resulted in a transformation of the German local government system or whether there is persistence and path-dependence. The further decentralization of state tasks can be considered as significantly supporting and reinforcing the traditional model of territorial organization and self-administration. At least in some *Länder*, not only the sub-national institutional landscape was significantly streamlined and the single purpose State administration rolled back, but also local governments' mandate of service provision and their multi function profile upgraded. Hence, there is evidence that the traditional principle of 'territoriality' within the German system was even strengthened. However, one could argue that these steps of a predominantly 'administrative decentralization' are still too limited to countervail the losses of local influence and functions. Therefore, it seems on the one hand necessary to enhance local governments' room for manoeuvre in terms of resources and finance. On the other hand political powers and decision-making competencies should not only be granted to the directly elected mayors, but also to the local councils (Wollmann 2008), thus moving from an 'administrative' to a real 'political' decentralization of State functions.

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## **Local Finance in Germany**

Gisela FÄRBER

### **1. Introduction**

Local finance in Germany is highly interconnected with the financing of the Federation and the Länder (states). The German financial constitution is characterized not only by the centralization of legislation of the “normal laws” and the decentralization of the execution of federal laws, but also as a system of centralized tax laws and decentralized and shared tax revenues. Local governments (county free cities, cities and villages within counties, counties, and other associations of communities) are – from the perspective of the Basic Law (constitution) - part of their states and their financial and budgetary competences fall under the specific regulation and supervision of their respective states.

Table 1 shows the expenditures and revenues of the Federation and the self-administered social insurances as well as of the states and local governments in 2012. Municipalities and counties spent almost 200 billion Euro, which makes up about 20% of total government expenditures. Their tax revenues amounted to only 74 billion Euro, covering only 38% of local expenditures. The grants received are amount to much more than the proper tax revenues and cover about 60% of local expenditures.

This chapter explains the rules of the German financial constitution regarding the distribution of taxes and the multi-level financial equalization schemes. The next section deals of the distribution of tax sources and tax revenues and the fiscal equalization among the states. Section 3 presents the patterns of local fiscal equalization within the Länder. The chapter closes with the actual discussion of problems and proposed reforms.

### **2. The German financial constitution: The revenue side**

The German financial constitution is a multi-level system of tax sharing and tax distribution under centralized tax legislation. The Federation has the right to legislate on almost all matters concerning tax bases and tax rates.

**Tab. 6.1: Public sector expenditures and revenues in 2012**

expenditure/revenues millions of Euro	Total	Federa- tion	social insur- ances	Länder	local govern- ments
personnel expenditures	235,949	42,725	18,075	122,454	52,695
interest payments	69,709	42,566	174	22,544	4,426
current transfers to public budgets	514,462	169,730	203,813	93,127	47,793
transfer payments to others	472,343	52,246	299,799	35,037	60,010
investment expenditures	43,506	8,225	957	13,333	20,992
transfers for investment exp.	41,042	16,582	147	21,690	2,624
Loans	10,810	3,080	3	6,319	1,408
total expenditures	1,182,226	356,353	520,655	325,437	196,864
tax revenues/social insu- rance contributions	1,022,016	285,626	419,954	215,692	74,361
received current grants	537,928	29,680	313,044	84,104	112,234
received capital grants	22,779	1,023	5	12,327	9,424
total revenues	1,171,701	337,915	536,541	316,559	197,770
financial balance	-10,500	-18,394	15,836	-8,848	906
net borrowing	20,962	23,891	0	-2,465	-465

Source: Federal Statistical Office: FS 14.2, 2012

Exceptions exist only for the right of the states to determine the rate of the land acquisition tax and to regulate the local expenditure and consumption taxes (dog tax, beverage tax, tax on public amusements, second home tax, hotel tax and so on). Municipalities can decide about the tax rates of the latter and about the local multipliers on the federally uniform tax bases of the local business tax and local property taxes A (agricultural enterprises) and B (real assets).

Tax revenue competences are distributed for several taxes as follows:

- The Federation receives the revenues of the excise taxes (alcohol, mineral oil/energy, tobacco, coffee), the insurance tax, and since 2009 the motor vehicle tax,

- the Länder receives the inheritance and gift tax, the tax on gambling, the land acquisition tax, the beer tax, and – until 1996 - the wealth tax;
- local governments receive the revenues of the property tax, the local business tax (minus trade tax apportionment) and the local expenditure and consumption taxes.

71% of the total tax revenues are collected as so-called ‘joint’ taxes: The Federation, the Länder and the municipalities share the revenues of the personal and the corporate income tax, and the turnover tax. according the share outlined in Table 6.2.

**Tab. 6.2: Percentages in shared taxes in Germany**

	Federation	Länder	local governments
personal income tax	42.5%	42.5%	15%
capital gains tax	44%	44%	12%
corporate income tax	50%	50%	-
turnover tax*	48.41%**	49.39%**	2.2%

\* after 1%-point in favor of public pension scheme, flexible shares for Federation and Länder

\*\* plus fixed amounts in favor of the Federation at the burden of the states

Source: Federal Ministry of Finance

The tax revenues collected by the states are equalized horizontally by the formula-based state fiscal equalisation scheme and supplemented by vertical grants from the federal budget<sup>1</sup>. All told 64% of the local fiscal capacities are included into state fiscal capacity. In addition the Federation pays special supplementary grants in order to compensate for special burdens (costs of German division, special burdens of unemployment, above average costs for

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1 See Bundesministerium der Finanzen: The Federal Financial Equalisation System in Germany [[http://www.bundesfinanzministerium.de/Content/DE/Standardartikel/The-men/Oeffentliche\\_Finzen/Foederale\\_Finanzbeziehungen/Laenderfinanzausgleich/The-Federal-Financial-Equalisation-System-in-Germany-.pdf?\\_\\_blob=publicationFile&v=2](http://www.bundesfinanzministerium.de/Content/DE/Standardartikel/The-men/Oeffentliche_Finzen/Foederale_Finanzbeziehungen/Laenderfinanzausgleich/The-Federal-Financial-Equalisation-System-in-Germany-.pdf?__blob=publicationFile&v=2)],

the political governance of small and underperforming states). Since 2010, special grants have been paid to those five states which are highly indebted in order to help them to achieve a balanced budget by 2020.

In addition to tax legislation, distribution of tax revenues, and the basic rules of fiscal equalization the Basic Law also regulates the public debt of the Federation and Länder. In 2009, a new regulation for public debt was adopted requiring the Federation reduce its deficits to a maximum 0.35% of GDP from 2016 and that the states balance their budgets from 2020. Exceptions are permitted for borrowings in times of crises and after natural disasters<sup>2</sup>. Local governments that have introduced a double book-keeping system are permitted to borrow as long as the economic result is positive. Moreover, the new European fiscal compact limits the total public sector deficit in Germany to 0.5% of GDP, effective as of 2014<sup>3</sup>.

### **3. Local revenues and financial needs in detail**

Although local governments should first cover the costs of local public goods and services through fees and charges the amount of those are of minor importance (except for water provision, sewage, garbage collection and local public transport) because of the typical characteristics of public goods and their distributional problems. State regulations require that the user fees must not exceed the production costs of the specific services delivered.

The above described tax revenues are not sufficient to finance local service production costs. Therefore the Basic Law foresees that the states must share their share of the revenues of the joint taxes (after state fiscal equalization) with their local governments. This regulation is open to specific local fiscal equalization schemes dependent on the diverging degrees of decentralization of local responsibilities among the states. The regulation centralizes revenues at the level of the Länder in order to establish horizontal equalization measures through vertical grants (see below) because the collected tax

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2 See Bundesministerium der Finanzen: Compendium on the Federation's Budget Rule as set out in Article 115 of the Basic Law [[http://www.bundesfinanzministerium.de/Content/DE/Standardartikel/Themen/Oeffentliche\\_Finzen/Schuldenbremse/2012-06-14-kompendium-en.pdf?\\_\\_blob=publicationFile&v=3](http://www.bundesfinanzministerium.de/Content/DE/Standardartikel/Themen/Oeffentliche_Finzen/Schuldenbremse/2012-06-14-kompendium-en.pdf?__blob=publicationFile&v=3)]

3 See Bundesministerium der Finanzen: Fiskalvertrag [[http://www.bundesfinanzministerium.de/Content/DE/Themen/Europa/Stabilisierung\\_des\\_Euroraums/Neue\\_haushaltspolitische\\_Ueberwachung/Fiskalvertrag/fiskalvertrag.html](http://www.bundesfinanzministerium.de/Content/DE/Themen/Europa/Stabilisierung_des_Euroraums/Neue_haushaltspolitische_Ueberwachung/Fiskalvertrag/fiskalvertrag.html)]

revenues are not based on the financial needs of local governments but on federal tax policies.

The constitutional rules for the distribution of tax revenues don't foresee considerable taxes for the counties and other associations of local authorities. Counties receive only the revenues from the tax on hunting and fishing, amounting to minor revenue of 12 million Euros in 2012. Counties do not have the right to levy a proper multiplier on local taxes. The expenditures of local authority associations that are not covered by fees and charges and grants from local fiscal equalization are financed by allocations based on the fiscal capacity of each individual member. Details concerning the base of the county allocations are regulated in the fiscal equalization laws of the states. The county allowance rates actually applied range from about 40 to 70 per cent.

Borrowing is the instrument of last resort for financing local goods and services. The legal rules of the States applicable to local authorities only allow credit for investment expenditures and these have to be redeemed later. The volume of planned borrowing has to be approved - together with the whole local budget - by the local control administrations of the states<sup>4</sup>. Deficits covering current expenditures are generally forbidden and are only accepted temporarily in the event of a recession. Local governments with chronic current deficits risk losing their budgetary independence and being placed under the administration of a state commissioner.

The crucial question, however, is how to find out how much financial means a local authority needs, not only in absolute terms but also vertically in relation to the other tiers of the German multi-level state and horizontally compared with neighboring municipalities. As all local authorities dispose about the right to increase or decrease their revenues by changing fees and charges and tax rates, or – in case of the local government associations – the rate of the respective allocations, they can change the volume of their revenues by making the appropriate decisions. Democratic elections on the one hand and controls by the court of audits on the other hand ensure the efficiency of spending. Other regulations are intended to protect local authorities from the financial burdens of new regulations passed by the upper tiers:

- The Basic Law prohibits the Federation from directly implementing new responsibilities for local governments (Art. 84 I No. 7 BL).

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4 Organized by the county administrations for the villages and cities in their territory.

- All constitutions of the states contain the principle of “Konnexität”, stipulating an equalization of additional costs incurred from the administration of new local tasks.

However, these new regulations do not protect local authorities from needing to carry the costs of federal and European legislation and from being burdened with the increasing costs of already existing state regulations. As the transferred tasks requiring the localities administer the regulations of higher levels of government are “compulsory”, these tend to crowd out performing other, so-called voluntary, local tasks their proper responsibility, even although the latter are protected in art. 28 BL. However, some recent rulings by some state Constitutional Courts require a more intense measurement of the necessary expenditures placed on local governments and require quantitatively fixed minimum local financial equipment. Political and academic discussions – with the involvement of the Constitutional Courts – about methods of measurement are ongoing.

Horizontally, the theory and practice of local financial needs is still based on the size of the population, an approach rooted in Johannes Popitz’s (1932) ‘canalized’ citizen in cities and agglomerations with higher public needs and Arnold Brecht’s (1932) idea of a “progressive parallelism between local expenditures and the density of population”. Local financial needs vary with the number of citizens, increasing for bigger cities and agglomerations for a multitude of reasons, among them inter-local and inter-regional externalities. These ideas still dominate the construction of local fiscal equalization<sup>5</sup>.

#### **4. Basic types of local fiscal equalization**

Local authorities in Germany deliver a broad variety of local public goods and services – partly as compulsory tasks, partly according their own political responsibility for self-administration. Local fiscal equalization schemes should close the gap between the actual fiscal capacity and the foreseen financial needs, thereby providing more equal financial means to all local authorities. There are 13 different local fiscal equalization schemes, one in each of the ‘spatial states’. Eleven are based on a so-called local tax sharing; two have recently been changed to a ‘need-based’ system. The two types differ only

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5 See Zimmermann, Horst: Kommunal Finanzen, 2nd. ed, Baden-Baden 2009.

with respect to their calculation of the total amount of grants. The latter require a calculation of total needs based on the average costs of production of local goods and services.

All local fiscal equalization schemes have four elements in common:

- the compulsory sharing of joint taxes and the definition of a local equalization mass,
- specific purpose grants within - and without - fiscal equalization,
- general grants distributed on the basis of equalization formulas that take into account financial needs and fiscal capacities,
- apportionments/allowances as instruments to cover for the deficient fiscal capacities of the counties and other local authority associations.

*Compulsory tax sharing of joint taxes and the definition of a local equalisation mass*

Art. 106 (5) of the Basic Law requires additional flexible tax sharing between states and their local governments in order to supplement increase the deficient tax capacity of the latter. Tax sharing is compulsory for the personal and the corporate income tax as well as for the turnover tax revenues, plus the grants from or minus the transfer payments into the state fiscal equalization scheme; it is optional for all other state tax revenues.

Table 6.3 shows the degrees of decentralization in 2012 measured as a share of local expenditures in relation to aggregated expenditures of states and communities. It also shows the diverging shares of local tax revenues compared with the total tax revenues of states and municipalities. These parameters determine the general gaps to be covered by local fiscal equalization grants. The Länder, therefore, apply different formulas, with percentages ranging from 12.2% in Bavaria to 23% in North Rhine-Westphalia, in order to calculate the so-called tax combine, which then forms the amount of local fiscal equalization grants. The percentages are open to changes if local expenditures and local and state tax revenues diverge over time. In some states, like Saxony, Mecklenburg-Vorpommern, and Brandenburg, the local fiscal equalization laws contain an explicit rule for the symmetrical development of state and local revenues. The states also apply the same or another percentage to their proper tax revenues. The combined total gives the total amount of grants and is called the “fiscal equalization mass”.

*Specific purpose grants within (and without) fiscal equalization*

A special form of specific purpose grants, though one of minor quantitative importance, is the so-called 'need grants' paid to help local authorities that are suffering from special and costly problems that call outside of what could be categorized as 'normal' financial needs. To illustrate, a need grant is currently helping in the reconstruction of the city of Stauffen in BW, which is suffering from geological uplift that is damaging many buildings.

**Tab. 6.3: Degree of decentralization and share of local tax revenues from state and local tax revenues after fiscal equalization 2012**

Land	degree of decentralization	share of local taxes
BW	50.1%	23.5%
By	47.1%	24.9%
He	49.5%	21.9%
LS	46.6%	22.9%
NW	49.2%	20.6%
RPL	44.7%	19.4%
Saar	38.3%	19.7%
SH	46.6%	15.9%
Bb	43.5%	13.9%
MV	46.7%	16.0%
Sn	43.3%	14.6%
SAT	43.2%	15.2%
Th	47.7%	21.9%
spatial states	46.6%	15.9%

Source: Federal Statistical Office: FS 14.2; own calculations

**Tab. 6.4: Percentages applied to state tax revenues after state fiscal equalization to calculate the local tax combine 2000 and 2012**

Land	BW	By	He	LS	NW	RP	SL	SH	Bb	MV	Sn
2000	23.0	11.54	22.9	17.59	23.0	20.25	20.0	19.0	26.1	27.36	26.365
2012	23.0	12.2	23.0	15.5	23.0	21.0	20.555	17.74	20.0	23.81	21.910

Source: Deutscher Städtetag: Local Finance Reports 2000 and 2012

Many other budgets of state ministries contain a broad variety of additional specific purpose grants. Many of them are constructed as matched grants, in which the local authorities have to cover a certain share of the total costs of the subsidized projects from their regular financial means. Some of these specific purpose grants originate from the federal budget (e.g. for local public transport or for urban development) or even from the EU budget (e.g. European Social Funds, European Agricultural Structure Funds) and are transferred and administered by the state administrations.

*General grants: equalization formulas including financial needs and financial capacity<sup>6</sup>*

The amount of the fiscal equalization mass remaining after specific purpose grants is the base for local fiscal equalization in the narrower sense. In some states (e.g. BW, RP, MV, Th) a special fiscal equalization apportionment is levied upon those entities with above average fiscal capacities, which are often those that do not receive any general grants because their financial capacity exceeds their financial needs. The revenues from such fiscal equalization apportionments are added in total or in part (BW) to the remaining fiscal equalization mass, after which it is called the 'key mass', as it is totally allocated to so-called 'key grants'.

Most states now start with the division of the 'key mass' into three or four parts, one each in favor of the county free cities, local authorities within counties, counties, and - if existing - of the higher local authority associations. Only Rhineland-Palatinate applies a common integrated formula for all types

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6 See Deutscher Städtetag: Gemeindefinanzbericht 2011; in: der städtetag 10/2011.

of local authorities. Key grants have – in different combinations and quantities among the states – three basic forms:

- often a part of the key mass is given as lump sum grants – varying based on the types of local authorities – in order to cover the costs of compulsory local tasks;
- some states (e.g. BW, RP) ensure a minimum fiscal capacity per inhabitant for municipalities by grants that fill up the average fiscal capacity to a certain percentage;
- all fiscal equalization schemes contain key grants covering a certain share of the gap between financial needs and fiscal capacity for each local government

The measurement of financial ‘needs’ is based on the size of the population (main approach) and other factors representing important cost factors (secondary approach). In most states the number of citizens is evaluated by a factor increasing with the size of the municipality. Only Rhineland-Palatinate and Schleswig-Holstein count the pure number of inhabitants. The variety of indicators for the secondary approach is broad and can include the number of pupils or standardized school costs per pupils, number of long-term unemployed, number of employees, number of students, ‘central locations’ from regional planning categories, the size of the military population, mining communities, spas, and so on and so forth. Based on these factors, each community is given an indicator capturing their abstract financial needs without a particular monetary dimension attached to it.

Fiscal capacity is counted as the real revenues from the local shares of the personal income tax and the turnover tax plus standardized revenues from the local property and the local business tax. Fees and charges as well as minor local taxes are not included into the fiscal capacity.

The rate of equalization varies between 50% and 90% from state to state. The ‘neutral’ indicators of financial needs are multiplied by a ‘basic grant’, which is calculated to absorb exactly the whole key mass. Those local authorities where the monetized financial needs indicator exceeds the fiscal capacity receive key grants. If the fiscal capacity exceeds the financial needs then no key grants are provided.

### *Allowances as an instrument to finance counties and other local authority associations*

Local authority associations, which do not possess own tax revenues, use allowances as instrument for making up for deficient fiscal capacities. Correspondingly, their fiscal capacity is calculated as the sum of fiscal capacities of their member communities weighted by an average allowance rate. The financial needs are usually determined by the number of inhabitants. The equalization rate is the same rate as applied for municipalities. Counties usually receive lump sum grants and key grants.

Allowances are additional instruments not only used to transfer local revenues to higher levels of local government, but also to equalize fiscal capacities at the lowest - level of government. The base of the allowance is the sum of tax capacities plus the lump sum and key grants the member municipalities have received in the same year. In some states progressive rates for county allowances are levied upon communities with an above average fiscal capacity. Municipalities with higher fiscal capacity and higher needs – which in most states are counted as financial needs only at the lowest level of local governments even though the respective tasks could be allocated to the county level – pay higher county allowances per inhabitant or, in the case of progressive allowance rates, an ever increasing amount per inhabitant with growing fiscal capacity. The burden of county and other allowances, therefore, also established incentives to increase local tax rates and local tax multipliers. After this very complex multi-level fiscal equalization scheme, local finance is in many aspects (fiscal capacities, local tax rates) much more harmonized than before.

## **5. Problems of local finance in Germany**

The “beautiful very complicated world” of German local fiscal equalization has come under pressure in recent years because of a variety of legal changes and problems concerning local taxes and growing uncovered compulsory expenditures. The tax base of local authorities, last adjusted in a fundamental way in 1970, is no longer appropriate for the financial needs of local authorities:

- The property tax is based on values from 1964, or even - for the new Länder - 1935, and is no longer a suitable tax on the market values of real assets.

- The twice ‘castrated’ local business tax (abolition of the payroll tax in 1979 and of the trade capital tax in 1998) provides uneven and heavily cyclical local revenues, as well as being paid only by a minority of local enterprises.
- The share of tax revenues coming from taxes with no local autonomy regarding rates has, therefore, been decreasing for decades.
- The distribution keys of the local shares of income tax and VAT are ‘artificial’ and provide nontransparent redistributions among the communities.

Growing compulsory expenditures – particularly for social purposes – can no longer be covered by the static local tax capacities. In addition, tax sharing between the states and their local authorities and the hereby derived fiscal equalization schemes have suffered from several cut-backs in the last 20 years, during which time the Länder needed to consolidate their budgets due to the burdens of German unification in the late 1990s and costly federal tax reforms in 2005. Since 1995 an additional trade tax allowance has been levied in Western Germany in favor of state budgets in order to include municipalities in covering the costs of German unification.

In this context, many local authorities in some states (Saar, RP, NW, He, LS) suffer from chronic deficits in their current accounts. Although persisting deficits in current budgets are against the legal rules, the local control administrations of these states have tolerated the illegal situation too long. It is not astonishing that those Länder with high deficits in their proper budgets now have to fight harder to balance their budgets by 2020. The financial and economic crisis in 2008 and 2009 hit local authorities during an ongoing yet unfinished process of consolidation. Municipalities experienced the highest losses of tax revenues of all federal tiers, some 11.8%; total local tax revenues regained their pre-crisis 2007 level only in 2012<sup>7</sup>.

A Federal Commission for the Reform of Local Finance, which worked from 2010 to 2012, provided only marginal solutions, among them more transparency of the local burdens of federal laws. It did not abolish the local business tax, nor did it undertake to reform it. All attempts to introduce an autonomous local surcharge onto the personal income tax – instead of the local business tax or in addition to it – did not gain the necessary majority.

So many unresolved problems remain, with some growing even worse. Although from 2014 the Federation will take over the costs for providing a minimum income to the elderly and those unable to work, social expenditures

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7 See the contribution of Färber about “Consequences of the Economic and Financial Crisis for Public Administrations in Germany”.

at the local level continue to increase, particularly for early childhood kindergartens and support for the disabled. The first burdens the budgets of the lower level municipalities, the latter those of the counties. Counties, therefore, have for many years been increasing the rates of the county allowances, with the average amount in the Länder ranging from 30.46% in Saxony to 60.04% in Saarland.<sup>8</sup> Thus the financial means of the municipalities have been shrinking from both sides of the budget: increasing expenditures for child care and lower revenues after paying the county allowance. Meanwhile, in January 2013, the Federal Administrative Court judged this local finance situation as not conforming to legal rules and thereby implicitly required more transparent and financial minimum equipment of local governments.

In this context of increasingly restricted tax autonomy and antiquated tax bases, particularly regarding local property taxes, the capability of the local authorities to meet their constitutional responsibilities is greatly reduced. The highest priority should be given to reforming local taxes. These should consist of at least a 'triumvirate' of taxes on local properties, local business and local personal income. In each the locality should have an autonomous right to determine the local tax rate or the local multiplier on the nationally uniform tax base. The 'localization' of the counties in recent years, which shifted them away from the old traditional construction, has made them the lowest level of state administration and at the same time an institution of local self-administration. Given this development, it is time to make them participate in the local rights of levying a proper tax rate on these tax bases. However, politicians at the federal and the state level seem to fear too much responsibility being given to local governments. Yet more tax autonomy - responsibility for the tax rates within their territory - could be the only way to stop the local cry for more state money.

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8 Deutscher Landkreistag: Kreisumlagehebesätze (arith. Mittel) im Ländervergleich 2000–2012 ([http://www.kreise.de/\\_cms1/images/stories/themen/Kreisfinanzen/grafiken2012/abbildung\\_40.pdf](http://www.kreise.de/_cms1/images/stories/themen/Kreisfinanzen/grafiken2012/abbildung_40.pdf))



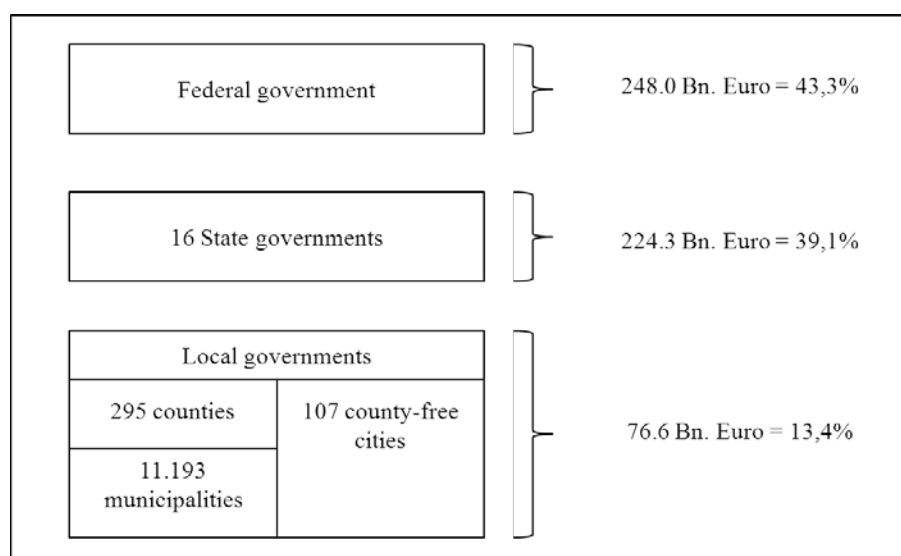
## Local Taxes in Germany – Problems and Reform Approaches

Marco SALM, Stephanie HENGSTWERTH

### 1. Introduction

Local government taxes made up 9 % of total tax revenues in 2012, from which a large portion was and generally is generated by the local trade tax<sup>1</sup>. Property tax and the trade tax constitute the largest component of local government own-source revenues, while several small local taxes, as well as charges and user fees make up most the remainder. Moreover, local governments directly receive a percentage of shared tax revenues.<sup>2</sup>

**Fig. 7.1: Structure of government and tax revenues 2011 (after distribution of joint taxes)**



Source: Authors; FSO 2013, Federal Ministry of Finance 2012

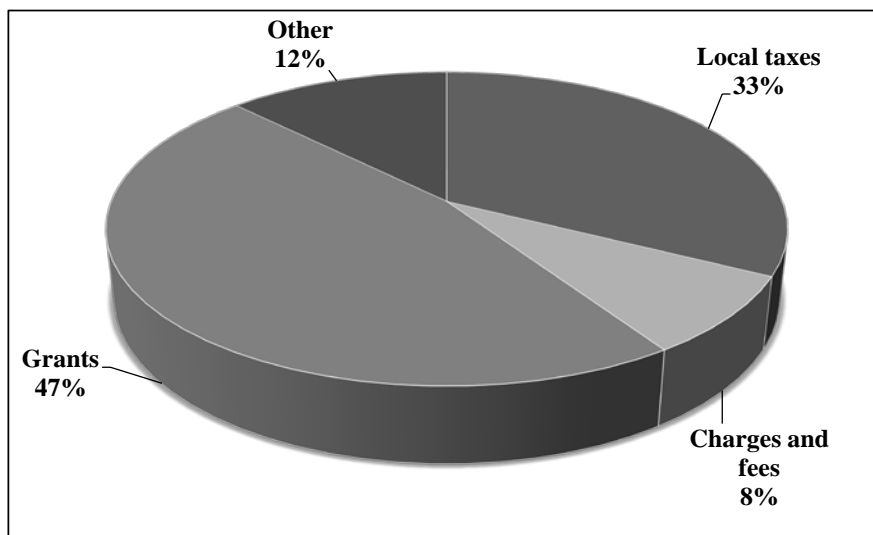
- 1 Pure local tax revenue was 9% of total government revenue, while local level revenues including joint taxes came to about 13% of total revenues (see *figure 1*).
- 2 All three levels of government are jointly entitled to the most important types of taxes (i.e., sales tax (VAT) and income tax), also known as “joint taxes”. Tax revenue is distributed using a fixed quota prescribed in the fiscal constitution.

Despite many reform efforts in the field of local taxes and intergovernmental fiscal relations, one can observe a subtle decline in local taxation autonomy over recent years. The purpose of this article is to profile the structure of local taxes, and the problems associated with them. Section two outlines the development of the local tax system over time. The third section focuses on describing principles for a rational local tax system. The fourth section examines local taxes in detail, while the last section addresses current reform issues.

## 2. Development of Local Taxes and Revenues

Municipalities carry out a wide range of tasks and responsibilities. Of all revenue types the most important are “own-source” revenues (33 %) and grant financing from state governments (47 %), as shown in figure 2. Own-source revenues are generated by a municipality itself through the use of its power to tax and set fees and charges. Other revenues come from intergovernmental relationships.

**Fig. 7.2: Local government revenues 2012**



Source: Authors; FSO 2012

The current tax revenue mix of local governments is summarized in table 7.1.

**Tab. 7.1: Municipal tax revenues**

<i>Type of tax</i>	<i>Revenue share</i>	<i>Assignment of revenue</i>	<i>Legislation</i>
<b>property tax</b>	100 %	Local	Federal (rate fixed by municipality)
<b>trade tax</b>	81,8 %	Local, apportionment given to federal and state government	Federal (rate fixed by municipality)
<b>personal income tax</b>	15 %	Federal/State (incl. municipalities' share of 15 %)	Federal
<b>withholding tax on capital</b>	12 %	Federal/State (incl. municipalities' share of 12 %)	Federal
<b>value added tax (VAT)</b>	ca. 2.2 %	Federal/State (incl. municipalities' share of 2.2 %)	Federal
<b>local expenditure and consumption taxes</b>	100 %	Local	State/Local

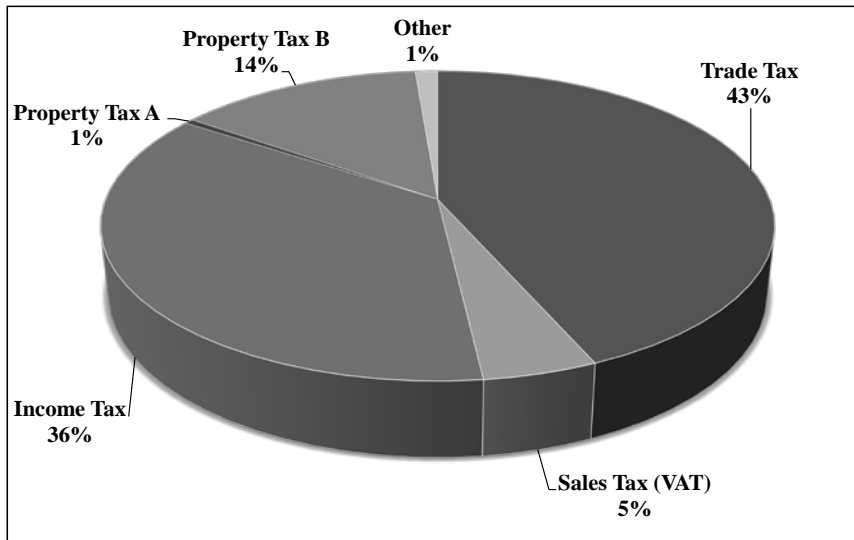
Source: Authors

Over time, the tax shares of federal, state, and local governments have shifted within the more lucrative taxes (income taxes, VAT). The shift from a strictly separate tax system to a system of tax revenue sharing entails advantages and disadvantages for municipalities. Within the local taxes, the single largest revenue source of municipalities is the trade tax. The second largest income comes from the local share of personal income tax.<sup>3</sup> Property tax is split into two categories. Firstly, municipalities levy a tax on property that is being used for agricultural purposes (Property Tax A). More importantly, municipalities levy a tax on property and real estate assets (Property Tax B), which is relatively more profitable.

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3 Tax revenue sharing of personal income tax: federal government (42.5%), state governments (42.5%), local governments (15%).

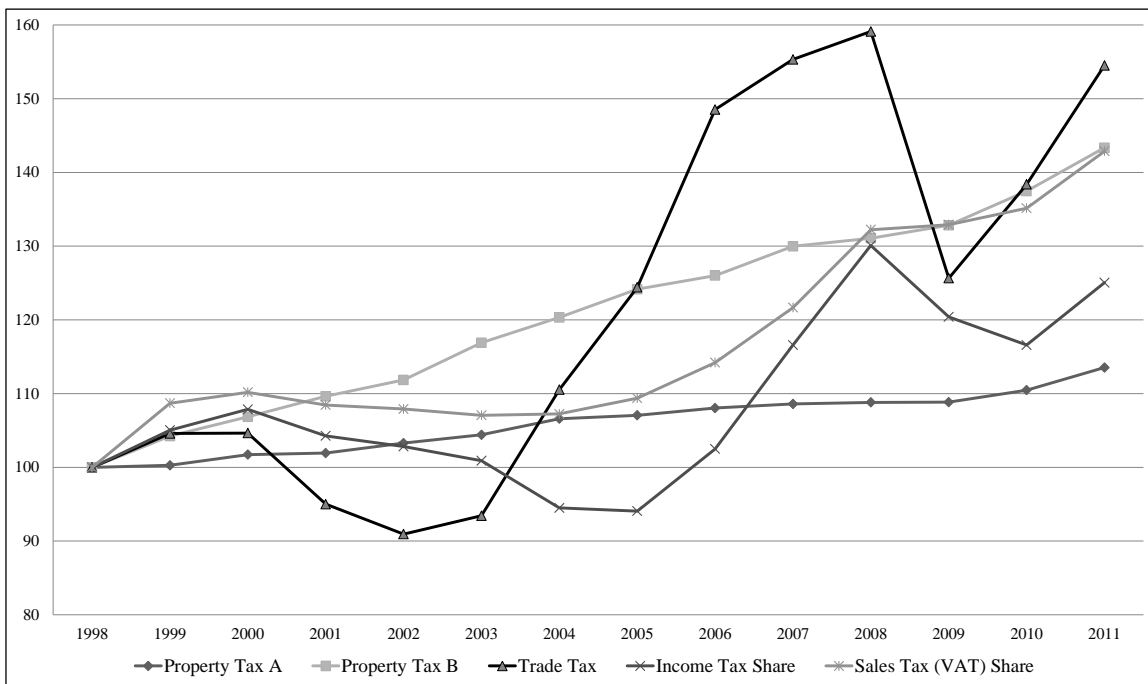
**Fig. 7.4: Local tax revenues 2012**



Source: Authors; FSO 2013

Figure 7.5 illustrates the development of municipal taxes over time. Clearly, the cyclical nature of the trade tax strongly dominates developments in total local tax revenues. The trade tax exhibits the strongest growth rates relative to other local taxes.

**Fig. 7.5: Development of municipal tax revenues 1998-2011**



(Normalized series: 1998 = 100)

Source: Authors; FSO 2012

### 3. Principles of Local Taxation

Local authorities require tax revenues in order to provide public services to three groups within the municipality: citizens, land owners and businesses. These groups represent the potential users of public services as well as potential tax payers. The following section outlines the required principles to set up a rational local tax system.

The features of a reasonable local tax system are based on the decentralization theorem, in particular fiscal equivalence. While every tax needs to follow rational criteria, such as economic efficiency, ease and cost of administration, allocation, stability, and fairness (equity), local taxes must meet several additional criteria that only apply to the local level.

- *Visibility*: Taxes are paid without receiving individual service in direct exchange. Yet, it is important for local citizens or businesses to be able to perceive a “visible” (rough) equivalence between taxes paid and services provided.
- *Local accountability*: Local expenditures should be covered by own-source revenues via local taxes paid by local voter-citizens.
- *Balance of interest between user groups of local public services*: Every user group needs to share in the financing of a municipality’s public goods. Citizens, as well as businesses and land/home owners, have to be taxed by the municipality.
- *Resilience to cyclical trends*: Local taxes should be designed to be relatively resilient to cyclical trends in order to maintain a steady income. This is especially important because fiscal policy with regard to business cycles is a primary task of the federal and not local government.
- *Proportional growth sensitivity*: Municipal tax revenues should develop relative to economic growth (GDP), because local expenditures need to increase with GDP.
- *Avoiding unnecessary migration*: Technically, citizens and businesses can migrate to wherever they will benefit the most from local public services (Tiebout 1956). If citizens or businesses migrate to a different municipality, average costs for remaining citizens and businesses increase.
- *Flexibility*: Depending on the amount or range of municipal public goods provision, tax rates in a given locality can be higher or lower than elsewhere. This kind of taxation flexibility and resulting in a variation of tax rates can only be achieved by municipalities having partial tax competence (the autonomy to set rates).

In setting up a rational local tax system, municipalities should have access to several kinds of taxes that somehow fulfill the five general and seven local-specific principles. Nonetheless, it is obvious that some of these principles for local taxes are not compatible with each other, or even contradict each other.

#### 4. Local Taxes in Germany

Local governments in Germany rely heavily on local taxation, but also finance local budgets through intergovernmental revenues (shared tax revenue, grants, etc.). Local own-source revenue derives from property taxes (A and B), local trade tax, and small local taxes. Intergovernmental revenues include shared tax revenue consisting of a local share of (personal) income tax and a local share of sales tax (VAT). Together own and shared revenue sum up the local tax system in Germany, while each also has different aspects and prospects for reform.

##### 4.1 Own-source Revenue

*Property taxes* constitute the third largest component of local government own-source revenue (12 Bn. Euro in 2012). Property tax A (agricultural properties) and property tax B (estate and housing) are linked to land/home owners as a user group of municipal services. This is in line with the third principle (*balance of interest*) outlined above.

According to Fischel (2001), municipal services are capitalized in a property's value. Increasing investments in infrastructure (e.g., connecting property to a public transport system) raises the monetary value of properties. This "unearned" economic rent which land owners benefit from, called "getting richer while sleeping" (Harriss 2001: 15), is re-captured through property tax. Property tax is therefore perceived as fair because the tax is offset by local government services and goods (*visibility*). Fiscal equivalence is also assured by the principle of *flexibility*. Municipalities are able to set these tax rates themselves. As a result, different tax rates in different municipalities represent different supplies of public goods and services. This becomes evident when comparing differences in tax rates (multipliers) between urban and rural municipalities (490 % in Munich compared to 240-350 % in rural regions). Additionally, the entire property tax revenue goes directly to the municipalities (*local accountability*).

Yet property tax, a typical local tax meeting most of the established criteria, nonetheless has several problems regarding its design. The property tax base is a so-called *assessed value*, which is based on historical data from 1964 (1935 in former East Germany). This means the assessed values are only a fraction of the current market value of a property. On average, assessed values from 1964 come to only 1/20<sup>th</sup> of the current value of properties.<sup>4</sup> Using outdated land values is considered a violation of the principle of equality (Article 3 GG) of property and wealth (particularly capital assets). It results in different taxation of the two production factors: land and capital. By law, property values are supposed to be assessed every 6 years. Yet this has never been done due to the heavy administrative costs and burdens involved.

The *local trade tax* constitutes the most important source of revenue for municipalities (35.2 Bn. Euro in 2012), accounting for 43 % of their tax revenues. This tax is imposed on types of businesses clearly defined by law (§ 2 Abs. 1 GewStG) and excludes a wide range of typical freelancer's professions (i.e., artists, physicians, lawyers), which automatically reduces the tax base. Just like property tax, it meets the criterion of *flexibility*. Municipalities are empowered to set the trade tax rates (multipliers) in order to adjust revenue to their fiscal needs. Furthermore, municipalities impose and collect the tax on businesses located within their own municipal boundaries (*local accountability*).

Originally, the trade tax was designed a threefold tax base, rooted in the idea not only of businesses making profits, but that labor and capital contribute to the creation of value. Currently, the tax is based only on profits instead of including all three pillars, which were:

- a tax on trade profits
- a tax on trading capital (abolished in 1998, due to international tax competition)
- a tax on payroll (abolished in 1980, perceived as harmful toward employment).

Removing trading capital and payroll from the tax base, which was associated with reforming taxation of profits, resulted in an excessive decline of the tax base and also reduced the potential number of businesses obliged to pay trade tax. In practice, only 30 % of all businesses currently have to pay trade tax (Geberth 2011: 151). The current design of the trade tax includes only

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4 Wissenschaftlicher Beirat beim Bundesministerium der Finanzen (2010): Reform der Grundsteuer, p. 1.

medium-sized and large companies (corporations and profitable partnerships). This leaves out a wide range of smaller businesses that also benefit from local public infrastructure but without having to pay for it, meaning the principles of *visibility* and *balance of interest* are only partially fulfilled. Thus, Zimmermann (2009: 171) refers to the ‘cannibalization’ of the trade tax, because its current design does not satisfy all the requirements of a good municipal tax. Furthermore, profits are strongly related to the business cycle and general economic situation. Thus this tax has no *resilience to cyclical effects*, making budget management difficult for municipalities.

In order to stabilize municipal revenues the financial reform of 1969 assigned a 14 %<sup>5</sup> share of the national income tax to municipalities. This also balanced the fiscal capacities between different municipalities. Receiving a share of the income tax was intended to compensate for partially giving up the trade tax, resulting in a less cyclically sensitive tax base. Receiving a share of income tax also strengthened the *local accountability* of local revenues, since income tax is paid by citizens living in the respective municipality.

In Germany, municipalities are entitled to levy taxes and set rates for *local excise taxes* (Article 106 GG), also called small local taxes. Based on the principle of fiscal equivalence, municipalities can independently decide to introduce a new tax. However, municipalities must take care that the design of the new tax is not similar to an existing federal or state tax and does not apply to the same tax base as these existing taxes. Additionally, certain laws and regulations of the state can restrict municipalities’ possibilities to levy specific small local taxes. Since the tax base of existing taxes is already fairly wide, there is only a little leeway for establishing new local taxes. Local excise taxes generally conform to the principles of good local taxation, yet they comprise a small percentage of municipal tax revenue (1.3 % in 2012).

#### 4.2 Shared taxes Revenue

Municipalities have since 1969 been entitled to a *share in (personal) income tax* revenue.<sup>6</sup> In 2012, the local share of income tax came to 29.1 Bn. Euro, accounting for 36 % of total local tax revenue (*figure 4*). The local income tax share is logically consistent with the postulated criteria in section 3, because

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5 The local VAT share was changed to 15 % in 1980.

6 As mentioned above, a share in the income tax went along with giving up parts of the trade tax to state and federal government.

income tax makes local residents contribute to municipal services (*balance of interest*). One purpose of sharing income tax with municipalities is to provide steady revenue (*resilience to cyclical effects*) in order to mitigate differences in fiscal capacity among municipalities. The distribution procedure includes the following steps:

- First, the withholding tax revenue is added to income tax revenue and is distributed with the same allocation formula.
- Second, revenues of income and withholding tax (state plus local share) are assigned to the 16 states.
- Third, each state distributes the total local share between its own municipalities using income statistics of single and married households to guide allocation. Single/married households up to a threshold of 35,000/70,000 € are taken into account. Households with higher incomes are not considered in the statistics, preventing outlying richer residents from raising a municipality's share of income tax.<sup>7</sup>

By law, municipalities are entitled to impose surcharges on income tax. Yet such surcharges have not yet been authorized by the federal government. Therefore, the local income tax share does not keep to the principle of *flexibility*. Also, residents have no *visibility* of the relationship between taxes paid and local services, because the local share of 15 % is not pointed out in residents' annual tax statements.

Since 1998 municipalities have also been receiving a 2.2 % *share of VAT* revenue, totaling 3.9 Bn. Euro in 2012.<sup>8</sup> In exchange, the former trade capital tax was abolished. Compensating for the loss by introducing a local VAT share had both advantages and disadvantages for municipalities. On the one hand, the local VAT share is a steady and reliable revenue source (*resilience to cyclical effects*). On the other hand, municipalities have no right to set tax rates independently, thereby they lost *flexibility*.

Clearly, VAT revenue cannot be allocated directly to each state due to consumers being concentrated in core regions, thus making it impossible to allocate VAT revenue to certain states or municipalities. Therefore, the local

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7 Cutting off income above 35,000/70,000 € intentionally aims to level the differences in fiscal capacity between municipalities.

8 The federal government makes an annual decision about the specific amount of VAT that goes to the local share, but it usually come to approximately 2%.

VAT share is distributed between municipalities using three weighted statistical indicators of a municipality's economic activity (Federal Ministry of Finance 2013):

- a municipality's trade tax revenue accounts for 25 %
- the number of employees within a municipality accounts for 50 %
- employee remuneration subject to social security (total payroll) within a municipality accounts for 25 %

Passing the local VAT share from the federal to state level and distributing it between municipalities makes it look more like a federal grant rather than a genuine local tax. The local VAT share does not fulfill any of the principles outlined in section 3.

## **5. Reform Proposals**

The above discussion of local tax revenue shows, given its current design and in light of the principles of local taxation that those particular local taxes which are directly linked to the three local user groups are in urgent need of reform, these being property tax (land/home owners), trade tax (local businesses), and the local income tax share (citizens). These three taxes represent at least 94% of total local tax revenue (*figure 7.4*).

Regarding the problems of *property tax* mentioned above, there are a few proposals out there to revise the outdated assessment base. One complaint is that the current property tax favors single family houses and duplexes through applying lower base rates than for rental homes. The proposed reforms differ in terms of how to determine the value of real property assets:

*Pure area tax:*

- multiplying the area of a property by equivalence factors that depend on the usage of the area (residential, commercial)
- no consideration of the actual market value

*Comparative value method:*

- requires a valuation of property assets (land and buildings)

*Pure land value tax:*

- only land is assessed (standard land values)
- buildings are valued with their size and simple tax rates

From the perspective of what makes a good municipal tax, the *comparative value method* should be preferred for creating a feasible assessment base. This method adheres to the principle of *proportional growth sensitivity*, as it takes into account changes in value over time. Moreover, its near-market valuation of property finally brings an end to the unequal treatment of land and capital.

The *local trade tax* derives its theoretical justification from the fiscal equivalence principle, as municipalities provide the necessary infrastructure for the economic activities of businesses. In short, the local trade tax suffers from two main problems. Firstly, the tax base is too small, and secondly, the number of taxpayers could be much higher. Both problems result in generating lower tax revenue than is possible. Against this backdrop, there are two possible and widely discussed reform ideas. Both reform proposals aim at broadening the tax base and increasing the number of commercial tax payers.

*Tax on net production value:* Unlike the current system which taxes only trade revenue, the fundamental idea of a tax on net production value is to tax all elements that contribute to the *creation of value*: wages, rent, lease, profits, and interest.<sup>9</sup> Technically, the tax comprises every type of income that arises in the local production. Furthermore, this reform model would allow for a broadening of the tax base by committing freelancers, all kinds of self-employed persons, the housing industry, farmers and foresters, as well as the public sector to pay trade tax. This reform proposal naturally includes the removal of the trade tax in its current form.

*Revitalization of the trade tax:* Other concepts for reform propose the revitalization of the current trade tax. The goal is to keep the trade tax as a local tax in order to maintain its positive aspects, but to eliminate its deficiencies by:

- Expanding the number of tax payers to include freelancers, the self-employed, the housing industry, farmers and foresters, as well as the public sector.
- Broadening of the tax assessment base by making taxable not only trade profit, but also interest income<sup>10</sup>, property rental, and leasing income. This would be accompanied with a decrease in the assessment rate (multiplier).
- Re-introducing a tax on payroll (abolished in 1980).
- Revoking many of the currently allowed deductions.

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9 It aims to avoid distorting relationship between the value of labor and capital by capturing both in the tax base.

10 This refers to re-introducing a tax on trading capital, which was abolished in 1998.

Both of the above outlined reform options contribute to a better *balance of interest* by encouraging lower tax rates. Thus, at this stage there is no lack of reform alternatives, but rather a mutual stalemate as municipal stakeholders on the one hand and businesses on the other hand blockade each other.

In addition to reform proposals for property and trade tax, a third proposal seeks to reform the *local share of income tax* due to a lack of *visibility* for local citizens, along with the fact that municipalities cannot operate *flexibly* with regards to the desired tax revenue, as they are denied the right to impose surcharges on regular income tax. Only a citizen-centric revenue source that allows local variation of tax rates approaches the realization of the principle of fiscal equivalence. Importantly, total local income tax revenue depends on the number of income tax payers, the income structure of local citizens, and the overall economic situation (i.e., unemployment reduces the tax base).

One reform proposal suggests taking advantage of the local right to impose surcharges on the existing income tax. This option is not currently exercised even though it is legally possible. According to the Basic Law, a federal law can allow municipalities to set a local rate on the local income tax share. Different local rates would allow municipalities to adjust to the local preferences of citizens and would, therefore, result in different supplies of services. Furthermore, it would strengthen *local accountability*. This type of local income tax existed in Germany until 1920 (Sander 2001). It took the form of a percentage surcharge on the income tax of the respective state and was formerly the main revenue source of municipalities. A second proposal is to introduce a municipal income tax, which would have a similar tax base as the current federal income tax but where municipalities independently decide on their desired tax rate. Instead of “just” a surcharge, they would be able to decide their own tax rate completely.

## 6. Conclusions

When examining current local taxes in Germany with reference to the principles of local taxation, we find that purposeful reforms are inevitable for many reasons. If own-source revenues continuously decline, municipalities have an insufficient incentive to finance their duties sustainably, as the transfers from the state increase. In addition, declining revenue changes their possibilities to finance optional tasks where they have full autonomy. Due to the transition from a separate tax system to a shared revenue system, possibilities to

generate own-source revenues have declined and local self-government contracted, leading to a stronger dependency on state transfers. Local accountability declined drastically as a result.

Local finances have been stabilized at the price of less local autonomy. The tax revenue sharing system between the three federal levels should focus more strongly on local tax autonomy. One possibility that exists is to re-affirm a local right to impose surcharges on personal income tax.

State dominance due to high transfers needs to decline, as only 1/3rd of local income is based on local taxes. The current trade tax does not grow continuously and does not include all beneficiaries of municipal services. Property taxes grow below average relative to economic growth and their revenue elasticity is smaller than one. This implies an unequal taxation of land and capital. Reforming property tax by using actual market values and broadening the trade tax base are essential reform issues.

Again, the only three sources of local taxation are citizens, businesses, and land owners. Each group benefits from different types of local services. Yet, we showed above that the three corresponding taxes (income tax, trade tax, and property tax) are highly in need of reform. In conclusion, assessing local taxes seems to go along with the question of how much local fiscal autonomy a municipality desires, versus receiving transfers and shared tax revenues with correspondingly less autonomy. Nevertheless, municipalities need to be equipped with adequate taxation possibilities in order to fulfill their current and possibly future tasks and responsibilities.

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## Local authority Debt – Problems and Solutions

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### I. Preamble

The extent of public debt and the resultant risks have become a topic of ever growing public interest in recent years. The financial and economic crisis effectively accelerated the trend of increasing public debt and enhanced the poor budgetary state of local authorities. The precarious budgetary situation has in some cases imposed massive limitations on the scope for decision-making by local authorities. However, such scope is fundamental to ensuring that local authority autonomy can actually function in its capacity as a cornerstone of government and society<sup>1</sup>. Thus, local authority debt affects a key aspect of the German federal state and a solution is essential.

This essay outlines the fundamentals of how the functions of local authorities are financed (II) and the current state of debt (III) before the causes of local authority debt are examined in more detail (IV). Finally, potential approaches on how to solve the local authority debt problem will be presented (V).

### II. Financing of local authority functions

According to section 28 paragraph 2 Basic Law<sup>2</sup> Municipalities as well as associations of municipalities must be guaranteed the right to regulate all local affairs on their own responsibility (“Selbstverwaltung”). The guarantee of self-government extends to the bases of financial autonomy. However, this does not include the authority of the municipalities to levy their own taxes.

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1 cf. *Wieland*, Der Anspruch der Kommunen auf eine angemessene Finanzausstattung, in: Schliesky/Ernst/Schulz (pub.), Die Freiheit des Menschen, Festschrift Schmidt-Jortzig, 2011, p. 221 et seqq.

2 Basic Law (“Grundgesetz”) for the Federal Republic of Germany, as amended by the Act of 11 July 2012 (Federal Law Gazette I p. 1478).

Local authority functions are financed via four channels: through tax receipts (a), through levies (b), through compensation payments for the transfer of specific functions by the Länder (c) and through general redistribution of federal state financial resources (d).

(a) While local authorities are generally unable to levy their own taxes, they do receive an apportioned share of income tax (section 106, paragraph 5 Basic Law) and turnover tax (section 106, paragraph 5a Basic Law) as well as tax revenue from real property and trades taxation (section 106, paragraph 6, sentence 1, clause 1 Basic Law). Municipalities (or associations of municipalities) are also granted tax revenues from local taxes on consumption and expenditures (section 106, paragraph 6, sentence 1, clause 2 Basic Law) and have the right to establish the rates (“Hebesatz”) at which taxes on real property and trades are levied (section 106, paragraph 6, sentence 2 Basic Law).

Although the Basic Law grants the Federation and the Länder an exclusive mandate to legislate on matters of taxation, there is one possibility for a local authority to levy municipal taxes: Section 105, paragraph 2a of the Basic Law assigns sole authority with respect to local excise taxes to the Länder. Consequently, the municipalities are permitted to establish by-laws for the levying of municipal taxes, provided that they are granted the right to establish such by-laws by the respective constitution of their Land and by legislation governing municipal charges. The local authority then has absolute sovereignty over these taxes. However, in terms of the income of the local authorities, these municipal taxes are of no practical relevance.

(b) Contributions and fees are other sources of income for local authorities, although these do not usually give rise to any positive balance, because contributions and fees are generally levied specifically for the purpose of recovering expenses<sup>3</sup>. Moreover, sociopolitical factors dictate that the contributions and fees levied are often lower than those needed to actually cover expenses. Investments in private companies, the disposal of assets and municipal borrowing are also governed by strict limits imposed by municipal codes and municipal budgetary law.

(c) For these reasons, local authorities are mostly reliant on financing from their respective Länder. They receive this financing when the Länder provide a mandate to the local authorities to perform certain functions, which in turn

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3 cf. *Siegel*, Einführung in das Kommunalabgabenrecht, JuS 2008, 1071.

obliges the Bundesland to bear the costs<sup>4</sup>. Such 'principles of relation' (Konnexitätsprinzip) anchored in the constitutions of the Länder are aimed at protecting the autonomy of the local authorities.

(d) The fourth source of financing for local authorities is that of the redistribution of federal state financial resources ("Finanzausgleich"; section 106, paragraph 7 Basic Law). Such redistribution of finances may either be mandatory (sentence 1) or optional (sentence 2). Within the framework of mandatory financial resource redistribution, local authorities are entitled to receive a certain percentage of the federal state's total revenue from federal and state taxes, specifically income tax, corporation tax and turnover tax; this percentage is set by the respective legislative body of the Land. The Länder may also decide whether and to which extent taxes levied on a federal state level are to be transferred to the local authorities.

### III. Current debt

As of the end of 2012, local authority debt totaled €135 billion<sup>5</sup>. €47 billion of this, representing 35 per cent of the debt, is attributable to municipal borrowing ("Kassenkredite")<sup>6</sup>. Municipal borrowing has grown massively in recent years and shows the strain that local authority financing is under. These loans, which are actually only intended to cover short-term liquidity bottlenecks, have since been used repeatedly to cover shortfalls in financing for long-term functions over a longer period of time.

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4 cf. by way of example, section 71 paragraph 3 of the Baden-Württemberg State Constitution.

5 Please note that this debt situation does not concern all local authorities, nor does it affect all local authorities to the same extent. cf. Bertelsmann Foundation, Municipal Finance Report 2013, p. 60 et seqq. ([http://www.bertelsmann-stiftung.de/cps/rde/xbcr/SID-12603459-2027BC37/bst/xcms\\_bst\\_dms\\_38670\\_38671\\_2.pdf](http://www.bertelsmann-stiftung.de/cps/rde/xbcr/SID-12603459-2027BC37/bst/xcms_bst_dms_38670_38671_2.pdf), document as present on 24 October 2013)

6 cf. Overview by the Federal Statistical Office, Debts of Local Authorities and Local Authority Associations 31 December 2012; [https://www.destatis.de/DE/ZahlenFakten/GesellschaftStaat/OeffentlicheFinanzenSteuern/OeffentlicheFinanzen/Schulden/Tabellen/SchuldenGemeinden\\_311212.html;jsessionid=74700E4BF936D80A97FA6B8465DFD9B5.cae3](https://www.destatis.de/DE/ZahlenFakten/GesellschaftStaat/OeffentlicheFinanzenSteuern/OeffentlicheFinanzen/Schulden/Tabellen/SchuldenGemeinden_311212.html;jsessionid=74700E4BF936D80A97FA6B8465DFD9B5.cae3) (document as present on 24 October 2013)

#### IV. Causes

The causes of local authority debt are complex and occur in towns, cities and communities in very specific combinations. Disregarding specific local circumstances relating to the generation of debt, there are certain common points of reference that can be identified as applying to all local authorities affected by the debt issue. These include not only the growth in the number of functions performed and the associated growth in expenditure (a) but also a certain element of responsibility on the part of local authority supervision (b) and certain counterproductive consequences arising from the debt ceiling (“Schuldenbremse”) (c).

(a) The range of devolved functions performed by the local authorities has grown continuously. This concerns functions where the state continues to assume responsibility for their performance as well as those where the state transfers responsibility in full for the performance of these functions to the local authority, regardless of whether the state continues to play a supervisory role in their performance. Despite this, the financial resources provided to the local authorities by their respective Länder for this larger range of functions continues to decline<sup>7</sup>. Should the revenues needed to perform required functions not be sufficient, it becomes necessary to borrow the required money.

This problem is particularly apparent with the constantly rising social security expenditure. The decision of the Federal Legislature prior to the Federalism Reform to transfer responsibility for the execution of social security legislation to local authorities has proven particularly catastrophic for these local authorities. The Federation and the Länder were very happy to transfer these functions to the local authorities, not least because it provided a way to create new social security benefits with no impact upon the state budget<sup>8</sup>.

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7 cf. Bertelsmann Foundation, Municipal Finance Report 2013 ([http://www.bertelsmann-stiftung.de/cps/rde/xbcr/SID-12603459-2027BC37/bst/xcms\\_bst\\_dms\\_38670\\_38671\\_2.pdf](http://www.bertelsmann-stiftung.de/cps/rde/xbcr/SID-12603459-2027BC37/bst/xcms_bst_dms_38670_38671_2.pdf)) and also the earlier Bertelsmann Foundation, Municipal Finance and Debt Report Germany, 2008 (<http://www.wegweiser-kommune.de/themenkonzepte/finanzen/download/pdf/Finanzreport.pdf>) – documents as present on 24 October 2013.

8 *Schoch/Wieland*, Finanzierungsverantwortung für gesetzgeberisch veranlasste kommunale Aufgaben, 1995; *Wieland*, Der Anspruch der Kommunen auf eine angemessene Finanzausstattung, in: Schliesky/Ernst/Schulz (pub.), Die Freiheit des Menschen, Festschrift Schmidt-Jortzig, 2011, p. 221 et seqq.

According to the principle of relations specified in section 104a, paragraph 1 of the Basic Law, the Federation and Länder are responsible for bearing the expenditure arising from the performance of their functions. As the Länder are generally responsible for the execution and enforcement of federal laws as per section 83 of the Basic Law, they must ordinarily also bear the costs for the provision of social security benefits, which are governed by federal legislation. The only exception – as per section 104a, paragraph 3 of the Basic Law – is when federal laws grant financial benefits to be partly or fully borne by the Federation under the wording of the law. This combination of the specified laws has enabled the Federal Legislature to create new social security benefits, with the local authorities being the duly commissioned agent for these functions.

The consequence of the transfer of functions to local authorities under federal law was that the Federation did not need to give much consideration to the financial consequences of the continued expansion of the social welfare system. Demands issued by local authorities to be financially compensated for the additional functions and financial expenditure borne by them as a result of federal legislation have been easily fended off by the Federation on the basis that financial policy does not allow for direct financial relations between the Federation and local authorities. The Länder in turn have been able to argue that the principle of relations in their respective state constitutions did not apply because the Federal Legislature was responsible for the transfer of functions, not the State Legislature.

This unfortunate state of affairs was remedied in the form of a regulation prohibiting the transfer of functions from the Federation to local authorities introduced into the Federalism Reform in section 84, paragraph 1, sentence 7 of the Basic Law. However, this does not change the fact that previous assignments of functions from the Federation to the local authorities continue to apply. Whenever benefits are increased in the relevant federal legislation, the local authorities will continue to bear the financial consequences.

(b) Local authority supervision plays a key role in municipal debt control. Supervisory bodies are responsible for supervising all of the local authorities' actions (“Rechtsaufsicht”). This includes supervising compliance with the regulations in municipal ordinances governing redistribution of financial resources<sup>9</sup>, which is a key element of municipal debt control. Approval by the

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9 The requirements imposed on budget management are codified in all local authority ordinances. Refer by way of example to section 93 of the Gemeindeordnung Rheinland-Pfalz.

supervisory authority concentrates on budgetary by-laws with the associated budgets. The aim is to ensure that local authorities are able to perform their functions with a balanced budget. If this is not the case, the local authority must present a budget recovery plan illustrating how it will return to a balanced budget in the medium term. If the planned measures are not sufficient, the supervisory authority has the power in extreme circumstances to suspend the local authority's right of autonomy and appoint a commissioner to manage the local authority's business in place of the politically elected representative until the budget is in order again. The local authorities affected are then in a state of provisional administration.

The role that local authority supervision holds in the control of local authority debt is ambiguous. While it does make an important contribution, the effectiveness of local authority supervision in ensuring fiscal discipline among the local authorities has noticeably declined. This is due in part to the political pressure exerted upon local authority supervisory authorities – despite their being formally independent<sup>10</sup>. There are also purely practical reasons to be considered. A supervisory authority can only function effectively if the process concentrates on a small number of manageable problem cases. As the number of unbalanced budgets has grown, the supervisory authority's personnel resources have become stretched<sup>11</sup>. Finally, the attitude of the municipal supervisory bodies does account for part of the responsibility for the financial situation of the local authorities. On the other hand, some supervisory bodies have simply been overly generous and on the other hand, some supervisory bodies have been enforcing dramatic extensions of the rates (“Hebesätze”) and thereby cutting the autonomy of the municipalities.<sup>12</sup>

(c) The structural deficiencies of the municipal budgetary management system were further amplified by the 'debt ceiling' imposed by section 109, paragraph 3 of the Basic Law<sup>13</sup>. As a result of the ban on generating new debt in

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10 *Junkernheinrich*, Kommunalverschuldung: zur Transparenz und Rückführung kommunaler Schulden, in: Gernert/Konegen/Meyers (pub.), Nachhaltige Kommunalpolitik – ein Anforderungsprofil, 2010, 175 (194).

11 Rehm/Tholen, Kommunalverschuldung – Befund, Probleme, Perspektiven, 2008, 67 et seq.

12 cf. *Holtkamp*, 20 Jahre Haushaltskonsolidierung unter Aufsicht, in: Bertelsmann Stiftung (pub.), Städte in Not, 2013, 40 et seq.

13 The 'debt ceiling' in section 109, paragraph 3 of the Basic Law obligates the Federation and Länder to reduce their new debt starting from 2011. From 2020 onwards, the Länder are no longer permitted to incur debt. Some Länder (Berlin, Bremen, Saarland,

normal economic situations, the states are prevented from generating revenue by means of borrowing to flexibly perform their financial functions. This gives rise to pressure to adapt the expenditure accordingly.<sup>14</sup>

Local authorities may not explicitly be mentioned in the sovereign debt provisions in the Basic Law, but they are affected by them. The Länder are leaning towards passing on the debt ban to their local authorities, for example by transferring high-cost functions to local authorities or by reducing financing provided in the context of the redistribution of federal state resources. Therefore, unless appropriate measures are taken to counter this, the budgetary situation in the local authorities will continue to worsen<sup>15</sup>.

## V. Perspectives

Since local authorities in Germany do not have the possibility of increasing taxes, they do not have many ways of addressing their poor budgetary situation. They can either increase the rates (“Hebesätze”) or refrain from performing voluntary functions. Both of which is not acceptable from a democratic point of view and besides, it would not contribute substantially to the solution of the debt problem.

Reacting to the growth in social security expenditure, the Federation has increased its financial commitment in this area, in particular by providing relief in the provision of social assistance to old-age pensioners and persons with a reduced earning capacity, by increasing its commitment in the development of child care for children below the age of three, and by means of a range of other measures. The Federation has thus demonstrated a willingness to contribute decisively and in the long term towards improving the financial situation of the local authorities. However, the rise in municipal expenditure will only be slowed by the financial commitment offered by the Federation.

The dramatic rise in debt of the local authorities has made it necessary to seek other means of relief. Municipalities will only be capable of regulating all local affairs on their own responsibility when they have enough revenues

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Sachsen-Anhalt and Schleswig-Holstein) will be receiving consolidation support due to their particularly difficult budgetary situations.

14 Cf. *Groh*, *Schuldenbremse und kommunale Selbstverwaltungsgarantie*, LKV 2010, 1.

15 cf. Commerzbank, *Auswirkungen der Schuldenbremse auf die kommunale Ebene*, 2012 ([https://www.firmenkunden.commerzbank.de/files/brochures/\\_de/studie\\_schuldenbremse.pdf](https://www.firmenkunden.commerzbank.de/files/brochures/_de/studie_schuldenbremse.pdf), document as present on 24 October 2013).

at their disposal. Since their responsibility for deciding and organizing their own functions as well as their ways to increase revenues are limited, they depend to a large extent on the Federal State and on the Länder and to their inclination of refraining from passing on their own charges. Furthermore, a direct financial relationship between the Federation and local authorities should be established for all functions that the Federal State has conveyed on the municipalities before the Federalism Reform.<sup>16</sup>

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16 Cf. *Wieland*, Neuordnung der Finanzverfassung nach Auslaufen des Solidarpakts II und Wirksamwerden der Schuldenbremse, 2012, 38 ([http://www.wegweiser-kommune.de/themenkonzepte/finanzen/download/pdf/Wieland\\_Finanzverfassung\\_2012.pdf](http://www.wegweiser-kommune.de/themenkonzepte/finanzen/download/pdf/Wieland_Finanzverfassung_2012.pdf) document as present on 24 October 2013)

## **Financing Counties in Germany -with specific Regards to the Situation in Rhineland-Palatinate-**

Gunnar SCHWARTING

Counties are part of the local sector<sup>1</sup> in Germany.<sup>2</sup> Their institutional setting (not each single county) is guaranteed by the German Constitution (Grundgesetz, article 28, 2, 2), with each county consisting of several municipalities. There are counties in each Bundesland (except the city-states of Berlin, Hamburg and Bremen), with the smallest number being the 6 counties in the Saarland, the highest number found in Bavaria (71). The populations of the counties vary widely – from 60,000 up to 600,000 inhabitants. The tasks of counties differ between the Länder, though this topic is beyond the scope of this section. In any case, basic public services (e.g. registration) are done by the municipalities; their town hall can be called a sort of “front desk for the citizen”, but they are still far from having developed into a “one-stop-government”.

The counterpart of counties is the city (the so-called county-free city). Roughly speaking the (county-free) city has the same position as the county and its municipalities combined. Cities may have subdivisions, with different terms used in the different Länder. These form a kind of district, but often have very limited rights. In bigger cities they can act as a sort of decentralized administration (“district town hall”).

Counties have the typical rights of local self-government: their own employees, own budgets, the right to issue by-laws and the right to determine the organization of the district administration, However, their spatial rights, a prominent right of local self-government, are limited. For example, zoning-laws are determined by the municipalities. As in municipalities, the head of the county (Landrat) is directly elected by the population for a term of 8 years (Rhineland-Palatinate). Each county has its own assembly, which is also di-

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- 1 In this paper the terms local entities, local sector or local level are used if all levels of local government (Cities, counties and municipalities) are included.
  - 2 As the sizes of the counties vary to a great extent between the Länder, their tasks and position in the system of local governments differ greatly. Thus this article can give only a very rough picture of the situation.

rectly elected (county council) but for a term of only 5 years (Rhineland-Palatinate). The general county elections in a Land are held at the same time as those for municipalities. The rights and duties of the elected officials are the same for both institutions. So at first glance counties seem to be very similar to municipalities.

However, there are some important differences. Counties have specific tasks but these are not established in the constitution (in contrast to the municipalities, which are responsible for “all tasks of the local sphere”); instead the tasks of counties are defined by ordinary law. In addition, county tasks must be seen in the context of the tasks of the municipalities within the county. According to the principle of subsidiarity, tasks shall be fulfilled by the lowest level as possible.<sup>3</sup> Naturally the same is true for county development planning (schools, public transport, streets ...), which has to respect the plans set by the municipalities. Therefore, counties are limited to some extent in their activities.

The functions of counties in Germany are mainly described as the following (Henneke 2008a, p. 66):

- to fulfil tasks which exceed the capabilities of municipalities but which must not be given to the state level (the counties as an intermediary level between the state and municipalities, see Henneke 2008b)
- to assist the municipalities if they cannot fulfil their tasks on their own due to a lack of administrative or fiscal capacity
- to ensure equivalent living conditions within the county (mainly by means of the contribution from the municipalities)

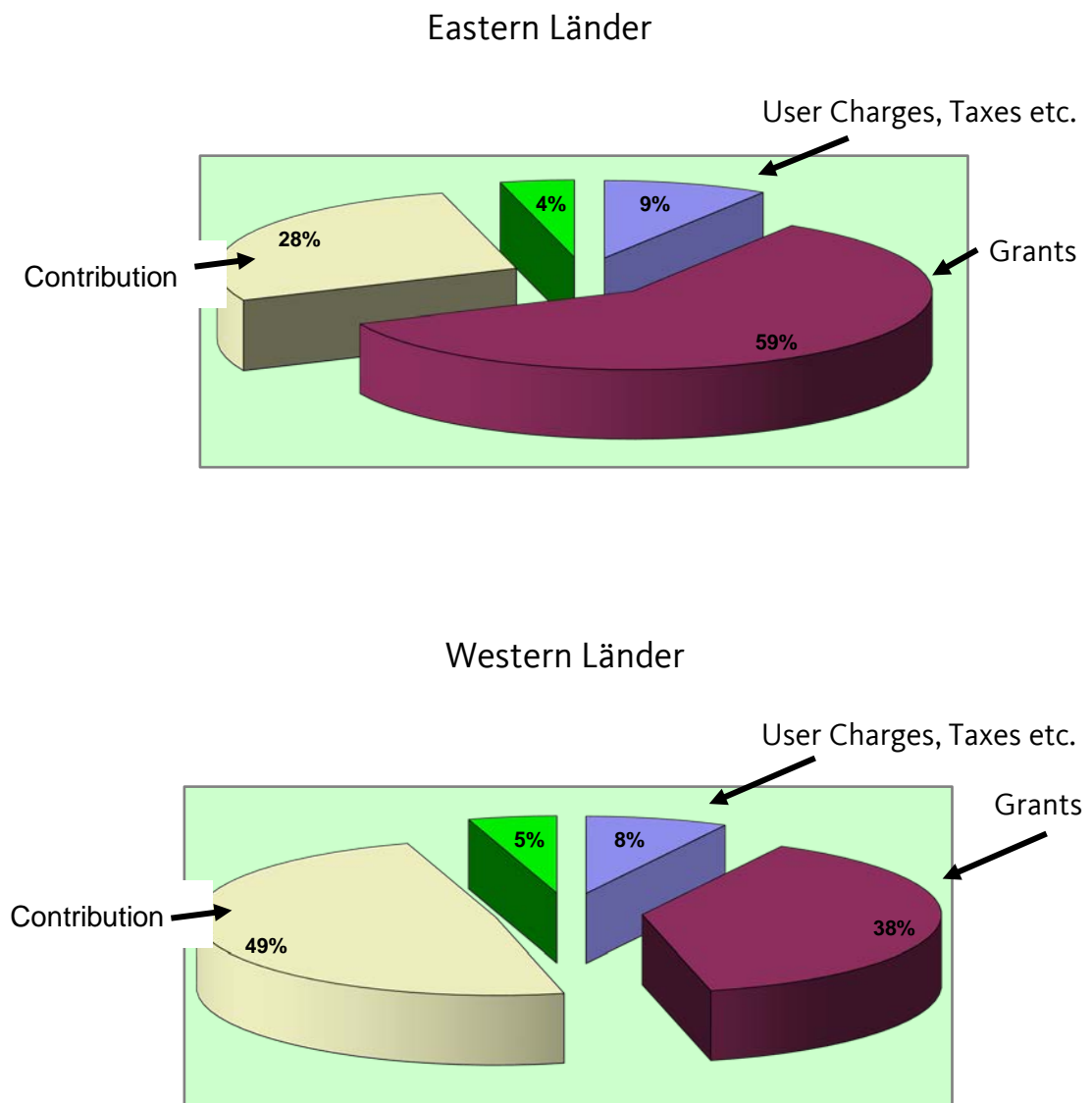
Generally the budget of counties in Germany is financed from very similar sources as the budget of municipalities – but with one great exception: Counties do not levy their own taxes or take part in national tax sharing as do municipalities. Instead they are financed by contributions given by (the paying municipalities would rather say: taken from) the municipalities within the county. Thus this is a bottom-up system of financing. This is much the same for other regional entities we find in some Länder, as for instance the region of Palatina in Rhineland-Palatinate or specific Provinces in North Rhine-Westphalia.

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3 This principle is also part of the Lisbon Treaty. The problem was the object of a judgement by the High Court in 1988 concerning waste disposal. In its judgement the High Court clearly defined the conditions for state legislation in which a specific task shall not be given to the municipalities but to the district. See Henneke 2008a, p. 32

Figure 1 outlines the main sources of current county revenues, which are then further discussed below:

**Fig. 9.1: Composition of county current revenues in % 2011**



Source: Wohltmann (2012a), p. 366

*User charges* are quite an important revenue source in county budgets, mainly due to the counties responsibilities for waste disposal (with some differences

between the Länder). Generally these revenues cover the costs of the service so that it is not a burden on the county budget. This is possible because the county itself sets the rate of the charge (just high enough to cover the costs). A second quite important *fee* is levied for vehicle registration, another service done by counties. However, in contrast to user charges, this is an administered price set by the national government. Whether these fees cover the costs of the service or not is determined by the number of newly registered cars and the efficiency of the service provision.

Surpluses from *local enterprises* are more common on the municipal level. Most counties have only minor enterprises – however, in some regions counties are shareholders in regional energy suppliers, so in some cases the dividends might be a substantial source of revenue for the county budget. All in all Taxes, Fees and Surpluses amount to 9% in western and 8% in the eastern Länder. The still remaining difference between the two parts of Germany can be seen in the proportion of grants and contributions resp..

Within every Land there are economic disparities; among the counties of Rhineland-Palatinate the GNP per capita ranges from € 13395 in a south-western county to € 28140 to the county of Germersheim in the Rhine Valley.<sup>4</sup> Therefore, counties take part in a *fiscal equalization scheme* among the local entities.<sup>5</sup> These payments amounted to 39% of total county revenues in 2011. As is pointed out in other articles in this contribution, each Land has its own equalization scheme, but generally there are five decisions to make:

- the proportion of the tax income of the Land that is given to the local sector (about 20% in Rhineland-Palatinate)
- the division of this sum between general and specific grants (for many years this has been 60%:40% in Rhineland-Palatinate, but this is now changing slightly in favor of general non-specific grants, actually 65%:35%)

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4 Volkswirtschaftliche Gesamtrechnungen der Länder: Bruttoinlandsprodukt, Bruttowertschöpfung in den kreisfreien Städten und Landkreisen der Bundesrepublik Deutschland 2008 bis 2010, Reihe 2 Bd. 1 Stuttgart 2013, Tabelle 6

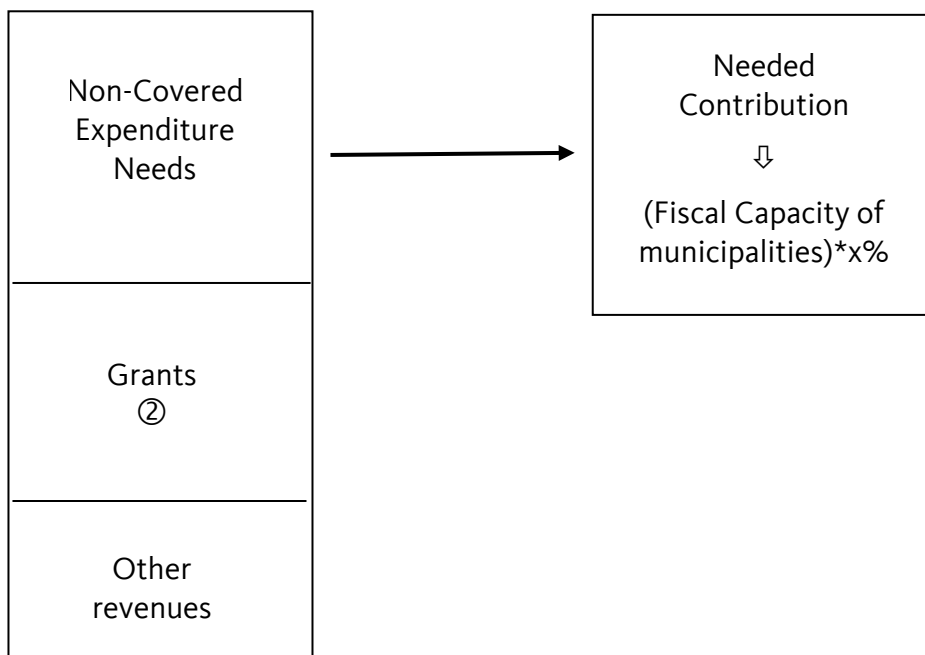
5 The Fiscal Equalization deals only with the budget (fiscal needs minus fiscal capacity, see the article by Gisela Färber); there are other instruments to close the gap between wealthier and poorer regions, such as development policy, the positioning of public institutions such as universities, and etc.

- the division of general grants between counties and municipalities (in Rhineland-Palatinate this is done within the equalization scheme – “single-tier” – whereas in Hessen a specific “column” for the counties is defined by the Land before equalization - “multiple-tier”)
- the indicators used to determine the needs of the local entities. Aside from the number of inhabitants, the most important for the counties are (in Rhineland-Palatinate):
  - the costs of social aid and the number of pupils in secondary schools (as counties are responsible for these tasks)
  - the area - giving a higher weight the greater the area (this indicator shall reflect the costs of streets built and managed by the county)
- the ratio of equalization between fiscal needs and fiscal capacity (50% in Rhineland-Palatinate)

Generally the fiscal equalization scheme should be sufficient enough to enable local entities to meet minimum service requirements in relation to the average. The crucial point is the portion of tax income given to the equalization scheme by the Land, which ranges from 11% in Bavaria to 23% in North Rhine Westphalia. However, in many cases this is not the whole story. A high portion does not necessarily indicate that a Land is very friendly to the local level and vice versa. Interestingly, short term loans to districts are very high in North Rhine Westphalia but very low in Bavaria (see Fig. 4). It may be that in Bavaria money is given to the local level outside the fiscal equalization scheme or that some tasks done in other Länder by the local level are situated at the state level in Bavaria.

Another interesting question is: How are general grants divided between counties and municipalities within a single-tier equalization scheme as in Rhineland-Palatinate? The crucial determinant is the number of inhabitants. To avoid double counting inhabitants the population is divided between the two levels (70% for the county, 30% for the municipalities). The same is done for fiscal capacity.

The *contribution of funds* to the county by the municipalities – the main revenue source for counties (Fig. 9.1) – is regulated by the fiscal equalization law. This shows the very close connection between the two systems. Contribution funds are always general revenues. They are paid to finance current and capital expenditures of the county (Figure 9.2). The contribution is based upon the fiscal capacity of each municipality within the county. Of course the system works only if the municipalities have their own revenues which are sufficient enough to pay the contribution to the county.

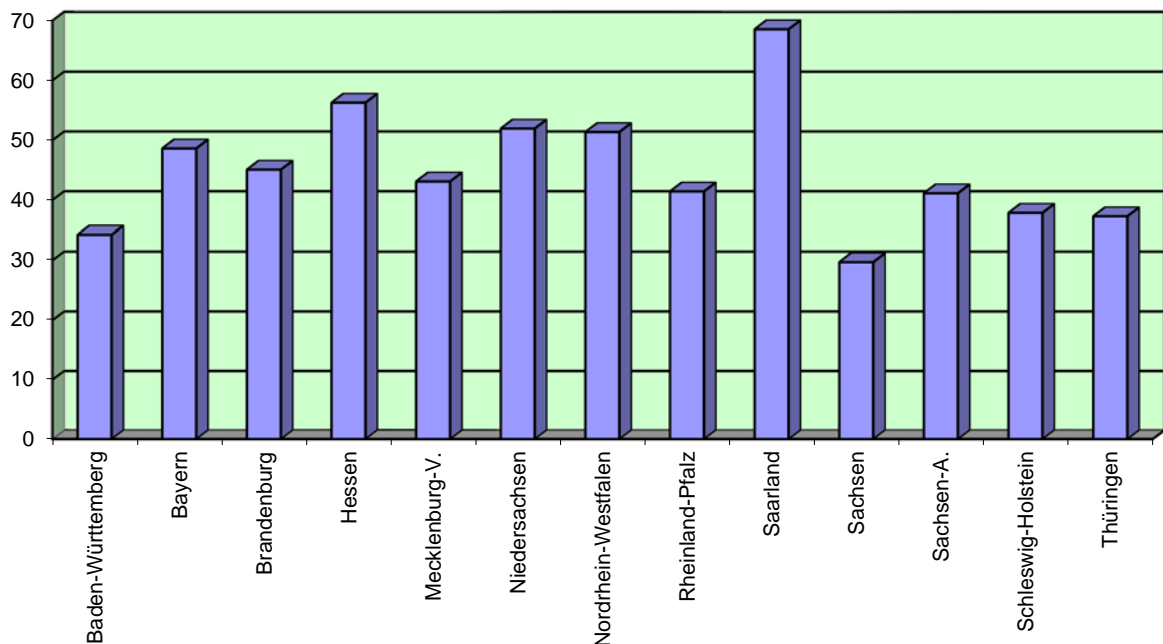
**Fig. 9.2: Calculation of the contribution rate**

Municipalities are obliged to pay. They cannot hold back the money for any reason even if they disagree with the height of the contribution rate. Counties in two of thirteen Länder require approval for the rate of contribution if the rate exceeds a critical borderline, while in another four Länder approval is needed if the rate is to be raised. In Niedersachsen approval has to be given in any and every case (for more specific information see Wohltmann 2012b). Moreover in four Länder the municipalities have the explicit right to give their opinion on the county budget, especially on the rate of contribution. If they disagree with the rate their arguments must be discussed by the county council.

*Fiscal capacity* of the municipalities is determined in accordance to the fiscal equalization scheme. Generally speaking the municipal revenues consist of:

- the local property tax
- the local commercial tax
- the local share of the national income tax
- the local share of the national VAT
- the general grants

**Fig. 9.3: Rates of contribution by Länder in % of municipal fiscal capacity (average) 2011**



Source: Wohltmann (2012b), p. 398

These are the basis for defining fiscal capacity and thus determining the county contribution (occasionally with different rates between the Länder).

The county determines a rate defined as a percentage of the total fiscal capacity of the municipality. This rate amounts to nearly 40% in Rhineland-Palatinate, while there are even higher rates in, for instance, Hessen. Moreover, Rhineland-Palatinate allows a progressive setting of this rate. The contribution of funds to the county sets a small-sized equalization scheme on the county level, very clearly seen if the rate is set in a progressive way.

As is seen in Fig. 9.3 the contribution rate differs widely between the Länder. The lowest rate is found in Saxony, the highest in Hessen; the difference amounts to almost 30 percentage-points. Possible explanations for the differences are:

- a different division of tasks between counties and municipalities
- a different position of counties in the fiscal equalization scheme
- a different level of specific transfers from the Land outside the fiscal equalization scheme

- deficits on the county level which are not balanced by a rise in the contribution rate (“holding deficits at the county level”)

A unique aspect of the one-tier equalization scheme of Rhineland-Palatinate is the effect of the division of inhabitants between county and municipalities. The higher the rate in favor of the counties, the lower should be the contribution rate demanded from the municipalities. This does not change the overall level of the budgets of the municipalities (less grants on the revenue side, less contribution on the expenditure side) – but it looks better!

County capital expenditures are mainly funded by

- surpluses in the current account or earnings from selling local assets
- specific (matching) grants by the regional government
- borrowing

Nowadays surpluses are mostly small, and in many counties even negative. Thus this source is not really important. Earnings from the sale of assets are also of minor importance because counties do not have real estate that is not in use for public services. Furthermore, as pointed out earlier, in most cases counties do not have at their disposal public enterprises that could be privatized.

*Specific grants* are of course a means by which the state influences local preferences in order to further state policy aims. This happens also on the municipal as well as on the county level. Generally specific grants cover only part of the total investment, leaving the rest to local co-financing. Therefore it can be said that this amount on the local level is absorbed from other projects. The main objects of specific grants to counties are (secondary) schools, streets or – if run by the county – hospitals. Theoretically specific grants should follow a clear development strategy set by the Land but in many cases specific grants can be said to be a result of political negotiations.

Counties as well as municipalities have the right to take out *loans* for investment purposes. They even can decide which financial institute shall provide the loan (according to the best effective interest rate), limited only in that local governments should avoid borrowing in foreign currencies. There is no need for specific guarantees for local borrowing. The right to collect taxes (or in the case of a county: contribution) is a sufficient collateral for the loan. Therefore, to date there has been no obligation for the financial sector to hold a specific ratio of equity in relation to loans to the local sector. Defaults on loans to cities, municipalities or counties did not occur in the past.

Moreover, in Germany (in contrast to other nations, e.g. Switzerland) a rating procedure for local entities is not common or even necessary.

Great attention should be paid to the *burden of local borrowing*. Because interest payments diminish the future fiscal capacity of the local entity, theoretically borrowing is permitted only if the excess of revenues over expenditures is high enough to cover additional interest payments (and, of course, the running costs of the investment project). Thus local entities need to get approval from the supervisory institution, which for municipalities is the county. Counties, therefore, are Janus-faced; as a supervisory institution they act in place of the state, but as a local entity counties themselves need the approval of a state institution, such as the Ministry of Interior or (in most cases) one of its subdivisions.

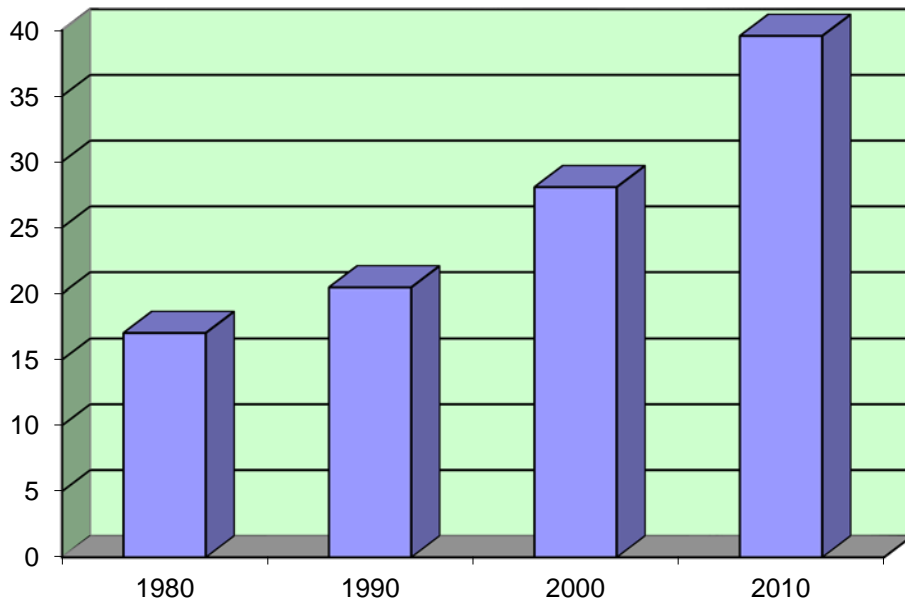
Though not necessary for every single loan, such *permission* is needed for total borrowing planned for a given fiscal year. Permission should be denied if the budget of the local entity is not balanced. However, in reality this is often not the case. In order to ensure sufficient investment for fundamental services at least some debt financing will mostly likely be approved. This was a crucial condition for allowing the public investment (national investment program 2009/2010) needed to help overcome the difficulties caused by the financial and economic crisis of the last few years.

Now, what are the main (fiscal) problems of counties?

1. In many parts of western Germany the budgets of local entities – including counties – are not balanced. The costs for local public services are insufficiently covered by revenues. The biggest part of the deficit, which nationwide is estimated at a level of about 15 billion Euros (160 Euros per capita) for the year of 2010, generally arises from the social aid sector. As social aid accounts for about 40% of county expenditures (Fig. 4) this problem is existential for them, even more so as these expenditures have risen extraordinarily in the past years.
2. Counties face a variety of changes in legislation, especially in the field of social security. They have to adapt new or changed regulations for their services. As is the case for child care (children under 3 years old), more and more costly tasks are coming. Therefore counties and their respective associations have to negotiate with the state ministries about compensation payments (principle of connectivity).
3. On the other hand, rapid changes are occurring in the market for public services. This is for instance the case with hospitals. While traditionally

a typical task for the county, now an increasing number of private hospitals are being established. Sometimes counties even privatize their hospitals.

**Fig. 9.4: Share of Social Transfers in relation to current expenditures (in %) 1980 – 2009**

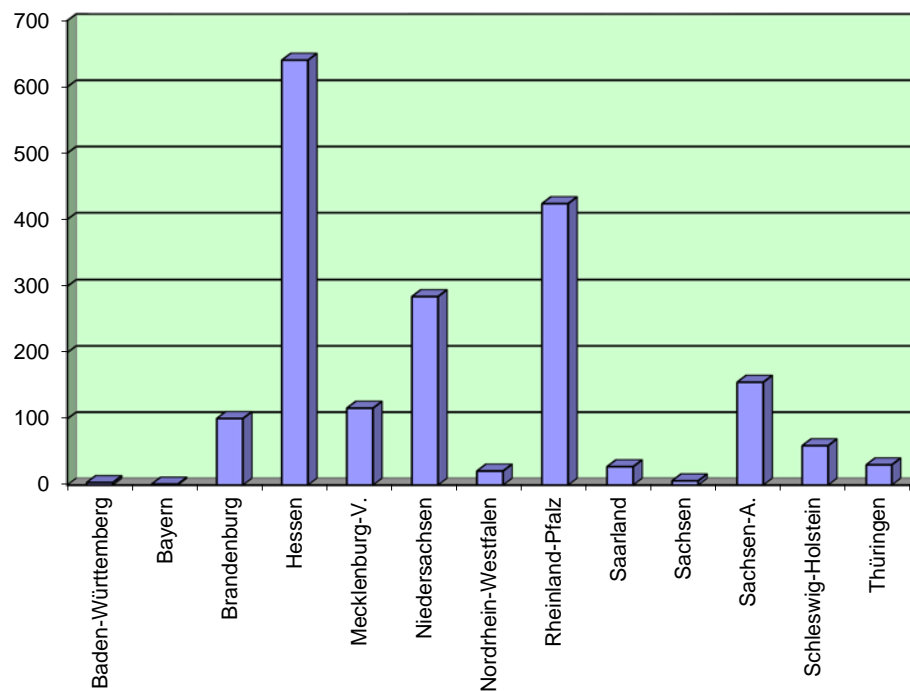


Source: Wohltmann (2012a)

4. A great part of the revenues of counties comes from the contribution by the municipalities. This affects the fiscal capacity of the municipalities. If – as in some cases such as Hessen – more than 50% of local tax revenues and grants are absorbed by the county then conflict between the two levels is inevitable.
5. A very real conflict is related to using the level of county costs as basis for setting the contribution rate (Fig. 9.2). In Germany the local sector will implement accrual accounting by 2016, meaning that depreciation has to be taken into account which was not the case before. Municipalities claim that they will now be paying for depreciation of county infrastructure that were once financed by them through earlier contributions.
6. The implementation of accrual accounting is accompanied by the introduction of more tools of new public management, such as governing by goals and numbers, benchmarking or (financial) risk management.

7. The members of the county council are often members of a council in a municipality within the county. Thus they face an inherent conflict regarding whether to support the county or the municipality. Consequently, many counties do not raise the contribution rate to the level necessary to cover all expenditures.
8. Therefore counties have to take out short-term loans to fill the gap between expenditures and revenues (Fig. 9.5). In the counties of Rhineland-Palatinate this debt amounts to about more than 400 Euros per capita (2008). This short-term debt adds to the long-term liabilities, which have risen in 2010 to nearly 350 Euros per capita.

**Fig. 9.5: Short term loans by counties in Euro per capita 31.12. 2011**



Source: Wohltmann (2012a), p. 338

9. Hence the counties are demanding, through specific associations (German County Association), their own taxes or a portion in tax-sharing – a system found in other countries such as France (communautés urbaines)

10. As the municipalities have to pay the contribution, they try to limit the activities of the county (Fig. 9.2) while districts are interested in getting more duties, e.g. by decentralizing former state duties.<sup>6</sup>
11. The distribution of grants is another field of conflict (Fig. 9.2). As the sum of grants is limited, the division between the two levels is crucial. Some Länder try to solve the problem by dividing the grant total into a part for the counties and another one for the municipalities (multiple-tier). However, this division itself can be a point of conflict and is open to political debates.
12. The local sector overall (but with great regional differences) faces a substantial gap between investment needed and real investment expenditures made. Most of this investment is not necessary for new infrastructure but for renovating and modernizing the existing one. This is true also for the counties. So unfortunately, many streets, schools and other parts of infrastructure are not in good condition.
13. A challenge for the counties is the development of regions (somewhat higher level local entities). For example, the city of Hanover and the county of the same name now form the region of Hanover. Similarly, the city and the county of Aachen merged two years ago. Both regions were not initiated by the Land and the idea was instead born at the local level. They are thus a result of a bottom-up process. Furthermore, metropolitan areas are becoming more and more important. A very old one is the Ruhr region in North Rhine-Westphalia, but more interesting is the Rhine Neckar region (Mannheim-Heidelberg-Ludwigshafen), whose local entities belong to three different Länder.
14. Are regions an answer to territorial reform through amalgamation of counties (and county-free cities)? Might regions in the long run become something like a “super county”? What happens to areas at the periphery where no nucleus for forming a region exists? There are many questions about such issues but any prediction is nothing but speculation.

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<sup>6</sup> A very creeping decentralization is found in street classification. The national level tries to shift the responsibility for national roads to the Länder as they try to shift the responsibility for their regional roads to the districts.

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## **Local Fiscal sovereignty, Financial Supervision and Local Budgetary Rules**

Jochen DIECKMANN

### **1. Preliminary note: Municipal self-government**

The definition of the term “municipal self-government” is based on a set of rights (German: *Hoheit*). The German word *Hoheit*, which means “right” or “authority” is no longer generally used in German, but is still applied in this context.

The following rights are conferred on German municipalities:

- The right to adopt bylaws (*Satzungshoheit*);
- The right to appoint personnel (*Personalhoheit*);
- The right of the municipality to organize itself (*Organisationshoheit*);
- Fiscal autonomy (*Finanzhoheit*) and
- Planning authority (*Planungshoheit*).

All of these elements are comprised by municipal self-government, which is guaranteed under the German constitution, the “Basic Law” (*Grundgesetz*).

Article 28 of the Basic Law defines municipal self-government as “the right [of municipalities] to regulate all local affairs on their own responsibility, within the limits prescribed by the laws“.

The scope of the following presentation is limited to only one, very vital, element of municipal self-government: fiscal autonomy.

### **2. What is “fiscal autonomy”?**

One element of “fiscal autonomy” is the right of the municipality to manage its revenue and expenditures autonomously. Once the budget has been drafted (and, where required, approved) no external influence or influence from “above” can be exerted.

Furthermore, fiscal autonomy implies the right to autonomously impose, manage, and collect charges. Charges comprise the following:

- taxes,
- duties and
- contributions and
- fees.

A brief explanation of this terminology:

Taxes are public-law charges that can be levied and used without having specified a binding purpose for their use. These are charges intended to cover general financial needs and have to be paid by anyone who meets the legal requirements. By contrast, real value for money is obtained in the case of duties and contributions, as these are considered the *quid pro quo* required of citizens in return for the availability of municipal infrastructure (meaning the possibility to make use of rather than the actual use of this infrastructure!). Duties are continuously levied, contributions only in the case of initial or resumed provision of infrastructure. As in private law, fees are payments for services provided by the municipality such as, for instance, general interest services, or rental of state-owned or municipal housing. Needless to say, fiscal autonomy also comprises the right to establish the municipal budget and decide on the use of funds. In principal, this is done on a yearly basis and prior to the budget year concerned.

Some experts take the view that fiscal authority also implies an entitlement of municipalities to the provision of adequate financial resources by the federal state (and the federal government?). This opinion is, however, controversial. In any event, such an entitlement is not a core element of fiscal autonomy.

### **3. Supervision of municipal authorities by the state**

Municipal self-government is not without limits. Article 28 Basic Law, which guarantees the freedom of decision of municipalities “within the limits prescribed by the laws”, underscores this.

#### *3.1 Supervision of municipal authorities by the state*

With regard to the supervision of municipal authorities by the state we may differentiate between:

- repressive supervision and
- preventive supervision.

In the case of repressive supervision, the supervisory authority takes action in the event of objections to decisions or measures of the municipal authorities. This would be the case, for instance, if the head of municipal administration questioned whether a decision of the municipal parliament was legal.

Preventive supervision means that in a number of cases federal state law stipulates that municipal authorities are obliged to notify the supervisory authority of a planned decision or to seek the approval of the respective supervisory authority.

The latter also applies and, in fact, applies especially to the budget bylaws establishing a municipality's annual budget. Depending on the laws of the respective federal state (Land), this bylaw either needs to be notified or approved.

Measures of the supervisory authority can be subjected to legal review by an administrative court if the municipality institutes legal proceedings. In this regard, municipalities have the same rights as any citizen.

### *3.2 Competency for supervision of municipal authorities by the state*

The competent authority for state supervision of the municipal authorities of cities (i.e. communities that belong to an administrative district ((Land-) Kreis) is the district administration.

With regard to the districts and – insofar as applicable – the cities administered as independent districts (kreisfreie Städte) the competent supervisory authorities are generally the intermediate authorities of the federal state (Landesmittelbehörde, e.g. Regional Government, Bezirksregierung). Where these do not exist, supervision generally falls to the competent Land ministry. As a rule this is the ministry of the interior. There is no supervision of municipal authorities by the federal government.

### *3.3 Scope of supervision*

Supervision of municipal authorities by the state has the following two facets:

- legal supervision and
- technical supervision.

Legal supervision concerns the procedural and substantive legality of decisions or acts of municipal self-government. Unlike legal supervision, technical

supervision is not limited to the question of legality but also examines the expediency of municipal decisions or acts. Technical supervision is, however, limited to tasks that have been delegated to the municipal authorities by the Land.

### *3.4 Measures of supervision municipal authorities by the state*

It is difficult to make generally applicable statements with regard to measures that can be taken in the framework of supervision of municipal authorities by the state since both the measures and the terminology differ from Land to Land.

The following are some common examples:

- information of the lower level authority by the higher level authority
- objection to and/or annulment of the measure concerned
- measures carried out by the higher authority on behalf of the lower authority without the need for a specific order on the part of the higher authority
- appointment of a State Commissioner (Staatskommissar),
- dissolution of the municipal council/district council
- premature termination of office of the mayor.

In all of these cases, the principle of proportionality applies. It is enshrined in the German constitution (Article 2 Basic Law) and demands that initially the supervisory authority must apply the instrument or take the measure that least impinges upon the legal sphere of the regional or local authority. Only if this proves to be fruitless or without result may the supervisory authority resort to stronger measures.

### *3.5 Some details of supervision*

The appointment of a “State Commissioner“ is the strongest measure of supervision of municipal authorities by the state. Even if – in accordance with the principle of proportionality - mild measures are initially applied, a severe breach of obligations on the part of the municipal authority or the incapacity of municipal bodies may require the supervisory authority to replace the actions of the local authorities by an institution or an experienced person endowed with plenary power and government authority.

Without exception, therefore, the municipal/district codes of the various Länder stipulate that in case of emergency the competent government authority may appoint a representative to deal with all or some municipal affairs. This representative is referred to as a State Commissioner (German: Staatskommissar).

It should be emphasized again that this is the most drastic measure of state supervision. Temporally as well as figuratively speaking, this is the last resort. Only if no other measure produces results will the competent Land ministry take this step. Recent, more flexible legislation in North Rhine-Westphalia, for instance, has led to the creation of a practical variant of the State Commissioner. So-called “Austerity Commissioners” (Sparkommissar) with consultative powers are appointed as a milder, preliminary measure. Some of these commissioners have already successfully completed their tasks. Strictly speaking, this is a case of external consulting for the municipal authorities on behalf of the state and at the expense of the municipality.

#### **4. Municipal budgeting**

Municipalities are bound by the principles of budgetary law, which were primarily developed for the federal and Land levels. The legal instrument used to transpose these principles into Land law is a budgetary regulation of the federal state concerned (Landeshaushaltsordnung).

The municipal budget is adopted in the form of a municipal statute and is part of local law. The requirements for its adoption and effectivity are laid down in local law.

##### *4.1 General budgetary principles*

Over the years, a catalog of general principles has developed in budgetary practice at the federal, Land and community levels. For the most part, these principles are reflected in specific regulations of the federal Budgetary Principles Law (Haushaltsgrundsätze-Gesetz). Many of them enjoy constitutional status as they are reflected, *mutatis mutandis*, in the regulations of article 110 Basic Law.

Many of these principles are also applied in the private sector, where they are referred to as “principles of standard accounting”.

The following principles are particularly relevant:

- principle of progressive and continuous fulfillment of tasks (*Grundsatz der stetigen Aufgabenerfüllung*):  
Budgeting needs to be carried out in such a way as to ensure progressive and continuous fulfillment of the respective public tasks
- principle of budgeting in a way that is appropriate to the economic situation (*Grundsatz der Konjunkturgerechtigkeit*)
- principle of economy and efficiency (*Grundsatz der Sparsamkeit und Wirtschaftlichkeit*):  
Municipalities should be economy and efficiency-minded not only in drafting but also in implementing their budget
- fundraising principle (*Grundsatz der Finanzmittelbeschaffung*), and
- publicity principle (*Grundsatz der Öffentlichkeit*).

The citizens should be able to see and understand how their representation makes use of the money it is entrusted with.

#### 4.2 Special budgetary principles

Needless to say, in addition to the general budgetary principles there are also special budgetary principles.

Specifically, this refers to the following principles:

- principle of allocation (*Prinzip der Veranschlagung*):  
The full amounts of revenue and expenditures need to be allocated independently of each other.
- The principle of annuality (Biennial budget!) (*Grundsatz der Jährlichkeit*):  
The budget is adopted for one budgetary year at a time. A biennial budget therefore always consists of two one-year budgets.
- The principle of priority (*Grundsatz der Vorherigkeit*):  
The allocated funds may only be used once the budget has been adopted.
- principle of factual completeness (*Grundsatz der sachlichen Vollständigkeit*), and
- principle of unity (*Grundsatz der sachlichen Einheit*):  
These two principles mean that all revenue and expenditure related to one budget must be allocated in one single budget.
- principle of budgetary accuracy and transparency (*Grundsatz der Haushaltswahrheit und –klarheit*):  
The estimated allocations need to closely relate to actual developments and the budget has to be clearly structured and transparent

- principle of budgetary equilibrium (*Grundsatz des Haushaltsausgleichs*): The budget needs to establish a balance between revenue and expenditure.

#### *4.3 A recent development: budgetization*

Inspired by a number of communities in the USA, New Zealand and the Netherlands that instituted reforms (Phoenix, Arizona, Christchurch, Tilburg) as well as by examples from Scandinavia, a reform of municipal administration has evolved. This reform is centered on decentralized distribution of resources. In simple terms, this means a far-reaching delegation of authority for decision-making combined with a more stringent system of reporting obligations.

In terms of budgeting, this means that the respective lower administrative units are given control over certain budget lines that they are allowed to dispose of without formal allocation, as long as the total budget is not exceeded.

This approach has met with general approval and, following its introduction in the municipalities, it is now also being pursued at the Land level.

### **5. Conclusion**

Fiscal autonomy is part of municipal self-government. The local authorities mostly are autonomous, but their fiscal policy has to respect their limits by the laws. As far as this is concerned there is a supervision of municipal authorities by the state.

Budgetary law is a rather “dry” subject matter, but it is an indispensable element in particular of local democracy. In Germany as in Europe, a dense regulatory regime has been established. These very detailed regulations are at risk of becoming an end in themselves. Gentle reforms and modernization measures are therefore required. Budgetization is a promising step in the right direction.



## **A Comparative Study of the Sino-German Public Financial Support Mechanism to the Vocational Education**

XU Zhengzhong, WANG Zhijie

Advanced vocational education is the important engine of long-term stable development of German economy, while effective public financial support mechanism is the important support of German vocational education leading in the world. By comparing the public financial support mechanism of Chinese and German vocational education, we can better collect funds, distribute, operate and manage the public financial expenditure in vocational education; it has fundamental strategic significance of realizing the transformation across of China from big industrial country to industrial power, from big human resource country to human resource power.

### **I. It is an important function of public finance to support the development of vocational education**

The important requirement promotes the multiple and compound transformation of society. The contemporary China in the progress of modernization is facing the strategic opportunity period characterized by multiple and compound social transformation, that is to say, the rural society is transforming to urban society, planned economy integrates with market economy, rural society leap to industrial and intellectual society, social structure changes from three-dimensional hierarchy to flattening network, social formation changes from closed inner volume to open outer expansion, industrial structure changes from industrial dependency to industrial innovation, development pattern switches from linear economy to circular economy, culture changes from surviving type to developing type. While constructing the social universal service system is an effective method to avoid falling into “modernization trap” and successfully realize the multiple and compound transformation. As the integration of vocational education and general education, modern vocational education is closely involved in the social economic life, becoming an important part of the social universal service system. Therefore, public finance supporting the development of vocational education is the important contents of promoting the modernization construction and realizing

multiple and compound transformation by effectively using financial leverage.

The important path remodels future China's economic growth momentum. In the current grand context of China's economic development, promoting the transformation of development mode and adjustment of economic structure, we should focus on the impetus to realize the economic increase, change the three troikas of investment, consumption and export to the three driving wheels of creativity, skills and high-tech. The advanced modern vocational education can combine with the economic society with high speed, absolutely becoming the catalyst of creativity, cradle of skills and the amplifier of high-tech. We can say that in the important stage of contemporary China taking the lead out of the economic downturn and breaking through the trap of middle income, vocational education has more closely combine together with regional strategic breakthrough, industrial high-end upgrading and economic inclusive growth. Therefore, public financial supporting the development of vocational education is an important path for the public finance to effectively stabilize the economic development and promote optimizing the allocation of resources.<sup>1</sup>

The important channel promotes to solve the all-round development of human beings. In the final analysis, the problem of development is to solve people's problem, the fundamental of planning to development and promoting development should achieve the goal of all-round development of human beings. The vocational education in new period has carries three basic functions, namely cultivating the innovative and entrepreneurship spirit, promoting the match of people and industry, and promoting the social integration of marginalized groups. This determines that vocational education is not only the educational activity to cultivate vocational ability and entrepreneurship ability, becoming the booster of economic development, but also the education service to improve the individual quality and promote social inclusion, becoming the supporting point of livelihood construction.

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1 Xie Xuren holds the view that public finance has the functions of stabilizing economy, resource allocation, income distribution and supervision and management, etc. it is the material base, system security, policy instruments, and supervision means. ("People's Daily", 10th edition in Feb 29, 2008)

## II. The practice of German public finance supporting vocational education

For a long time, the German government actively responds to the change of development mode and improvement of development speed of vocational education, effectively adjust financial policy and collecting funds method, making great achievements in fully mobilizing the enthusiasm of the community investing vocational education, guaranteeing the stable and clear funds source channel of vocational education and improving the utilization efficiency of education funds. Especially in the face of the financial crisis and European debt crisis, the high-quality “Made in Germany”, high level of vocational education successfully boost Germany taking the lead in coming out of crisis shadow among the first starting countries. According to the statistics, in 2012 the EU’s youth (between 15 to 24 years old) unemployment rate was 22.6%, while the German youth unemployment rate is only 7.9%<sup>2</sup>.

1. Actively give play to the leverage effect, and effectively guide the enterprises to invest. German vocational education is co-financed by public sector and private sector, the support of public finance to vocational education mainly reflected in the requirements of meeting infrastructure and basic services, guiding the enterprises to actively carry out the vocational education, effectively give full play of leverage effect of public financial expenditure driving the investment of human resource and capital in the enterprises. The vocational schools organized by the state cooperate with the enterprises run by private to carry out the “dual system” vocational education, forming the subject of German vocational education. Its biggest feature is that public finance is responsible for the schools’ operation funds, which are shared by state government and local government, while the enterprises undertake the training cost. In 2006, the total expenditure of German vocational education reached 38.7 billion Euros, of which the Federal Labor Agency and vocational school each bears 15%, while the enterprise bear about 70% of the cost (see Table 1). It is difficult for public finance to fully bear the full cost of vocational education, however, as long as public finance plays a good guiding and supporting role in guaranteeing the vocational education development, it could open up the channel of strengthening vocational education and enhancing the human capital. For example, despite the high investments in vocational education increasing the enterprise cost, the investment in vocational education

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2 [https://www.destatis.de/DE/PresseService/Presse/Pressemitteilungen/2012/08/PD12\\_296\\_132.html](https://www.destatis.de/DE/PresseService/Presse/Pressemitteilungen/2012/08/PD12_296_132.html)

and human capital is the investment of continued growth and better development, becoming a basic consensus of German enterprise community. Data from German Federal Institute for Vocational Education shows that more and more enterprises are willing to provide learning opportunity and improving space for their employees through vocational education, in 2011, there were over 40000 enterprises participating in vocational education, an increase of 46% on year-on-year basis.

**Tab. 11.1: Capital Source of Vocational Education in 2006**

<b>Capital source</b>	<b>Expenditures (100 million Euro)</b>
Enterprise	277
Federal and State government	
Part-time vocational school (dual system)	28
Full-time school	24
Other schools providing vocational education (for example special grammar school and professional college)	16
Inter-enterprise vocational education center	0.3
Training courses and projects	3.1
Federal labor agency	39

Source: Bundesministerium für Bildung und Forschung, Berufsbildungsbericht 2007, p.146

2. Implement project promoting policy of limited durations and improve financial support mechanism. German governments at all levels involving the departments of vocational education include federal education and research ministry, federal economic and technical department, federal labor and social affairs ministry, state labor, economy, education and culture affairs ministries, etc. In order to avoid the unclear responsibility and unsmooth coordination of funds investment between competent departments of federal government and governments of each state, and balance each state's vocational education gap resulting from the gap of economic level and financial capacity

gap and other problems, the federal government usually implements the project promoting policy with limited duration, forms the joint forces by several departments, and improves the financial support mechanism to effectively support the development of vocational education.

By analyzing the project promoting policy with limited durations, it is not difficult to find the main target location and value orientation of vocational project supported by German public finance. First, focus on promoting the balanced development of interregional vocational education. Supporting the development of latecomer regions by developing the vocational education is the proper meaning of public finance supporting vocational education projects. In 1996, the eastern apprentice post action plan implemented by federal government well promoted the problem-solving of high unemployment rate in East Germany since the unification of Germany. Second, focus on providing the training post and cultivating the vocational talents. From some projects acquired at present, clear capital support, post offers, and training objectives have constituted the basic characteristics of public financial project of vocational education development supported by federal government. Third, focus on increasing the pertinence and effectiveness of training effect. A typical example is the vocational continuous education allowance plan implemented in 2008. The plan is not simply releasing grant funds, the vocational continuous education consulting of federal education and research ministry not only accepts the grant applications, but also provides the consulting services on training objective, appropriate training course and appropriate training units, etc. Fourth, focus on the concern and support of special groups. The public property of public financial expenditure determines its important functions to rescue and support the socially vulnerable groups. For example, the expansion of “The Successors Agreement of German Training and Professional Talents” in 2010 brought the youth with immigrant background into the recipient range. At the same year, it started the plan of “Vocational Education Chain” in April; an important program is to set 3200 “Vocational Education Navigator” in Germany to help students with learning difficulties.

3. Be strict to appropriation budget and performance management, achieving the efficient allocation of capital. As to supporting vocational education development by public financial expenditure, German federal government has made active exploration on standardizing financial expenditure behavior and improving the using benefits of funds. First, establish the scientific and transparent budgetary system; the preparation, approval and execution all take place under the strict constraint mechanism. As to the public financial

expenditure used to support vocational education, the annual budget is prepared from bottom to top according to the standards of government allocation, following the principle of budget classification and implementing that a fixed sum is for a fixed purpose. Second, make performance appraisal of financial allocation and adjust allocation scheme in time. In general federal vocational education and research institute and all the industry associations are responsible for the allocation of federal government funds. The allocation scheme is based on the common census reached by government and organizations, the regulated quantity, quality quantitative indicators and milestones effect as well as the approval achievements will directly affect the future total allocation, which increases and decreases according to the rising and falling of the indicator. Third, regularly analyzing financial support plan and promptly resolve the problems of education development. Since 1975, on the basis of "Statistic Yearbook of National Education and Scientific Research Funds Budget" issued by federal statistical office, the federal state commission (BLK) issued "The Analysis and Suggestion Report of Education and Finance", which provides decision basis for improving and enhancing the education and scientific research funds support plan including the vocational education.

4. Give full play to the advantage of industry associations, and participate in the allocation and management of financial funds. Giving play to the advantages of industry associations is not the simple form of consulting, suggesting and contacting, but clarify that it is the competent organization of industry vocational education institution, authorizing the industry association to participate or even take charge of the allocation and management of some vocational education funds. According to the stipulation of German "Vocational Education Law", as to the vocational education institutions in different sectors, its own industry association is the competent organization. Handicraft associations, business associations, agricultural associations, lawyer associations, economic audit associations and the medical associations are the industry competent organization designated by "Vocational Education Law", other industries' associations are assigned by each state. With the important link of participating in the allocation and management of financial funds, with the basic security of the competent organization's determination of "Vocational Education Law", the industry association achieves the participation of multi-channel and overall process in the support and supervision of vocational education development, for example, providing the education training institutions with professional service, the qualification authentication of vocational education and training institution, the management and

implementation of vocational training process, the teacher management of vocational education and so on.

5. Improve the construction of vocational education and research system, and support the continuous innovation and development. There is federal vocational education research institute and national vocational research center network in Germany, making specialized research of the different areas and different stages of vocational education system. In Germany, there are about 350 institutions engaging in vocational education research in all the universities, there are about 150 institutions engaging in vocational education research outside the universities. The federal vocational education and research institute directly subordinates to federal education and science ministry, is the biggest vocational education and research institution in the world, and is formed by representatives of federal government, representatives of state government, representative of enterprise group and employee representatives; it is the mediation and bridge between government and vocational education schools. The research institute not only undertakes the basic work of making research and planning of the vocational education, but also takes charge of the audit and assessment of the funding project of the federal related professional ministries, participates in the allocation and use of vocational education funds. In addition, the “Vocational Education Conference of Colleges” holds intersect every four years, the “Professional Conference” of federal vocational education research institute and the community research forum of German vocational education research have become the most active communication platform of vocational education research achievements in the world.

### **III. The main problems of Chinese public finance supporting vocational education**

Comparing the support of public finance in Chinese and German vocational education development, it's not difficult to find that there are the following problems existing in Chinese public finance supporting vocational education.

1. Overly dependent on public finance. The national vocational education funds have increased from 114 billion yuan in 2006 to 241.9 billion yuan in 2010. From the investment structure, increasing the financial funds investment the proportion of budget funds and education fees in the total amount has increased from 44.6% to 59.5%, accounting for more than half of the to-

tal funds. On the other hand, as the major beneficiaries of vocational education, the enterprises that make active investment on vocational colleges and vocational education still are minority, the participation method also remains at a low level of short-term loose cooperation, slow increase of school funds investment, the proportion in total investment funds also shrinks. The huge difference of Chinese and German public financial expenditures' proportions on supporting vocational education development, fundamentally, is determined by the fundamental purpose of vocational education and the positioning difference of the basic beneficiary, and is determined by the difference of function definition and realization approach of vocational education developed by public financial development.

2. Project implementation mechanisms need to be improved. Whatever it is project design, supporting priority or the funding method, performance assessment, the system, mechanism and method and means of German implementation of project promote policy with limited durations, are worth of our serious study and reference. For example, the plan of vocational education training base construction jointly implemented by Ministry of Education and Ministry of Finance, this is the first major project of vocational education supported on a large scale by central finance in Chinese history. By the end of 2010, the central finance has invested 3.86 billion yuan to support 2356 projects of vocational education training based construction<sup>3</sup>. This not only reflects Chinese government's determination to pay attention to vocational education, but also declares that Chinese vocational education project is still in the material level of base construction. Another example, the projects of Chinese central finance mostly support the "mating" method, namely the local government matches the corresponding proportion funds. In consideration of some local governments are in urgent need of projecting supporting but lacking of mating ability, this method might intensify the unbalanced development, coupled with the lack of strict financial discipline, there are noncompliance mating and false mating phenomenon in some places.

3. Lack of effective performance management. Under the background of funds primarily relying on public finance and funds scale continuing to expand, as to Chinese public finance supporting vocational education development, there exists a series of problems: neglecting funds allocation, neglecting performance management, neglecting budget establishment, neglecting

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3 Zhang Jiahuan, Guo Yang, Chen Juan: *The Comprehensive Analysis of Central Finance Supporting the Training Base Project Construction of Vocational Education Chinese Vocational and Technical Education*, 2011 (30).

budget execution, treasuring plan setting and neglecting tracing and improvement, all these problems need to be paid high attention. The effective operation of German public finance supporting vocational education development is the result of combined action of German modern education system and strict budget management. Of course, there are many conditions are not available for Chinese vocational education and budget management at current phase, but it is extremely urgent to introduce and implement the effective measures of German strengthening budget management and performance management.

4. Insufficient engagement of industry association. Due to the reason of lacking restrictive institutional arrangement and own weak power and so on, the industry association's participation in vocational education remains in a situation of narrow range and shallow hierarchy, let alone participation in the allocation and management of public financial funds used in vocational education. For example, the management of vocation education is mainly grasped by education department, even the education instruction committee in some industries is founded by higher vocational college of vocational education department in Ministry of Education, it is difficult to imagine an industry association with weakening basic guiding effect to be able to participate in the fight, allocation and management of vocational education public funds aiming at this industry.

5. Inadequate vocational education research system. Chinese vocational education research system not only lack the leading institutions like federal vocational education research institute, which has strong resources, extensive contacts and important responsibility, but also lack the vocational education research network with perfect functions, higher level and extensive coverage, the research of vocational education development, especially the research of public financial supporting vocational education development is still at the shallow phase.

#### **IV. Summary and recommendation**

Based on the above analysis, compared with Germany, the system design and mechanism operation of Chinese public financial supporting vocational education still has many gaps. As to German vocational education development, China should learn a lot from its experiences and methods: public financial supporting mechanism on guiding enterprise funds investment, optimizing major project design, improving budget performance management, giving

full play to the advantages of industry association and strengthening research system construction and so on. Combining with the practice of Chinese public financial system and vocational education system, the following related recommendations are proposed: First, on the basis of effective implementation of vocational education training base construction plan, with the reference of German dual system vocational education mode, we actively promote Chinese vocational education system reform, innovate vocational education mode, with the mode of on-demand cultivation, order cultivation and commissioned cultivation and so on, we effectively integrate enterprises' trend towards the profit and education's public welfare, enrich and widen the channel of enterprise investing vocational education, with the expanding but relatively limited public financial investment to drive the social capital with greater lever ratio, especially the continuous investment of enterprise capital.

Second, gradually implement the public finance focusing on the implement of project with limited durations, especially the mechanism of central finance supporting vocational education development; optimize project value and the setting of project contests, paying more attention to regional coordination development and special groups, more highlighting the pertinence and effectiveness of project.

Third, strengthen in an all-round way the public finance expenditure performance assessment and management supporting the vocational education development; in the field of vocational education, taking the lead in establishing and implementing the financial funds use system from the whole process of budget demonstration, performance assessment, performance management and follow-up feedback, providing a good demonstration for the security and efficient delivery of enterprise and vocational education investment.

Fourth, highlight the regional and industry feature, improve the construction of vocational education research network system, break the major control of education system to vocational education, effectively introducing labor and social security department as well as industry association to become the major competent department of vocational education, not only achieving providing decisions for the scientific and innovative development of vocational education, but also promoting to realize the reasonable allocation and efficient use of public financial funds supporting vocational education development in a more professional way.

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## **2. CHALLENGES OF LOCAL GOVERNMENT IN CHINA AND GERMANY**



## **Rural-Urban Inequalities, Modernization, and Reforms in Public Administration since 1789. Experiences from German History**

Stefan FISCH

The year 1789 was a water-shed in European history. 1789 stands as a symbol for the French Revolution. It was, first, a political revolution with many totally 'new' events. In 1789 there was a free discussion on all the country's grievances in all the 40,000 villages and towns of the kingdom, and relatively free general elections followed. The new representatives of the people passed the famous Declaration of Human Rights of 1789 and, in 1791, a constitution which became a model for Europe. In 1792 the political revolution became far more radical. France became a Republic without a monarch, the former King of France was sentenced to death in 1793, and the 'export' of the revolutionary achievements to other European countries through expansionist wars began. In 1794 the Revolution ended up as a terrorist regime (ironically named the 'committee for the general welfare') which murdered thousands for the sake of a better world in the future. For contemporaries of the time all these were previously unthinkable events, an unprecedented upheaval and turnover of all the former political structures ... and of even more, because the French Revolution was, second, a social revolution. Its double character as a political and a social revolution was exemplified by the famous slogan of 1789 "Liberty, equality, fraternity (brotherhood)". The revolution put an end to many social, economic, and fiscal privileges within the former system, and thereby fundamentally changed the structure of French society.

German contemporaries of the Revolution observed the French events, of course. They detested revolutionary turmoil and feared their loss of power, their expropriation and, in the event, exile or execution. They were thus led to seek "reforms instead of revolution". The German reaction to 1789 was characterized by gradual action in favor of an inevitable slow change. This action was led by the monarch's administration rather than by the people since there were not yet parliamentary representatives. The gradual change in rural – urban inequalities was a significant element within the broader reform strategy.

In 1789 most Germans still lived in the countryside. Their rural world was as it had been for generations. There were shared property rights to the land.

The peasants who worked on the land had to share the harvest with the local nobleman who held the lordship of their land, and they had to deliver compulsory labor to him. A fundamental interest of the nobles was to keep the labor force where it was, in the villages of the countryside. This resulted in restricted personal freedom. A peasant was not allowed to leave for the town (and when he did, it was illegal) and in many regions he was not even free to marry without the consent of his nobleman, who earned an additional income through granting such authorizations. In the peasants' world the family and the wider household (including unmarried sons and daughters) were the basic unit of their society, not the individual person as it would later become. Thus it was the families who acted, in a sense, as a 'social security' institution for their elderly members.

However, in around 1789 a small proportion of the Germans did already live in the urban world. German towns at that time were economically based on petty crafts in small local markets rather than on big trade (with the exception of harbor cities like Hamburg and Bremen and mercantile centers like Leipzig, Frankfurt, and Nuremberg). The craftsmen were organized in guilds, which defended the monopoly of their members. No one outside the guild was allowed to exercise the craft and the guild acted as a 'closed shop', preventing newcomers from entering through its control of the examinations leading to mastership. Again, the master's family and wider household (including the apprentices and the journeymen) were the basic unit of society, not the individual person, and they had the function of providing 'social security' for the elderly.

The Germany of 1789 was characterized by a general immobility in town and country. It was not yet a country of real and important change and innovation in economy and society. Germany's economic base still lay in the rural world, as it had in the centuries before, and it kept its traditional social structures. People remained heavily restricted in their choices and in their personal prospects for the future. Moreover, any change was popularly connected with deterioration and a traditionalist, positive view of a static world prevailed: "What is old, has proved to be good".

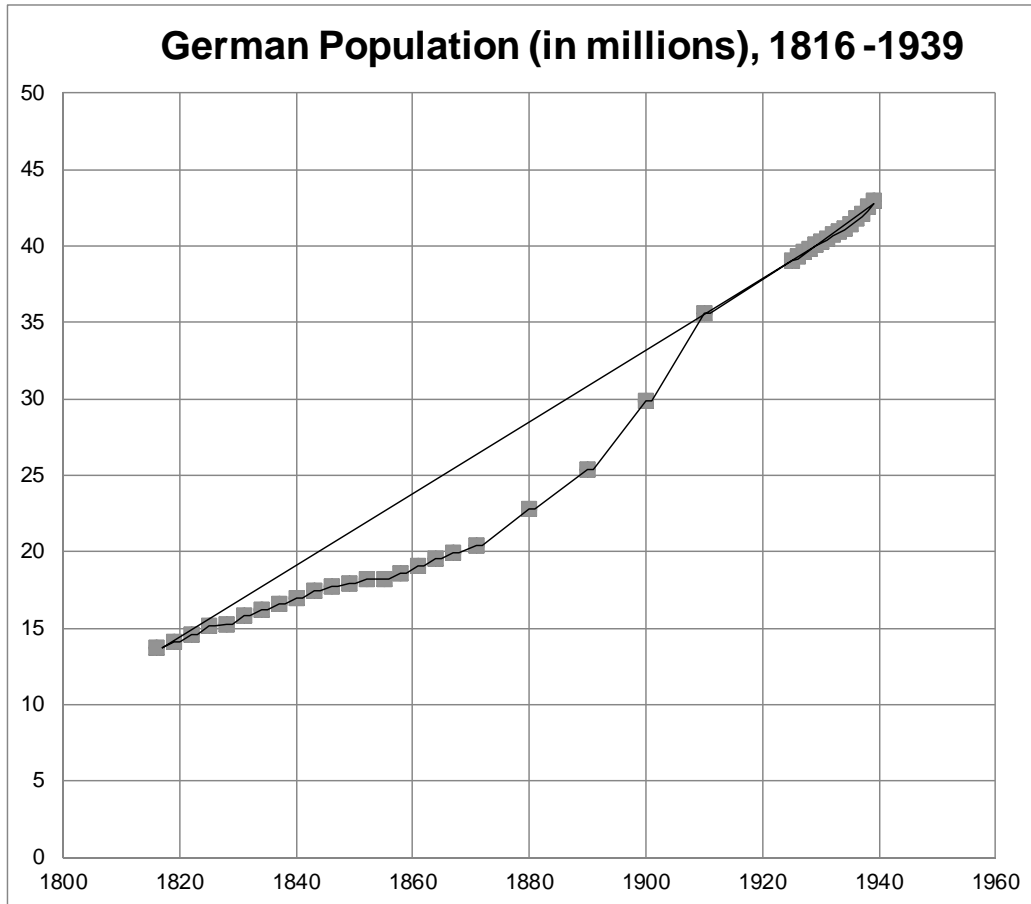
Special disadvantages experienced by those living in the rural areas included having a lower standard of living, very restricted territorial mobility, lack of education and therefore intellectual mobility, and very few choices regarding their occupation and therefore low inter-generational social mobility. With "1789" being a catalyzing event, a 'modernization' process started in that year, touching on many aspects of German society, economy, and political-administrative system. The three fundamental social and economic

changes were the demographic 'revolution', industrialization, and urbanization. The general response within the German political system was to promote reform to prevent revolution, a path that led eventually to the well-known German model for the welfare state.

This process of modernization began in the late 18th and continued into the 19th century as a massive demographic revolution. The population living in a given country in a given year is the result of three independent (!) factors acting in that year: the birth rates (usually per 1,000 inhabitants), the death rates (usually per 1,000 inhabitants), and the balance of emigration and immigration. In Germany, the high pre-modern era birth rates remained relatively high through the 19th century, whereas the death rates had begun to fall significantly already in the late 18th century, especially the mortality rate for new-born children up to their first year. As a result, people began to live a longer life, on average. As a result of the new combination of unchanged high birth rates and lower death-rates, the German population as a whole grew year by year to an unforeseen extent. Some side effects came in with the results of the migration movements, for instance the politically motivated emigration after the 1848 events and emigration for economic reasons in the last European hunger year 1847 and during the general crisis of 1873. Historians explain the sinking death rates mainly with reference to better nutrition (potatoes with their high caloric content became the new food for the masses, for instance) and better health care (Dr. Jenner's discovery of the small-pox vaccination and the beginnings of the public hygiene movement, for instance). On the other hand, the continuity in the high birth-rates was the result of the ongoing belief in the advantages of having many children in a family-based traditional economy - these traditional ideas lived on for some generations despite all the changes in the socio-economic context of their lives.

In Europe this process of demographic revolution was a characteristic of the 19th century and came to an end in the 20th century, whereas in China this is still an ongoing transition, as tables 1 and 2 demonstrate. Table 1 shows a clear peak in the population growth rate from the 1870s to the 1920s, a period of intensive industrialization marked by an excess of births over deaths. Comparing table 2 on China with the peak and its decrease in Germany in table 1, one can easily see that in China the process of demographic revolution and population growth is still at its peak and not yet decreasing.

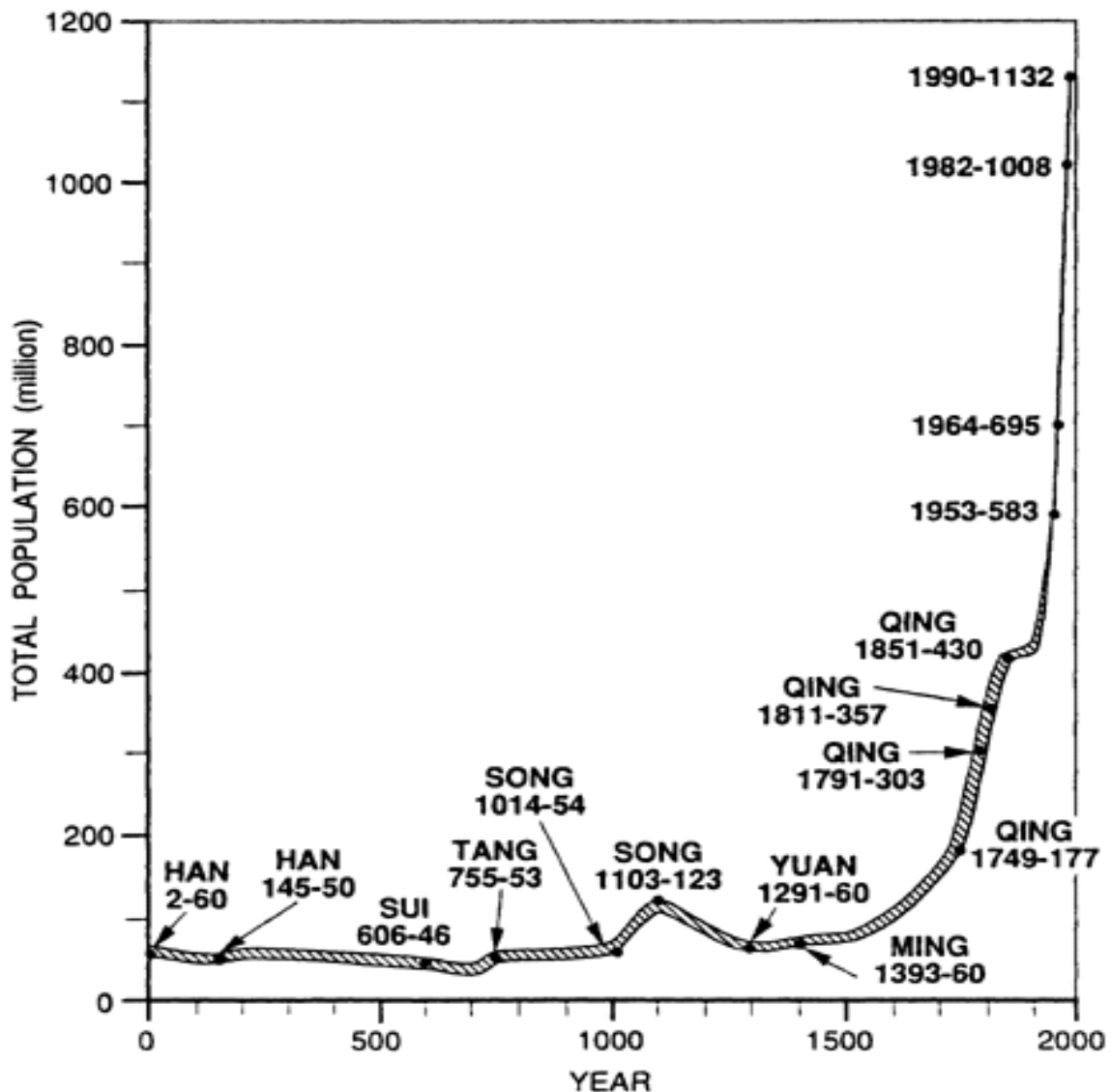
**Tab. 12.1: Population (in millions) living on the territory of the Federal Republic of Germany before 1989, 1816 – 1989**



(own diagram according to the data of Sensch, Jürgen as histat-Datenkompilation online: Geschichte der deutschen Bevölkerung seit 1815, see <http://www.gesis.org/histat/de/>)

Demographic Revolution and Industrialization were two aspects of the more general modernization process in the economy and society. These aspects were mutually triggered and re-enforcing: Population growth and higher efficiency in agriculture led to a growing labor force which was a precondition for industrialization. Local mobility of this labor force was a condition for the growth of industries since their placement was dependent on the location of raw materials. The transformation, within only a few years, of the Ruhr District from a quiet agricultural region to the center of Germany's coal mines and steel works, continuously active at day and at night, illustrates this pattern perfectly.

**Tab. 12.2: Population (in millions) living in China, 2 C.E. – 2000,**



(source: Smil, Vaclav: China's environmental crisis, 1993, for the graphic see: [http://afe.easia.columbia.edu/special/china\\_1950\\_population.htm](http://afe.easia.columbia.edu/special/china_1950_population.htm))

The rapid change of the Ruhr District also gives an impression of the urbanization process. The new industrial sites attracted workers from the countryside and became new urban centers. The new factory work was totally different from traditional peasants' work. No longer were the weather conditions important and the change of seasons, and no longer did the work directly guarantee the family's subsistence. Instead, workers became part of the machine and they had to adapt to its uniform rhythm. They lost much of their self-sufficiency in this new daily urban life. Money became a new medium which transformed the results of their labor into foodstuffs. The industrial

workers produced for a market within a national economy (and with growing exports beyond this market). This new market was based on abstract money; the elements of traditional barter and subsistence society disappeared. Traditions of life as expressed in family values or in craftsmen's and guilds' standards of product quality disappeared. Socially and economically, the growing working class had become dependent in new forms, on new institutions, actors, and ideas within a society and economy which was no longer local-based but national-oriented. It was this situation in the 1850s and 1860s which led Karl Marx to his original reflection about the workers' conditions and how dramatically they had changed.

Whereas the French Revolution was a revolution in the strict sense (of a rapid and thoroughgoing change), the modernization of economy and society was a relatively slow process. Nonetheless, the outcome of demographic revolution, industrialization (or: industrial revolution), and urbanization was as pervasive and fundamental as that of a 'real' revolution of the 1789 ideal-type. Yet of these two types of fundamental change, modernization gives more time to the ruling powers to adapt their action to the realities. Put otherwise, the lack of revolutionary events and organized mass action in the demographic revolution allowed the option for a strategy of reform from the top.

These reforms were based on the conviction of the high value of the individual. This conception found its earliest roots in the religious tradition of monotheism, especially of Christianity in its different variations, which established a kind of 'personal relation' of every faithful to his God. In day-to-day life an important origin of this individualistic conception can be found in the Roman Law (of contracts, for instance) of ancient times which was renewed in codified legislation. Public administration acted (or at least tried to act) uniformly for all those subordinate to their authority on the whole of its territory, be it a (still) rural or an (already) urban population. Their reaction to these accelerating changes was characterized by placing their trust in rules. The reforms should first establish and then guarantee reliable rules for all. This is a value-based individualistic approach; every sane adult is perceived as able to decide and to act for him- or herself and, moreover, to conclude binding contracts. At the same time rational considerations led to the strong conviction that general rules are very useful since they spare lengthy individual bargaining – provided that they are generally accepted. Nonetheless, rules may need interpretation and sometimes even sanctions; thus the need for independent courts.

The specific German way of political-administrative reform is, therefore, distinguished by a special importance for the rule of law, which laid an essential base for mutual trust in the burgeoning multi-relational market society. For the effective rule of law the active presence of the state and its public administration down to the local level became highly important. Thus new institutional structures were constructed which for the first time covered not only the country's key centers but its whole territory. In their organizational culture the new generations of public administrators tried to ensure the delicate balance between orders from above and free initiative from below. Central in that respect was the municipal reform of 19 November 1808 in Prussia (in Northern Germany), which entrusted the representatives of the cities' citizens (being at that time those only with significant property) with making free and autonomous decisions for their local community, and made them accountable for the results. Everyone knew that the same rules were applicable to all his fellow citizens and courts would provide effective sanctions against anyone breaching the rules. Trust proved to be an important non-material factor in the success of reform: more than any rigid control from above, trust favored and furthered a new spirit of initiative within the citizenry.

A unique result of the German structural reforms was to shape a relatively open-minded and independently thinking bureaucracy. Thoughtful emperors and kings always faced a very difficult structural problem: how to ensure the quality (in terms of the general interest) and the independence (mere endearing the monarch is not really helpful) of their closest staff? Thus in 1796, in a master-plan for the coming King of Bavaria (in Southern Germany), a 'revolutionary' idea was developed. A counterweight should be set-up against ministerial power through establishing the principle of guaranteed life-long employment for the public administrators subordinated to the ministers. The argument was as follows: these administrators would never hinder the 'good' actions of a minister, but they would resist collectively any unlawful action initiated by him if they were protected against his arbitrariness. In fact, public administrators in Germany became open-minded partners in free discussions with each other and with the heads of their departments. This fostered a greater diversity of new ideas and uncommon solutions. The public administrators knew that their possible political dissent against the minister's opinion would not harm them personally, e.g. by depriving them of their income. At the same time, a regular and adequate income proved to be an efficient barrier to corruption, which was previously pervasive.

Perhaps the most important reform for economy and society was the overthrow of the old traditions of rural life that had restricted geographic

mobility. For the peasant population their social and economic relationship to the nobles constituted not only life-long dependency, but was even hereditary. Reforms in the early 19th century made them 'free' persons who could move freely and without the consent of an authority within the whole territory. The old servitude having been abolished, a new kind of dependency arose, however. In case of old age, illness, disability or so on people became by new laws dependent on organized help by the municipality of their birthplace and had, therefore, to return there, even after extended absence. This was an important impediment to real nation-wide geographical mobility. It was solved in the late 19th century by the implementation of a general, nation-wide scheme for social security. These reforms were, together with the spread of compulsory and free schooling for all, a first-class investment in human capital: People enjoyed greater mobility in space from the changes in the legal-administrative framework. And they got a chance to experience new and creative ideas, broaden their intellectual abilities, and perhaps in-turn develop new ideas themselves. Thus both labor mobility and ability grew steadily, as is so essential for a market society and its sustained growth. On the whole, a greater diversity in many aspects of life and on many different levels helped people to cope with new changes occurring on a scale that had never been experienced before – and this is today, more than ever, the challenge of our modern world.

### **Further English reading:**

*Nipperdey, Thomas*: Germany from Napoleon to Bismarck, 1800-1866. Princeton 1996 (especially rich in perspectives, covering all aspects of history; only this first of three volumes (up to 1918) in German is translated into English).

*Retallack, James* (ed.): Imperial Germany, 1871-1918, Oxford 2008 (new collected volume).

*Sheehan, James*: German History, 1770 – 1866. Oxford 1989 (deals in depth with the new liberal ideas).

*Wehler, Hans-Ulrich*: German Empire 1871 -1918. Leamington Spa 1985 (critical approach, highly controversial; five newer, very rich volumes on the 19th and 20th century in German are not at all translated into English).

## **Progress, Challenges and Prospects of the Administrative Reform of the Central and Local China**

FAN Jida, ZHANG Zhanbin

Reform of administrative system the crucial point of deepening economic structural reform, social system reform and promotion of political reform and plays a global and driving role in further improvement of socialist market economy system as well as establishment of public service-oriented government. At the new historical starting point, facing the new condition and new mission, we must comprehensively analysis problems and reasons existed in our administrative system reform, and promote the administrative system reform actively and prudently.

### **I. Major problems and reasons existed in our administrative system: seeing from perspective of the relationship between central and local government**

Generally, China's reform of central and local administrative system has made significant progress and some achievement. However, with China's rapid economic and social development, some deep-seated contradictions and new problems have emerged.

Chinese Constitution only gives some extensive and principled provisions about the authority of central and local government, which mainly aims to the volume segmentation and do not give clear division of central and local authority from detailed tasks. Additionally, the absent of supporting laws and regulations made it hard to fractionize the whole work especially in various "fuzzy regions". The legislative hysteresis restricts the separation of central and local government's authority. For example, pursuant to the Constitution Article 3, Authority division of central and local governmental institutions shall be under the unified leadership of central government and give full play to the enthusiasm and initiative of local government. It gives no clear specification about how to divide the authority further. Even though, Legislative Law stipulates the legislative authority of central and local government, but it is too extensive and local government has little voice comparing to central government.

Functional transformation of government has not been completed, and central and local government's public expenditure on social management and public service is gravely insufficient. Although the "over-stepping", "absence" and "dislocation" of government authority is a old problem, they are still existing after year of revolution. Governments at all level tend to value economic management and look down upon market supervision, social management and public services. Governments still prefer economic development and interfere too much in micro-economy. The restless governments interfere in many affairs out of their duty and beyond their capability. Some superfluous administrative approval or disguised administrative approvals still work in the fields within which they shall quit the stage. In some place or department, governments still play leading role in resource allocation. Politics has not been separated from affairs and society thoroughly. Social organizations are not valued and classification reform of governmental institution is left behind. Governments are used to undertaking social affairs and public service. Affected by existed financial and taxation system, development goals and evaluation mechanism, central and local government's public expenditure on social management and public service is gravely insufficient.

Chinese Constitution, Organization Law, Budget Law and other laws and regulations only gives some extensive and principled provisions about segregation of public service duty among governments from all levels. Except for the exclusive duties such as national defense and diplomacy, other public services are classified as common duty shared by governments at all levels, working differences between whom lie in the size of jurisdiction, and that is the highly consistent of organization structure, function and duty among central government and local government at all levels. Authority of governments at all level always crosses with each other and fuzzy work boundary, frequent change, buck-passing and similar actions happen frequently in the public service. For example, pursuant to the Compulsory Education Law, operating expense and capital construction investment shall be financed and guaranteed by State Council and local governments at all levels. This provision only indicate that implementation of compulsory education is the common duty of governments at all levels, but not specify detailed duty of government at each level. Additionally, problems such as ambiguous authority-responsibility relationship between governments at different level, excessive organization setup and duty overlapping still exist to some degree. For instance, the State Council only set the National Development and Reform Commission, but 21 provincial and local governments set up the Development and Reform Commission and the Economy Commission whose duty overlap with each other.

Dislocation of right and duty between central and local government, and authority of local government do not match to their finance resources. Some public service duty, such as compulsory education, medical treatment and public health, and social insurance, which shall be assumed by government at a higher level are actually assumed by government at lower level, and central government's expenditure on those is relatively low. Some affairs in the fields such as national defense, diplomacy and national security, which is classified as central government's duty are carried out and financed partly by local government. Authorities of central or local government do not match to their finance resources respectively. Finance resources go upwards while the public service duties go downwards. At the same time, some duties belonged to local governments, such as upgrading of some county hospital, construction of cultural venues and waste water treatment are shared by central government. Some project invested by central government are directed to some certain city, and fundamental facilities constructed by some local government servicing for people in certain area also strives for financial support from central government. These actions enhance interference from central government objectively.

Vertical management impairs authority of local government to some degree and will restrict local government's enthusiasm. Actually, vertical management is a double-edged sword and series of new problems and new contradictory gradually emerged following the status development. Local governments deem that central government sets up vertical managing department because they have no confidence on local governments, resulting in that each department acts on their own way instead of cooperation and bad relationship between governments at all levels. Concentrating the management of troublesome fields to central government leads to continuous expansion of vertical managing departments, shrink duty, impaired function of local government which actually give local government some ground for their failure. Furthermore, internal management of staff, finance and materials within vertical managing department makes it hard for implementation of supervision from local National People's Congress, making vertical managing department a vacuum space of supervision from local National People's Congress, further breeding to following phenomenon: such as possession of governmental authority by the local vertical department, or governmental authority processed by one department become their right or interest, and what's more, those right may be become statutory.

Excessive administrative levels form a lengthy administrative chain, which features of poor work efficiency but high administrative cost. Public services

provided by central government have to go through layers of administrative governments before its implementation, resulting in low efficiency. For the economic regulation, as majority of projects are controlled by central government and the construction of grass-roots projects have to acquire approval of National Development and Reform Commission, many local governments spare no efforts in acquiring of administrative approval from central government so far as to the establishment of Beijing Liaison office of Economy or Beijing Liaison Office of Culture. This may result in waste of human and material resources and high administrative cost or breed to corruption. A powerful interest group has taken shape within the vertical managing department taking charge of market supervision. They enjoy the “super priority”. Local governments also give various subsidies to vertical managing department openly or covertly and bribe the leaders, damaging the justice of grass-root enforcement. Supporting policy establishment lags behind the downwards trends of social management duty. Staffing and funds in local governments, who assume major social managing duties do not match to the social management duty born by them. Many local governments could not carry out their work effectively with the poor staffing and funds.

## **II. Strategic path of administrative system upgrade, seeing from perspective of central and local governments**

Administrative system upgrade in central and local government shall arouse the enthusiasm of both central and local government, be beneficial for the settlement of prominent problems emerged in current social and economic development, be beneficial for addressing the urgent needs put forwards by the mass practically. It shall highlight solutions of following problems:

1. Draw up the “Relationship Law between Central and Local Government”, achieving thorough transformation of government management, gradually realizing legislation of authority division between governments at all levels. Looking from long term, thorough transform and the realization of standardization and institutionalization of central and local administrative system are dispensable from the amendment of Constitution and Organization Law as well as the establishment of the “Relationship Law between Central and Local Government”, which will specify authority division between central and local government expressively and list out detailed administrative affairs under central or local governments control only or either of them. Legislation of authority allocation among government at all levels, relationship between

different powers and the execution of power will make the administrative enforcement of government at all levels much scientific, rigorous and fair. We must ensure that there are laws to abide by, laws are strictly observed and enforced and violations of the law must be investigated and dealt with. The “Relationship Law between Central and Local Government” shall cover following aspects: legislative intent and application range, fundamental principle observed in disposing of relationship between central and local government, power division between central and local government, details and procedures of adjustment, monitoring mechanism of central government to local government, legal settlement mechanism of power conflict between central and local government. Doubtless, it needs to emphasize that the amendment of the Constitution and the legislative process of laws used for regulation or adjustment of relationship between central and local government shall observe to the democratic procedure specified by the Constitution and laws. We will establish and improve the appealing and balancing mechanism of local benefits as well as reciprocal and cooperating relationship between central and local government.

2. Specify the authority of economic adjustment, market monitoring, social management and public service among governments of all level. Firstly, Economic regulation (macro-economy regulation) shall be guided by central government. Economic regulation, which plays a global role, shall be unified throughout China by the central government without power separation, supported by the provincial government on the issues such as regional planning and financial policy. Secondly, central and provincial governments shall play a leading role in the market monitoring. Central government shall draw up the market supervision law and regulation, market competition rule and relative standards. Provincial government shall take charge of the coordination of major market supervision activity while the municipal and township government is responsible for the organization of supervision activity, regulation of market behavior and market order. Thirdly, the establishment and supervision of social management policy is under the control of central government while the specific implementation and execution of social management is allocated to local government. Fourthly, the public service duty shall be assigned to central government or local government or both of them according to its classification.

3. Improve vertical management structural reform, gradually adjust or remove some vertical managing department or organization. Along with the situation development, some new problems emerged in the vertical management, which could be improved by reform. Firstly, we need specify the duty

and authority of the vertical managing department. Duty and authority between organizations in each level within vertical managing department shall be defined and specified by law, avoiding authority absence, over-stepping and displacement among organizations from different level and the forming of special benefits community within the vertical managing department. Secondly, clarify the authority-responsibility relationship between managing department and local government, establishing and improving the supporting mechanism and exploring the integrating point of vertical management and level-to-level management. Thirdly, existed vertical managing departments are also facing reform, so additional new vertical managing department is not needed. We should gradually adjust the structural configuration or remove some vertical managing departments established in the times during which the market economy remains to be improved according to the status of our market economy, especially for the vertical managing department or organization such as Administrative Authority of Industry and Commerce, Quality and Technical Supervision, Food and Drug Administration which might be delegated to local government. Therefore, local government could coordinate and integral their regulating resources and achieve more effective management, coordination and disposing over local government and play greater roles in local management.

4. We improve deliberative democracy to settle duty confliction in administrative execution, and establish legal coordination mechanism between central and local government. China has entered a critical stage when golden opportunity coexists with conflicts. Driving by benefits and interests, contradictions and disputes accumulated between central and local government or among governments at all levels incur many conflicts events. To deepen the administrative system reform between central and local government, we must establish channels for negotiation and equal communication, deliberative democratic resolution to solve administrative conflict and a benign appealing and coordinating mechanism between central and local government basing on recognition of rationality of public interest, national interest as well as local interest. We shall restraint the action such as black case work and buck-passing.

5. Enhance authority and independence of supervising institution of central government and improve supervisory mechanism of central government to local government. Supervision from central government includes inspecting and regulating activity, ensuring local government's behavior is legal and compliant with stated goals. In order to strengthen central government's supervision, firstly, we shall increase authority and independence of supervising

institution in central government, enabling them to carry out their work independently and ensuring a valid supervision. Secondly, we must transform from traditional supervising mode which concentrating on administrative supervising, to a new supervising mode that combining legal supervision, judicial supervision, administrative supervision and social supervision together. We must ensure that local governments act within the scope prescribed by law. Thirdly, we shall build up and improve supervision procedure, achieving the routine, standard and systematic supervision of central government.

### **III. Several problems waiting for settlement**

Administrative reform is a systematic project, which requires the attainment of many supporting condition. Reform of administrative system in central and local government depends on addressing of following problems:

Promote reform of public finance system profoundly. Firstly, we will increase governmental expenditure on public service area, especially for basic public service such as social insurance, compulsory education and medical care and public health, ensuring public service area is entitled to most public finance of government. Better public services create a much favorable external atmosphere for the market and enable common people to share development achievement and realize their all-round development. Secondly, we will keep promoting tax reform. We should give a clear and reasonable dividing line between tax of central government and local government, and according to their actual needs, entitle local government to collect some taxes matching to their economic development without making influence on macro-economy function and financial income of central government, enriching their financial resources and improve their public service capability and level. Reform on resource tax will be carried out to fit for the actual situation of economy development. Resource tax allocation rte between vertical systems within local government will be adjusted and the consumption tax and individual income tax shall be improved. Thirdly, we will improve the transfer payment system. We will raise the proportion of general transfer payment, and reduce and control special transfer payments; regulate the “Beijing liaison office of local government” stringently; restrain the unfair competition between local governments who actively endeavor to acquire approval of each ministry; narrow the financial resource gap between different regions and enhance economic power of less-develop area.

Accelerate reform in investment management system. We will straighten out the relationship between central and local government. In order to speed

up reform in investment management system, we need to implement following urgent work: one, we will establish and improve coordination system and mechanism of investment management system, innovating new exertion mode for government investing project. We will clearly specify duties of different government departments and making information and supporting management policy of investment shared among different governmental departments, between central and local governments as well as different enterprises. Two, we shall allocate authority and managing scope about the investment rationally between central and local government, and take effective measures to arouse investment management enthusiasm of local government. Give clear division line of investment managing scope and authority between central and local government; specify relationships clearly and combine the power, duty and interest together. Three, we should effectively reduce the financial pressure of local government and implement different supporting funding policy for local government. Four, we should reinforce the supervision on project invested by government and establish the post-project evaluation system and accountability system for projects invested by government. We will set up a unified authoritative supervising institution and the post-project evaluation system; formulate and issue the Post Project Evaluation Method for National Medium and Large Scale Project. Five, we should pay close attention on the legislation about investment, and improve the approval and filling system construction of investment project in enterprises. We will improve the basic system construction about governmental investment, and pay close attention on the establishment of the “Regulation for Governmental Investment” and consider the formulation of the “Law for Governmental Investment”.

We will move faster to implement system reform of counties directly managed by provincial government. In terms of reform schedule, it could be carried out in three steps: firstly, financial system will be managed directly by provincial government except some ethnic minority area from now to the middle of the 12th Five Year, and we will keep exploring and promoting financial affairs of township be managed by county government. In developed regions like Zhejiang province and areas where serious contradiction exists, we consider to transform some county whose finance is directly managed by provincial government into a county whose administration is directly managed by provincial government and in some cases, the county might upgrades to a municipal city. Secondly, we will condense the existing financial institutions at provincial, municipal, county and township level into three levels: provincial, municipal (county), township level until the end of the 12th Five Year (2015). Some regions in East China, Middle China and Northeast China,

where condition permitted, will realize the transformation of some county whose finance is directly managed by provincial government into a county whose administration is directly managed by provincial government. Some township government shall be transformed into local office of county government. In west areas, we will also realize the county's financial system be managed directly by provincial government while township government could remain unchanged. Thirdly, we will further condense the financial institutions at provincial, municipal (county) and township level into two levels: provincial, municipal (county) level until the end of the 13th Five Year (2020). Transformation of some county whose finance is directly managed by provincial government into a county whose administration is directly managed by provincial government will be taking shape. In west areas, some counties will have realized the county's administrative system be managed directly by provincial government and some countries will have realized the county's financial system be managed directly by provincial government, and some township government will have be transformed into local office of county government. General direction is: municipal city never governs township which will be under direct management of provincial government. And the municipal city and township would become same level administrative institution under direct management of provincial government. After reform, municipal city shall focus on promoting city's development and strengthen city management while township will spare no effort to promoting county economy and servicing for agriculture, farmer and rural area. Economic cooperation between municipal city and township shall be drove by the market mainly, supplemented by governmental coordination and establish a regional economic development community. Regional coordination shall be transformed into complex administration.

We will give overall consideration for the adjustment of provincial administrative division. China's existing administrative division took shape in planned economy times with some adjustment within small area after reform and opening up. For now, along with the development of market economy, especially the regional economy, regional cooperation and horizontal cooperation are increasing day by day. Economy of some big city develops quickly and elements aggregation is speeding up. The position of regional hub city is very obvious, putting forwards the urgent demand of uplifting the city's political and economy strategic position .Problems and conflicts caused by the hysteretic administrative division managing system reform increases gradually, which has put forwards a higher and more urgent demands for administrative division managing system reform. Facing to new circumstance, new task and new development outlook, we shall make new coordination and

arrangement of administrative division managing system. There are many problems within China's government such as excessive management level, complex administering system, wide administrating scope, serious administrative partition, high administrative cost, mainly due to the lagging reform of middle level and oversized management span and management scale left unsolved for years. Some provincial governments in China which still keep their oversized management span and management scale that could not adapt to social and economic development, are facing much more problems and difficulties. The idea of decentralizing local power by setting more administrative division, keeping balance and preventing localism, put forwards by Jia Yi, a famous ideologist in Han dynasty, in his work "Zhi'an Ce" shall be attached importance. To maintain China's long-term stability and security and promote overall development of economy and society, the smaller a province region is, the better. Considering various aspects reform involves in, we should implement step by step, and attain the goal gradually. We will increase number of provincial governments, by setting up new directly-controlled city, splitting or reorganizing existed department, and reduce the management range and scale of each provincial government and decrease the management layer. There should be 20 to 30 more provincial governments could be set up. The method: setting up new directly-controlled city is relatively appropriate and practical. Its advantages include: firstly, we could refer to experiences of Chongqing city, avoiding making detours; secondly, this method has less impact on the status which is advantageous for reducing opposite force; thirdly, it complies with development of urbanization and will act as role mode.

## The Problems and Measures of Province Directly Governing County Reform

XU Ke

Since 1992, with the support of the central government, some provinces in China successively implemented the reform pilot with the main content of “strong country expanding power”, “province directly governing county”, “divide and conquer county and city” on finance and so on, thereby opening the prelude of province directly governing county reform. Since the century, academia constantly summarize the experience of reform pilot, making a research wave of reform of city governing county, and promoting province governing county reform, forming a roughly identical systematic understanding of the background, feasibility, pilot situation, step, form, mode and other parts of the province directly governing county reform, also gaining the response and support of the central government. In June 2005, Premier Wen Jiabao pointed out at the reference of national rural tax reform pilot work: to reform the management style of the county and town’s finance, the place where conditions permit can promote the financial system of province directly governing county<sup>1</sup>.

The fifth plenary session of the 16th CPC Central Committee put forward that in order to optimize organizational structure and reduce the administrative level, the place where conditions permitted could implement the financial system of province governing county. “The National Eleventh Five Year Plan for Economic and Social Development” proposes that in order to straighten out the financial government system below the province level, the place where conditions permitted could implement the management system of province directly governing county.<sup>2</sup> In 2006, the central number one file proposed that the place where condition permitted could accelerate to promote the reform of province directly governing county’s financial and management system. In 2009, the central number one file proposed that encouraging the

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- 1 Tang Shuquan: “Province Governing County” Reform: Redistribution of Local Rights [N], People’s Network, 11/6/2007
  - 2 National Eleventh Five-Year Economic and Social Development Planning [N], People’s Daily, 17/3/2006.

province where condition permitted to explore the system of province directly managing county (city) according to the law.<sup>3</sup> In July, the Ministry of Finance issued “The Opinions on Promoting the Reform of Province Directly Managing County’s Finance”<sup>4</sup>. In 2010, the central number one file emphasized again to continue to promote the reform of province directly governing county’s finance and management system, and promote the reform pilot of power expansion strengthening county.<sup>5</sup> In October, the fifth plenary session of the 17th CPC Central Committee passed “The CPC Central Committee’s Suggestion on Formulating the 12th Five Year Planning of National Economic and Social Development”, in which it proposed that the place where condition permitted could explore the system of province directly governing county (city).<sup>6</sup> All these measures point out the forward direction of promoting province directly governing county reform for our country.

As we all know, “city governing county” is the historical tradition of ancient China formed over a long period of time. Soon after the establishment of new China, the “city governing county” system established in our country played the center cities’ gathering effect and radiation role in the construction of economic society. However, the second clause of article 30 in our “Constitution” clearly stipulate that the municipality and larger cities can be divided into district and county, suggesting that the regional or prefecture-level city has the legitimacy of existence, but also is the undetermined level of organizational system. And with the rapid development of China’s economic society, over the years, city governing county increasingly exposes its weakness, and seriously affects the efficient operation of administrative management and the development of the county economy, unbalancing the urban-rural and regional economic development, and making it difficult to

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3 CPC Central Committee and the State Council’s Opinion on Promoting the Stable Development of Agriculture and Continuous Income of Farmers in 2009 [N], People’s Daily, 3/2/2009.

4 The Opinion on Promoting the Reform of Province Directly Governing County’s Finance [N], People’s Daily, 10/7/2009.

5 CPC Central Committee and the State Council’s Several Opinions on Strengthening the Efforts of Overall Urban and Rural Development and Further Laying a Solid Foundation of the Development of Agriculture and Rural Areas [N], People’s Daily, 1/2/2010.

6 CPC Central Committee’s Suggested Tutorial Reading on Formulating the Twelfth Five-Year Planning of National Economy and Social Development [C], Beijing: People’s Publishing House, 2010.

solve the problem of “three agriculture”. Since the recent change of government functions, it radically reduces the workload of all levels of government, the technical progress and the improvement of infrastructure create the conditions of tools, public management innovation requires the flattening reform of the government; meanwhile, based on solving the problems appeared since the city governing county, our country gradually implement the measure of province directly governing county reform, which has become the major strategy and future direction of our national administrative system reform. However, province directly governing county reform involves many issues of province first-level government, including the management range, benefit distribution of prefecture-level government, the adjustment of administrative division, institutional reform, and personnel reassignment and so on. It is long-term and complicated system engineering, whether achieving the desired effect or not requires our continuous research on the theory and constant exploration in practice.

### **I. The main problems existing in the province directly governing county reform in China**

Although the province directly governing county reform has achieved some success in the pilot, the central government also support to continue widely promote it in the provinces where conditions permit, also it is widely recognized that this measure can bring many positive effects, however, whether those people, who help intensify making the province directly governing county reform to become topic of administrative system reform and maybe not take charge of this, still clearly recognize that there are also many problems to be solved and a long way to go in the province directly governing county reform. These are things most worth thinking deeply, most expect to be explored and researched, and most in need of support and responsibility in our reform.

(1) The problems of management organization and personnel. Province directly governing county reform does not cancel the prefecture-level city; the province should establish the corresponding organizations to govern the county, the county will be able to add departments after expanding power, there will be a big momentum for reform in the organization, personnel and position configurations. But there are over 300 prefecture-level cities in the national province directly governing county reform, each prefecture-level

city reform also involves tens of thousands of cadres<sup>7</sup>, with so many cadres emplacements and disposes of organizations and positions, one can imagine the impact of it and can never overlook it. The maximum expectation of central government and the masses is that jumping out of the vicious cycle of “simplifying the organization-expanding-further simplify-expanding again” reform, overcoming the phenomenon of bloated organization and personnel, implementing downsizing to improve the efficiency, achieving the purpose of improving the administrative efficiency of civil servant and reducing the financial burden of the masses. The province directly governing county reform not only retains most organizations and personnel of the prefecture-level city, but also adds province-level management organization, personnel and position, and expands the county-level power, therefore providing a breeding ground for the bloated organizations and personnel as well as the increase of financial burdens of the masses.

(2) The problem of management range. After the reform of province directly governing county, for example, there are only over 40 counties and districts managed by Zhejiang Province<sup>8</sup>, the provincial government generally has better control, but many provinces like Hebei, Henan, Sichuan, Guangdong, Guangxi, Shandong, Fujian and so on, changing from governing over a dozen of prefecture-level cities to directly governing dozens of counties or even over 100 counties, therefore it’s difficult for the provincial government to have corresponding actual control ability. In addition, the provinces with vast areas like Xinjiang and Inner Mongolia, whose management radius is difficult to cover every corner. In order to ensure the actual control ability, can we diminish the province and district proposed by some experts?<sup>9</sup> If not, then how to achieve this goal; if so, then how to divide it to maximize the efficiency?

(3) The problem of management authority. Namely to what extent is it scientific and rational for the province directly governing county? That is to say, to what extent should the province-level management authority transfer? What power does the county level possess? How does the central government balance the power relationship between the two? In general, the size of

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7 Zhou Tianyong, Zhang Zhanbin: Canceling the Prefecture-Level City Comes into View, [N], Jinan Times, 16/9/2005.

8 Wang Yi, Xu Juan: On the Development of Province Directly Governing County System in Contemporary China [J], Office Business, 2009, (5).

9 Shi Jiangmin: Scholars’ Suggestion to Diminish Province and District in China, [N], China News Network, 13/1/2005.

management power matches with the development degree of the economic society, if the management power is too small, it may be a waste; if it is too big, it may be abused. If the county lacks the ability of economic and social development, the relation between the county and town is like “small horse draws the big cart”. In this case, who can guarantee that after eliminating “city extorting county” and “city suppressing county”, the situation of “province extorting county” and “county extorting town” does not appear? By then, should we still implement “province directly governing town”? Thus, to what extent does the management power transfer can neither be wasted nor be abused?

(4) The problem of transverse cooperation. In the short term, as the prefecture-level city formed in the process of city governing county has the relation of leading and being led, consultation cooperation and competition development with the county for a long time. In the early days of province directly governing county reform, there are still some phenomena that project should first pass the city standard then be submitted to a higher level for approval, some city authority having been transferred to the county, but the funds allocation and other powers still operate according to the original procedure. In the long term, as city governing county has a long historical tradition in China, gradually forming the certain geography, customs, ethnic and other areas, and since the establishment of our nation, China’s long-term implementation of city governing county makes some places to establish specific economic, industry and other structures. From the current practical situation, if we implement the province directly governing county, some places like Suzhou will be destroyed its original good regional economic structures, and places like Changde in Hunan and other places will be destroyed its original agricultural and industrial structure.<sup>10</sup> In addition, it may also destroy construction structure of the city and town and other things in the originally mature provinces and districts.<sup>11</sup> Therefore, from the reform of province directly governing county, we should think how to strengthen the problem of transverse cooperation between county and prefecture-level city and between each county.

(5) The problem of reform standards. From the current pilot situation, we basically use the condition of economic development as the standard to decide

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10 Moving Towards Agricultural Strong City from Agricultural Big City, [N], Changde Daily, 26/12/2008.

11 Xiong Wenzhao, Cao Xudong: The Calm Thinking of “Province Directly Governing County”, [], Administrative Forum, 2008, (5).

whether implement the reform of province directly governing county or not. In this standard, there are the following problems: the current reform is a top-down administrative order with big arbitrariness, ignoring to give full play of the local economy, especially the enthusiasm and creativity of social development; some counties' economic and social development is relatively backward constrained by the geography, conception and other reasons, it is difficult to achieve goal of economic development by expanding power; our country has vast territory, and each country's economic development is out of balance, and the reform of province directly governing county maybe intensify the imbalance; in the reform of province directly governing county, the different counties within the same province may compare with each other, resulting the increase of image project and false data, even evoking more conflict; the reform of province directly governing county may make the administrative level of county-level government rise semi-lattice, but gaining more powers is not the fundamental reason to promote the county's economic development<sup>12</sup>; after the reform of province directly governing county, there are also problems of establishing a sound administrative accountability and performance evaluation and so on.

In addition, with the deepening of the reform of province directly governing county, it will inevitably involve the problem of resetting the functions and powers of central ministries and township. How to adapt to the requirements of province directly governing county reform, scientifically and rationally set the functions and powers of central ministries and township; the central ministries how to implement the super-ministry system, the township is set as city or the office of county, and so on.

## **II. The main measures of province directly governing county reform in China**

In fact, there are many factors to restrict the success of the province directly governing county reform, if we set aside the effect of institutional mechanism, external environment, the concept of civil servants and other factors, thinking and solving the above problems will undoubtedly become the key to province directly governing county reform.

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12 Liu Dasheng, On the Status of Our Cities in the Current Constitution, [], The Truth, 2004, (11).

(1) “Downsizing”. The reason why downsizing is so important is that it concerns with the fundamental interests of the masses and the issues of China’s long term stability. With retaining prefecture-level city’s establishment and expanding power from county level as the starting point, province directly governing county reform begins to take shape by expanding organizations, increasing the establishment and adding staff. However, reform is after all not the secular opportunity to win promotion and get rich for someone; it is fundamentally full of ideal colors. If we can make the province directly governing county reform with lofty mission avoid becoming the farce of winning promotion and getting rich, contending for power and profit, even eliminating the dissidents, but self-consciously start downsizing, we are bound to face enormous difficulties and pains. In this case, those who believe in public or in private that the more civil servants are, the better beneficial to the stability of our country only hold a false conception, which is experiential, perceptual, indulgent and even adding fuel to the fire.

Advocating downsizing, we should have scientific and rational attitude, start from the overall situation of the county, and truly make it consistent of organization, establish, number of people with the local economic and social development level as well as management range and precision. Select some cadres who should have the concept of overall situation of the country, observe the sufferings of people, and be good at balancing all the rights and interests, and make them directly participate in the province directly governing county reform. On the premise that trying not to increase the establishment and number of people, focusing on train and use the existing talents, especially when we strengthen the county-level management organization and township reform, promote the cadres with rich practical experience on the economic and social development in the county and grassroots. Combine the province directly governing county reform and transforming the government function, make moderate adjustment of the organizations and staffs in administrative and public institutions, and change the phenomenon of too many talents and very few grassroots talents, guaranteeing the governments at all levels to fully perform their functions. Shunt the extra cadres after being compiled, or send them to the Party School and administrative Institute to reserve and study, or encourage them to actively engage in the wave of market economy to promote the local economic and social development. It is worth mentioning that, regardless of whether diminishing the province and district through the argument in the future, we should all take such measures as premise.

(2) Rationally divide the functions and powers at all levels. By scientifically dividing the range and size of the functions and powers at all levels, it is beneficial to realize the stable and orderly stratified management or regulations with integration of power and responsibility and division of labor with individual responsibility from central to local government. The division of functions and powers at all levels of province directly governing county is still in control of reform pilot; based on the summary of practical experience, strengthen the practical research and first achieve the reasonable boundary of jurisprudence. Based on the principle of further macro-control of prefecture-level city and county level, according to the requirements of promoting the social and economic development, the province level should decentralize some personnel powers and financial powers relating to local economic and social development, especially giving greater autonomy to the county level to stimulate the vitality of its economic and social development. Based on the principle of accelerating their economic and social development, the county level makes rational division of the powers, corresponding adjust the limit of personnel power and financial power, achieve high performance in the field of resource application and decision-making, seeking self-development. After the determination of the inherent power between province level and prefecture-level city and county level, we will accordingly solve the problems of excess province-level power, insufficient power of prefecture-level city and county level as well as power abusiveness, etc. Combine safeguarding national interests with protecting individual interests, and correctly handle the interaction between them. Legalize the power relations of province level, prefecture-level city and county level, and institutionalize the achievements, then transform them into practical legal rules, and internalize into the common concept of cadres and masses. Based on the problems that diminishing province and district would directly result in the expansion of province-level size and probably weaken the control force of central government, we should be calm, rational and prudent on whether implementing the reform of diminishing the province and district, only conduct it when all the conditions permit, avoiding the huge losses of reform brought by the imperfection and sway of policy.

(3) Establish a sound mechanism of transverse cooperation. According to the integrality and unity requirements of regional economic and industrial development, urban and town construction and other works, establishing a sound mechanism of transverse cooperation is to establish the unified working operation mechanism of transverse cooperation between the county levels, and between prefecture-level city and county level, so as to ensure the scientific

development of local economy and society. Since the reform and opening up, especially in recent years, all kinds of regional economic and industrial groups at all levels in China have a large increase in the number, scale and range, becoming an important force in the development of local economy. For a long time, the transverse cooperation at all levels in China has a weak coordinating and control capacity, being difficult to form an effective constraint. After the reform of province directly governing county, it not only probably further expand the problem, but also may destroy the original transverse cooperation relations between the county levels, and between the prefecture-level city and county level. For this reason, we should break the situation of administrative barrier and the each administer in his own way in system, determining to eliminate the institutional roots between the free flow of factors in administrative regions. In order to establish a sound transverse cooperation organization between the county levels, and between prefecture-level city and county level, we should clarify rights and responsibilities, increase efforts in support of funds, personnel, management and so on. We should actively establish comprehensive experimental zone of transverse cooperation development, forming a good patter of interactive development, complementary advantage and common development between experimental zone and radiation zone. With the use of legal, economic and other means, we promote the complementary development of regional economy and industrial structure, guiding the reasonable flow of capital, human resources and technical resources, strictly avoiding the short-term behavior of competing for resources, repeated configuration and construction of resources as well as blind and disorder competition.

(4) Establish and improve the reform supervision system. Strengthening the administrative supervision and performance monitor of province directly governing county reform, it is an important method to solve the supervision, evaluate how well the province directly governing county reform has done and ensure achieving results. In accordance with the requirements of scientific development concept, pay close attention to study and formulate the assessment indicator of province directly governing county reform and specific rewarding and punishment measures violating the stipulation, seriously sum up the experiences on the basis of trial implementation, continuing to improve and implement it so as to make it scientific, institutionalized and standardized. According to the local economic and social development practice, we should adjust measures to local conditions and determine whether to implement province directly governing county reform or not, avoiding rigid uniformity, and also resolutely putting an end to the use of “avoiding

rigid uniformity” conduct. Adopt workable leadership responsibility, according to the requirements of province directly governing county reform standards, determined the cadres’ promotion and demotion, reward and punishment with their performance, change the administrative order means of county-level rising semi-lattice promoted by the reform from the top to down. Realize the diversification of supervision subject of province directly governing county reform; strengthen the reform information in public, make three-dimensional supervision of the reform from all direction and multi levels.<sup>13</sup>

In addition, we should steadily carry out super-ministry system reform, province division’s reform and township reform, providing supporting measures to further implement the province directly governing reform; standardize the work procedure of province directly governing county reform, prevent the phenomenon of omission, offside, dislocation and not in place of administrative organs at all levels; straighten out the relations between vertical and transverse organization, properly solving the contradictions appearing in the province directly governing county reform; strengthen the education of cadres’ ideal and faith,<sup>14</sup> carry out the explaining and advocating work of province directly governing county reform, so as to make the reform measures be scientifically used by cadres at all level and be accepted and supported by the broad masses, etc.

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13 Xu Ke, *Governmental Executive Ability* [M]. Beijing: Xinhua Publishing House, 2007.

14 Xu Ke, *The Textbook about Strengthening Governmental Executive Ability and Credibility* [M], Beijing: People’s Publishing House, 2009.

## **Local Administrations under Demographic Change – Challenges and New Patterns of Administrative Organization and Cooperation?**

Gisela FÄRBER

### **1. Introduction**

Demographic change is a huge and long-term challenge for every country in the world. While the problems of and solution for pension schemes have been intensely debated, the consequences of such change for local governments have become of interest to academic research and political discussion only in recent years. Municipalities have a crucial role to play in overcoming the various problems demographic change will create for them. Municipalities are or soon will be confronted by growing or shrinking, and in any case aging, populations. As the locations where people live and where the economy produces goods, services and economic values, the local communities and their capacities to manage demographic change will determine the living conditions of the future populations.

The paper presents, firstly, the patterns of demographic change currently underway in China and in Germany. It shows the diverging pattern experienced by different German Länder before considering some theoretical aspects about the consequences of shrinking populations. As the problems arising from change are bigger for regions with shrinking populations the following section presents four strategies which are now under discussion in Germany for the regions facing such a situation. Section four emphasizes the importance of fiscal equalization for the successful regional and local management of demographic change. The paper closes with a short wrap-up and offers some perspectives on the political decisions to be made.

## 2. Demographic change in China and Germany and the economics of public service provision

### 2.1 *Demographic change in China and Germany*

China has a still growing population, while Germany's is already shrinking slightly. The Chinese population is expected to grow from 1.34 billion people to 1.45 billion by 2030, but afterward will start shrinking, returning to its current level by 2060. Germany attained its maximum size of 82.5 million people in 2003, with the census of 2011 counting only 80.3 million. The population is expected to have shrunk to 64 – 70 million in 2060, depending on development in birth rates, life expectancy and (im)migration<sup>1</sup>.

Both countries are 'aging': China's one-child policy will not only lead to a shrinking population from 2030 when – provided the birth rates remain as low as today - the cases of death exceed the number of births, but also ensures the average age of the population will continuously grow as average life expectancy increases further in line with current expectations. Germany has had a birth rate of 1.3 - 1.4 children per woman since the middle of the 1970's in Western Germany, followed by a slightly higher but then sharply shrinking birth rate after German re-unification. The birth rates are now more or less the same all over Germany, which has a rather stable net rate of reproduction of 0.66 – 0.7. Germany is also experiencing a continuously growing life expectancy of about 40 days each year. Germany is an immigration country: Except during the years of economic crisis there is a net immigration of 150 – 250,000 people per year.

In both countries considerable internal migration is occurring. In China migrant workers emigrate from rural areas, especially in the Western parts of the country, to cities and metropolitan agglomerations primarily in the East. The number of migrant workers is actually estimated to include some 300 million people. In Germany the migration from East to West Germany, which started even during the time of the former GDR and became stronger after German unification in 1990, is continuing. The migrations from the East to the West is, however, expected to decline or to be balanced by migration in the other directions after demographic change reduces the extremely high

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1 See Statistisches Bundesamt: Bevölkerung und Erwerbstätigkeit, Vorläufige Ergebnisse der Bevölkerungsfortschreibung auf Grundlage des Zensus 2011, Wiesbaden 2013 and Bevölkerung Deutschlands bis 2060, 12. Koordinierte Bevölkerungsvorberechnung, Wiesbaden 2009.

unemployment rates in Eastern Germany, a legacy from the transformation of the economy of the former GDR.

Both countries also exhibit a gender bias in their demographic pattern. In China, many more male babies than female are born because many parents prefer a son due to tradition, regardless of the fact that preselecting of gender creates an imbalance that impacts marriages a generation later. Furthermore, female migrant workers often have to return home after the birth of a child because the 'hukou'-system only provides social and educational services for the children in the municipality where their parents are registered. In 2012 a program was started to improve the integration of migrant workers into their working locations<sup>2</sup>. In Germany the gender bias is also connected with migration. Specifically, well-educated and/or trained young women have been emigrating from Eastern Germany to regions in the West and the South where can more easily find appropriate jobs. If they then start families in their region of employment they never come back. Thus there is a considerable gender imbalance in Eastern Germany. For example, in the county of Bautzen in Saxony there are 125 men that are 20 to 30 years of age for every 100 women of the same age<sup>3</sup>.

These demographic developments have led to a polarization of the population in both countries.

- The population is growing or at least stable in agglomerations, including in the surrounding smaller cities and counties. In Germany these surrounding areas are called "Speckgürtel" ('pork barrel') communities because they profit from the infrastructure of the core cities without having to levy the high taxes usually necessary to cover the costs.
- In China as well as in Germany the population in peripheral regions and rural areas has been shrinking for many years. This trend is a result of urbanization, which started in Germany in the second half of the 19th century and in China during the economic reform period in the 1980's.
- The imbalance between genders is higher in shrinking regions. Among the younger people there are more men than women. The sex ratio reverses in the group of those 50 years and older. Here the higher life expectancy

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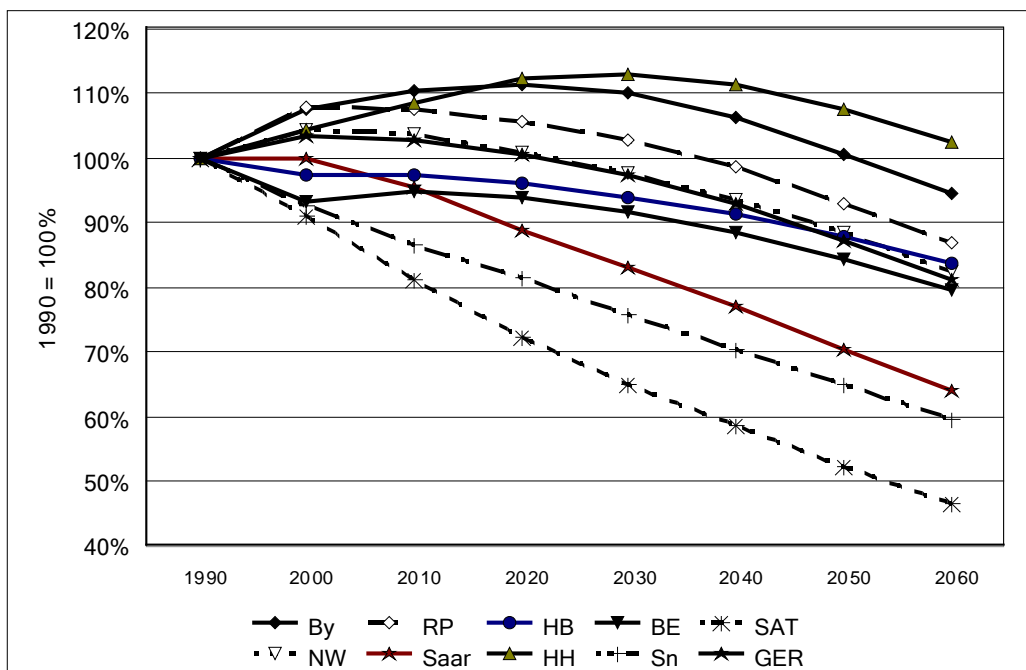
2 Wang, Wenfei Winnie; Fan, C. Cindy: Migrant Workers' Integration in Urban China: Experiences in Employment, Social Adaptation, and Self-Identity; in: Eurasian Geography and Economics, 2012, 53, No. 6, pp. 731–749.

3 See Statisches Landesamt Sachsen: Bevölkerungsstand des Freistaates Sachsen nach Alter und Geschlecht 2011, Meißen 2012.

of women leads to an overhang of women, which increases further among the population over 80 years of age.

- In both countries, enterprises realize the advantages agglomerations offer for their production (short distances to a higher number of consumers, higher degree of education in the labor force, existence of creative 'milieus', better and less expensive local public infrastructure) and prefer to locate there. Therefore most regions in the periphery are experiencing economic decline and job loss while agglomerations are the winners in economic development and demographic change.

**Fig. 15.1: Size of population in selected Länder 1990 – 2060 (2020 – 2060 according to the 9th forecast of population of the Federal Statistical Office)**



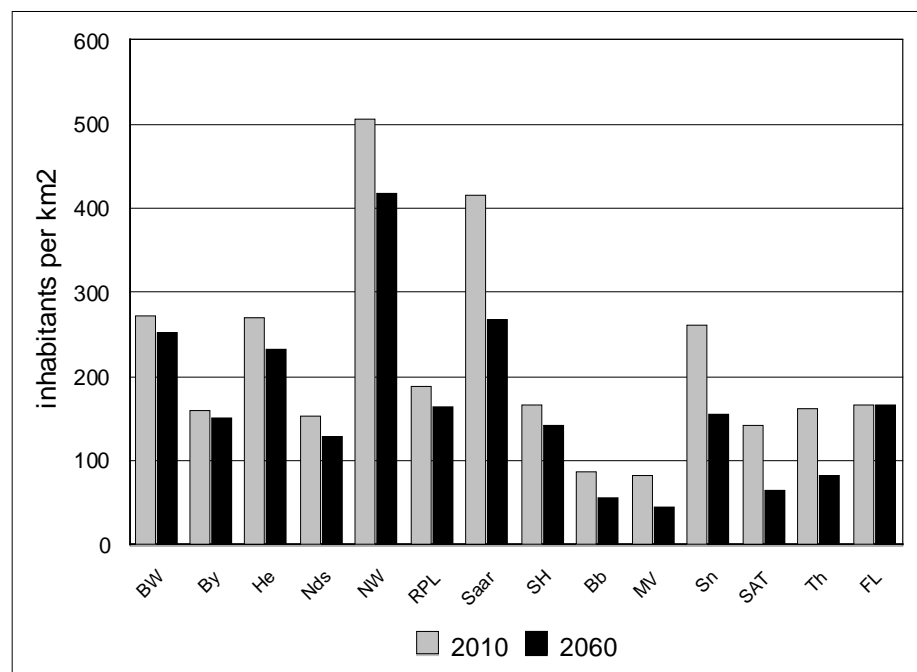
Source: Statistisches Bundesamt: Bevölkerung Deutschlands bis 2060, Wiesbaden 2009

All these developments contribute to a diverging decline in the population depending on a location's existing economic und geographical structure and the future regional demographic parameters. Figure 15.1 sets the size of the population in 1990 as 100%. By 2010 the number of inhabitants in Saxony-Anhalt (SAT) had declined by almost 20%. By 2060 it will have shrunk to less than the half of its size in 1990. The best development is observed for the city-state Hamburg, which has seen an increase in its population by 8% since 1990 and will grow continue until 2030, after which it will slowly start

to decline; but its 2060 population will still be bigger than in 1990. Overall, Germany will again reach the level of its 1990 population in 2020 and then continue to shrink to 84% of that size by 2060. States with a good economic development – like for example Bavaria - will shrink less, those with sectors and enterprises undergoing economic structural change, like Bremen (HB) and Saarland (Saar), will shrink by more than the average.

The diverging developments in the size of different region's population will have effects on its density, which is an important indicator for the costs of providing public goods and services because agglomerations can realize economies of scale while thinly settled territories, particularly those with less than 40 inhabitants per square kilometer, suffer from increasing costs of provision. Actually, the population density of the German Länder ranges from 506 people per square kilometer in North Rhine-Westphalia to only 83 in Mecklenburg-Vorpommern. In 2060, North Rhine-Westphalia will still be the most densely populated state, but the number of inhabitants per square kilometer will decline to only 417, while in Mecklenburg-Vorpommern only 46 people on average will live in the same size area.

**Fig. 15.2: Population density of Germany 2010 and 2060**



Source: Statistisches Bundesamt: *ibid.*; proper calculations

## *2.2 Effects of demographic change on public service provision*

With regard to the production of public goods two types of public services can be distinguished:

- Public (infrastructure) goods and services like education, public health and hospitals, streets, trains, local public transport, water supply and sewage. Their cost functions are highly dependent on the number of users (i.e. size of population) because they are based on a high endowment of capital goods invariant from consumer. As these capital goods remain in use for a long period and are not changeable, the average costs for infrastructure services increase sharply if the number of consumers decreases. Many of these public services are essentials for the basic living conditions of the population.
- The second type are administrative services 'producing' permits, licenses, controls of environmental standards or work safety procedures on the one hand, and financial transfers like public pensions, family allowances, and housing allowances on the other hand. These public services deal with traditional 'paper work'. They require a high level of specialized knowledge and, therefore, qualified personnel; the recipients - enterprises and citizens - carry corresponding costs for delivering information and covering the distance to the administration. Small municipalities cannot afford the specialized personnel. However, the centralization of these responsibilities, e.g. to a county level administration, would increase the distance for the citizens to apply for such transfers and services. A shrinking number of citizens, particularly if it falls under a certain threshold, limits the possibility of guaranteeing a professional local administration.

A shrinking population leads to increases in costs, lowers the efficiency of local public administrations, and increases the citizens' costs for the consumption of local services. On the revenue side of local budgets the tax capacities decline with the number of inhabitants and the migration of enterprises to the bigger locations. An aging population also decreases tax revenues because old, retired people typically earn lower incomes from pensions and capital investments than they do during their active working lives. They may even need financial help if their pensions are under the minimum subsistence-level income or in the event that they need nursing services the costs of which exceed their net income.

Demographic change means a broad variety of adaptations and changes must be made under the special and difficult conditions of a shrinking and ageing population which therefore ages with double speed and becomes

more and more costly due to increasing salaries during the life-time contracts and even more growing costs for – mostly unfunded - civil servants' pensions. A declining number of kindergarten places contrasts with a growing number of nursing places. Strategies of change are needed and need to be implemented soon because demographic change is already happening and yet local authorities need time for strategies of change.

### **3. Strategies for securing public services in areas outside agglomerations and with shrinking population**

Among all the good ideas discussed, and occasionally in part already started, to reforms local governments to meet the challenges of demographic change there are four main issues which are considered to be crucial:

- What is the required minimum level of local public goods and services?
- What is the minimum size of local jurisdictions?
- Can e-government be a tool to more efficiently organize certain local services?
- Which new types of organization and cooperation are available for a more efficient local government?

#### *3.1 Political decisions about a minimum provision of public services*

In Germany, “equivalence of living conditions” is mentioned in the Basic Law (Art. 72 (3) and 106 (4)) as a goal for public sector and public goods' provision. The discussion of the effects of demographic change, however, leads to the question of whether in the future public services should be available all across the country or whether only agglomeration should offer the full range of public services and peripheral, thinly populated areas should only provide a minimum supply. In the latter case the question needs to be answered as to which public services would constitute a 'minimum provision'.

This 'basic provision of local services' would be a basket of decentralized, guaranteed goods and public services which each citizen has a right to access within an established maximum distance from his or her home. The basket should certainly contain inter alia pre-school and school education, several health services (hospitals for the treatment of 'typical' illnesses, access to general ambulatory medical services, public rescue services), supply of water and sewage, and waste removal services. The majority of these 'minimum' services could be guaranteed by federal or state regulation. However, local

authorities should decide more than the currently do about how they would organize the guaranteed services and how they could do so efficiently.

Political decisions are necessary not only about which goods and services should constitute a minimum provision, but also about their volume and the quality of service. The decision about the “organization” of service provision, e.g. public or private suppliers, can happen in a more decentralized manner. Also crucial are the decisions about the prices of the goods and services: are they for free, or should they be financed totally or partly by fees? High fees and charges would likely exclude the poorer population from the consumption of these ‘fundamental’ public services. Too much centralized regulation regarding the details of production and financing could endanger the efficiency of the local provision public services, particularly in the smaller and rapidly shrinking communities. The more intense and detailed the regulation by higher levels of government, the more urgent is the need for sufficient compensation through local fiscal equalization.

In Germany, art. 72(3) GG has for many years set the condition of ‘equivalence of living conditions’ as criterion for the centralization of legislation. This means that the Bundestag and Bundesrat can centralize certain competences in order to create more equivalent living conditions throughout the country. Art. 106(2) is the corresponding rule for intergovernmental financial relations, allowing for a vertical shift of VAT revenues in favor of the Federation if it is necessary for the ‘uniformity of living conditions’ within the federal territory.

The German “Sozialstaat” has developed a variety of tools and institutions in order to prevent poverty and to guarantee many public and social services throughout Germany. The so-called ‘social budget’ accounts for 767 billion Euro (29.9% of GDP) of total public expenditures and tax exemptions in 2012<sup>4</sup>. The majority of the social budget consists of transfer payments (such as pensions, unemployment benefits, continuing salaries in the case of disease, family allowances, etc.). These monetary transfers make the production of services more flexible and more efficient compared with direct local government services. They, therefore, help guarantee an important portion of the basic provision of local goods and services and at the same time organize an effective transfer of resources from economically strong regions, rich in tax revenues and social insurance contributions, to poorer regions with low tax revenues and low social insurance contributions. Lower level govern-

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4 See Bundesministerium für Arbeit und Sozialordnung: Sozialbudget, Berlin 2013.

ments are then responsible for the regional provision of infrastructure equipment (planning and provision), but don't need to organize all aspects of every social services in detail.

### *3.2 Amalgamations of municipalities and counties*

Demographic change also induces shrinking local budgets, as all fiscal equalization schemes in Germany depend on the size of the population. Each inhabitant is worth about 2,300 Euro for the spatial states and about 3,000 Euro for city-states in the state fiscal equalization scheme. In the respective local fiscal equalizations 'local citizens' are worth 500 – 700 Euro, in some Länder even more. The consequences of a shrinking population for local budgets are aggravating. The governments lose personnel which they can no longer pay for and thereby lose also their specific knowledge. Additionally, the cost of infrastructure goods and services increase due to cost resistance.

Therefore, many state governments are discussing and reaching decisions about an amalgamation of cities, villages and counties in order to secure a minimum population within a local authority and thereby re-capture the cost advantages created by having a higher number of citizens<sup>5</sup>. However, the other side of the coin is that in such amalgamations the distance to local institutions increases for the citizens. In general, the increasing costs incurred by longer distances to government locations could lead to a loss of democratic participation. Additionally, amalgamations are politically 'expensive' because municipalities do not want to lose their independence and to be combined with neighboring communities. What's more, to date there is no proof that amalgamations have ever led to the expected savings through lower production costs. In the end, if the decline in population continues, the newly established bigger entities again lose the advantages of their bigger size. Therefore, more fundamental reforms of local service provision are needed.

### *3.3 New approaches of e-government*

One of these new approaches is connected with electronic government. The basic idea is that the citizens do not need to go to their administrations; the

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5 See the contributions of Jan Ziekow, Gunnar Schwarting and Dirk Zeitz.

administrations can come to the citizens. The simplest solution, which is already functioning in many regions of Eastern Germany, is a bus delivering public services to the villages (e.g. a rolling library, advisory services, local health services, etc.). An aging population with decreasing individual mobility can thereby access the provision of many local public goods and services and at the same time deliver social contacts and meeting occasions in the villages of thinly populated areas.

For many other local services, electronic procedures form the solutions for the future. In particular, all applications for transfer payments, licenses, permits, documents and so on can easily be prepared at home and communicated to the far away local administration provided the right programs, electronic security, technical equipment and knowledge are available. In Germany, many laws specifying the necessary documents and other conditions for a given application need to be changed to accommodate non-paper electronic procedures, which allow for different ways of documentation and different types of proof that are in most cases less burdensome for applicants as well as for local administrations. Problems of data protection should be solved by new technical arrangements.

Another problem of e-government is unequal access for some citizens and – usually very small – enterprises because of their lack of technical equipment or knowledge. Older persons in particular are often not educated in the basic use of electronic media. Here, local authorities should have staff who can give support such citizens. But novel solutions also exist: for example, mail delivery staff could carry laptops among their professional equipment from which administrative programs and other support could be electronically accessed.

Higher technical requirements for administrative procedures create also the possibility of a new administrative labor division between front-offices in each village and back-offices in centrally located administrations. Here, economics of scale in the processing of electronic applications could be realized, but also fundamental changes in internal administrative procedures could be implemented, including fully electronic records with all the corresponding advantages. To date, all these opportunities for new efficiencies have not yet been fully realized. Therefore, further change in local public administration can be expected.

### *3.4 Reorganization and cooperation of local governments*

Small communities need cooperation partners to mitigate the costs of local public services. The decline of their populations induces a reduction in their responsibilities, about which they can decide independently.. Electronic government is a solution only for certain standardized local administrative services. Services which are centered on the human element - like education, health and nursing services - don't offer themselves to electronic rationalization.

In these fields, however, a new labor division among communities is available, with the allocation of different responsibilities to the centers and peripheries. For example, schools in a village could supply sports for children regardless of school type, while schools in the centers could provide the more detailed, individual and specialized knowledge transfers of the class levels. Hospitals in the periphery could provide more care-based and less specialized services, while hospitals in the center could cover the more complicated illnesses and injuries. The service provides in the peripheral regions are then more efficient if they are not organized independently, but rather as part of a local enterprise network which 'belongs' to all communities in the network.

The concept of front- and back-offices can be applied not only within a local authority but also among several communities. Why should each county have a separate administration for housing allowances or motor vehicle permits? Why should the back-office not be organized across several counties as a new centralized level of local administration under the responsibility of the counties, making it clearly different from the former state or provincial administrations prior to the decentralization of tasks? The locations of the above-county administrative offices could be distributed more or less equally among the cities of the member counties.

## **4. The importance of fiscal equalization for the equivalence of living conditions and national stability under the conditions of a shrinking population**

A system of fiscal equalization is necessary to guarantee a basic level of provision of public goods across a country. Fiscal equalization transfers not only compensate inter-regional economic effects of supply and demand for public expenditures and tax revenues, but also redistributes tax revenues from rich states/provinces and/or agglomerations to poor regions and municipalities.

Demographic change necessitates that difficult political decisions be made about the volume and quality of local public services, about the extent to which these will and can diverge in central versus peripheral regions and the necessary minimum provision throughout the country. These decisions require corresponding changes in the tools of local authorities, in tax bases and tax competences on the one hand and the corresponding fiscal equalization formulas on the other hand. The vertical distribution of tax sources results in indirect fiscal equalization. Meeting the financial needs of local authorities in the future would be best attained by placing more emphasis on the vertical suitable assignment of taxes among the levels of government. Taxes with a significant above average revenue in economically strong jurisdictions should be contributed to the central state/federal level; this would replace explicit fiscal equalization and is the best approach for the effective redistribution of wealth among economically divergent regions.

Experiences in Germany have shown that fiscal equalization schemes should not be so redistributive that they prevent decentralized governments from pursuing 'good financial policies' with regard to public debt and the efficiency of local service provision. Furthermore, efficiency and effectiveness could be improved by a systematic benchmarking, such as the Australians do for public services at the state level. The Commonwealth Productivity Commission publishes a very comprehensive annual report that not only sets benchmarks for the states but that also brings the public into the discussion about the performance of state service delivery. Further financial grants could even be connected with good performance in the sense of a high level of problem solving by public services.

## **5. Summary and conclusions**

Demographic change generates specific problems, especially for peripheral regions with shrinking populations. A strong decline in population and a resulting low density leads to increasing costs per inhabitant for public goods and services. The political actor responsible (governments) then needs to decide which services should be provided in the 'periphery' and which should be concentrated in agglomerations, or even whether they prefer people migrate to the centers and leave the periphery even less populated.

Far-reaching reforms of local administrations will lead to strong changes. New technical solution, particularly through electronic government, and far reaching organizational reforms creating horizontal and vertical cooperation among local authorities are the most important areas.

Growing importance for the stability of income and demand out of the agglomerations will come from the big public 'national' transfer systems and other expenditures of central government with regional effects. A multi-level fiscal equalization system which includes the appropriate assignment of taxation powers is decisive for the future social cohesion and equivalence of living conditions for all people in a nation-state. Therefore, the construction of fiscal equalization systems will be a good indicator for the future 'solidarity' (Germany) and 'harmony' (China) of the societies in both countries.



## **The Meaning of County Administration and the Essence and Goal of the County Administrative Reform**

CHEN Guoquan, LI Yuanlin

Since the Qin Dynasty began implementation of “the system of prefectures and counties (a system of local administration)”, the county-administration has always been an important foundation for maintaining the political unification and social stability. An ancient precept sums up the experience: “Counties govern well, the whole country is stable”, which sufficiently recognizes the importance of the county-administration. Facts prove again and again that the disorder and void of county-level governance have been the main roots of political disputes and social upheaval. An ancient precept “imperial power takes county-administration as the bottom” reflects that the central government had the political awareness of rehabilitating the people in arrangement of political system, and that the central government faced a helpless situation “Heaven is high and the emperor is far” in the game with the local governments. A 2000-year history of county-administration is also a history of activity of “anti-county-administration theory”.

After New China was established, we continued to implement the system of county-administration, which is also the common experience of materializing effective governance in the countries all over the world. I have to point out that there is major difference between the county-administration in China and that in Europe and America: in China, there is an additional administrative level above county level – prefecture-level municipalities (although the system of prefecture-level municipality was actually adopted from the 1980s), and below county-level, there is a country-level administration. Such a system was somewhat reasonable under the situation of “Planned Economy” when the productivity was low, and such a system actually exerted its historic function. However, with the free expansion of market order and the formation of the modern market economy system, the existing multi-level local administration system did not withdraw simultaneously with the extermination of the system of “Planned Economy”, and such situation causes the “anti-county-administration theory” to emerge further under the new historic conditions.

The “anti-county-administration theory” looms large increasingly, which not only puts forward demand for overall reform of county-administration,

but also raises new challenge to the reform of county-administration: while carrying out overall reform of county-administration, it is necessary to make efforts to increase and upgrade the development capacity of municipalities and counties respectively and to materialize the harmonious development of municipalities and counties. Although a sweeping consensus has come into being about the necessity and urgency of the reform of county-administration, a series of fundamental theoretical matters related to the reform of county-administration have not met sufficient response, such as margin or connotation of county-administration, essence of county-administration, and the target of the reform of county-administration. Such matters are fundamental theoretic matters in the research into county-administration reform, but also the key theoretic problems as to whether the reform of county-administration reform can be successful.

### **I. Quadruple Connotation of County-administration**

The demand for the reform of county-administration is based on such a logical precondition: such a reform is to take the county-administration as the theme and subject as well. It is very important to probe into the connotation of county-administration. If the margin of county-administration could not be defined clearly, then the reform thereof will lose target and will finally deviate from correct orientation of development. If no common consensus is reached on the essence of county-administration, then a general consensus on substance, target or methods of the reform of county-administration could hardly be reached. Therefore, a theoretic definition of the margin of county-administration is the logical start of research into the matters of county-administration.

The concept of county-administration refers to the county-level political power. The county-level political power is the natural extension of central regime, and the will of the central regime is to be carried out through county-level political power, the interests of the central regime are to be materialized by utilizing the county-level authorities as platform, and the public resources of the central regime are to be distributed through county-level authorities as channels. In this sense, the functions of county-level authorities are within the scope of political function. In the periods of “taking class struggle as guiding principle”, the county-level authorities exerted their political functions to an extreme extent. With the passing of times, China has completed the transformation from “taking class struggle as guiding principle” to “making eco-

conomic development our central task”, and the country is oriented itself towards social construction. Under such a general background, the political functions of county-level political power have been played down when compared with the past times, which does not necessarily mean the political functions of county-level political power has become weak, nor mean the political function of county-level political power withdraws completely. Even it can be said that the fading of political function of county-level authorities is based on such a general judgement: the central regime’s governing capacity is sufficiently strong, or at least its governing base will not shake, or such fading of political function of county-level authorities is not materialized at the cost of the governing interests.

In terms of organizational state, county-administration refers to all the governments of counties. The terms “political power” is an abstract concept, and it needs government as organizational entity to carry out its activities. Government is the embodiment of political power, and the political power is the root of the legality of government politics. As indicated in the current actual classification of administration, China’s county-level government is the third-class agency of the central government in essence, and the provincial government and prefectural government play the roles of I-class agency and II-class agency respectively. To some extent, the county-level government is actually the micro-organization of the central government. Except the special departments of national defense and foreign affairs, the county-level governments have the counterparts of all the ministries of the central government.

However, the primary connotation of county-administration is county-level public administration. For county-administration, the primary public administration function is to provide and ensure the public services. As we know, China is a country with a large population. As reported by the National Bureau of Statistics in 2007 statistics gazette, China’s population exceeds 1.32 billion, about 70% of which live in county-level society. The urban residents take up a low proportion of the total population, which is one of the basic national situations China must face. This condition causes such a state: the public services provided by municipal governments can hardly cover county-level society effectively. Then, who can provide and ensure public services within counties and then finally ensure the basic fairness? Or we may ask: who is the most desirable and feasible carrier of public services within counties? The answer is obvious: the county-administration is the most desirable undertaker of public services, because only county-administration has

obtained the most knowledge of the characters of the demand for public services, and what's more, the county-administration has sound and complete functions with relatively independent free hand in finance. Therefore, county-administration necessarily has the qualification and capacity for providing and ensuring public services in county-level society. If the county-level public service is provided by the lower authorities, the provision of public service will be in shortage, because township governments have not complete functions, and they have no independent financial right. If the task of providing public services within counties is assigned to township governments with administrative order, they will probably fail finally even after making full efforts, which may be obviously evidenced by a fact that the township governments failed in the 9-year compulsory education. Therefore, county-administration must act as the basic subject of providing and ensuring public services, and provide quality public services for residents living within the county societies, so as to maintain and promote social fairness and ensure and boost harmonious development within the county societies.

In addition, the county-administration is an open county-level political and economic ecosystem. Whether this ecosystem can be kept in a balance depends on whether it is sufficiently open. The county-administration political and economic ecosystem is composed of four sub-systems including politics, economy, society and culture, and therefore it is a great system with rich contents and it does not refer to only the political and economic system of the county-administration. In short, the political sub-system constitutes the core of the large county-administration system, the economic sub-system is the main body of the large county-administration system, and the social sub-system has the dominant influence and position in the county-administration system.

## **II. PAGES Model of County-administration Reform**

The reform of county-administration is a comprehensive, overall reform, and a great systematic project. In detail, the county-administration reform involves reforms in politics, administration, governance, economy and society, etc. Therefore, we can judge that the reform is a very arduous task, which cannot be finished in only a step. The rash advance plan of "achieving full success in only a fight" is very defective in theory and very harmful in practice. The county-administration reform is a comprehensive reform, but it does not necessarily mean that the reform in politics, administration, governance, economy and society must be all carried out simultaneously, or mean that all

reform items must be carried out simultaneously. To the contrary, the value and risk of all the specific measures of county-administration must be estimated in advance, and on the basis of such estimation, the importance and urgency of every reform measure are to be ranked in terms of priority; and then all the detailed plans and affiliated measures in every reform measure are to be ranked in terms of priority, so as to ensure that the county-administration reform can be carried out steadily in full swing.

In essence, the reform of county-administration is a political reform. The reform of county-administration includes political reform; the reform of county-administration includes the readjustment and restructuring of major interests of county-administration. As we know, the larger interest the reform involves, the more ultimate and overall the reform will be, and the more opinion the reform needs; and the reform has to be carried out step by step after weighing all the advantages and disadvantage comprehensively. The political reform of county-administration must be carried out with a view to establishment of a system arrangement, which can, in a long term, ensure that the readjustment and restructuring of major interests of county-administration can be materialized in a scientific, fair and rational way. If the major interest in the political reform of the county-administration is materialized through a system with long-term efficiency, then the political condition for initiating the other important reform items of the county-administration have been obtained. It can be said that, whether the political reform can succeed will have a direct impact upon whether the whole reform of county-administration can succeed. At present, however, the theoretical fruits of research into the reform of county-administration by the academic world from a political point view are very rare, and such a situation cannot keep pace with the importance of the political reform in the county-administration reform. One of the authors of this article<sup>1</sup> wrote an article in cooperation with others. In this article, we put forward a strategy of administration reform of county-administration, in which organization, function and politics interacts. Although the above-mentioned article deals with administration of county-administration from the political point of view in some parts, but it did not probe into the whole reform of county-administration at a political high because of the limitation in topic. Besides research into fundamental matters of the county-administration reform and provision of countermeasures for the reform, this article aims to cause the academic world to research into the county-administration reform at a political high.

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1 Chen Guoquan; Mao Ruifu; Xu Luhui: On Administration Reform of County-level Government and Strategy Choice; in: Journal of Public Management in April 2006.

The political nature of the reform of county-administration ultimately determines the long-term of the reform progress, complexity of the nature of reform and the enormity of the reform task, because the political reform involves the vital interests of all respects of the county-administration and the reform itself will carry out major readjustment and restructuring of vital interests. When talking about common interests, Hamilton said sharply: “Nothing could be easier than payment in making people disagree.”<sup>2</sup> With common interest, people have difficulty in reaching tacit agreement smoothly; of course it will be more difficult to reach sweeping consensus on ultimate interests. Therefore, if people have reached wide consensus or at least the basic agreement on ultimate interests of the political reform, the reform of county-administration will be carried out in full swing more favorably and more steadily.

The reform of county-administration is also a constant administrative reform. The administrative reform is the embodiment of political reform, and therefore, the administrative reform of county-administration is the logical extension of political reform of county-administration. In terms of the relation between them, the political reform sets the orientation and target of the reform of administration, and the reform of administration provides organizational guarantee and the mechanism of driving force. The county-level reform of administration is to be carried out in the following respects:

The first is the administration system reform of county-administration, which is typically represented by the transformation from “county directly administered by municipality” to “county directly administered by province”. There are very rich research fruits in this respect. As early as in the mid-1990s, Wang Tinghuai and Bian Weiqing<sup>3</sup> carried out overall research into the advantages and disadvantages of the system of “county directly administered by municipality”, and they made the theoretic deduction of the feasibility of the system of “county directly administered by province” by using the administration degree formula. In the same year (1995), on the basis of reviewing the history of prefecture-level government, Mao Shoulong predicted that the prefecture-level governments in the system of “county directly administered by municipality” would fade because of “separate governance of urban and

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2 Hamilton, Alexander; Madison, James; Jay, John: *The Federalist Paper [USA]* translated by Cheng Fengru, Zai Han, Shu Xun, published by The Commercial Press in 2004 p 33.

3 Wang Tinghuai; Bian Weiqing: *Analysis of System of Municipality and County Administration and Ideas for Reform*; in: *Journal of Nanjing Normal University (Social Science Edition)* in 1995 (4).

rural areas”, “self-governance system in urban communities” and “self-governance system in rural communities”<sup>4</sup>. Before this, under the background that the system of “county directly administered by municipality” was implemented in full swing, Zhou Zhenghe (1990) advocated the implementation of the system of “province-county (county-level city)” on his own, and he considered that such a system could apply to both regional administration area and urban administration area, and what’s more, when a county of the regional type was to become municipality, it could be materialized automatically without causing change of classification of administration level.<sup>5</sup> In the year of 2000, Gong Guizhi put forward a reform idea “separating county from municipality completely in one step, revoking the system of prefecture-level administration and directly administering counties by provinces (autonomous regions)”<sup>6</sup>. In 2004, Sun Xueyu wrote articles twice, dealing with the necessity and feasibility of the reform of the system “county directly administered by municipality” and implementation of the system “county directly administered by province”<sup>7</sup>. In 2006, Sun Xueyu emphasized the necessity of the reform of the system “county directly administered by municipality”, and he considered that the expansion of powers of strong counties should be taken as the breakthrough of the reform of the system “county directly administered by municipality”, and such measure would be the necessary preparation for the system “county directly administered by province”. We consider that, we should not have only one way for the administration reform, and if we can make only one choice in the existing system “county directly administered by municipality” or the system “county directly administered by province”, then the result could not be very satisfactory. What’s more, if we implement the system “county directly administered by province” strictly

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4 Mao Shoulong: The Past and Future of China’s Prefecture-level Government; in: Journal of Anhui Institute of Education in 1995 (2).

5 Zhou Zhenhe: Theory of Governing Capital and Countryside, Hongkong 1990, p306.

6 Gong Guizhi: China’s Current Administrative Division System and Ideas for Reform; in: Cass Journal of Political Science 2003 (2).

7 Sun Xueyu; Wu Kaichang: Establishment of Government System in which Counties Directly Administered by Province - A Research on Reform of the System in which Counties Directly Administered by Municipalities; in: Cass Journal of Political Science 2004 (1)

while the other affiliated measures are not carried out completely, to the contrary, the result will likely be institutional shock<sup>8</sup>.

The second is the reform of administration organs of county-administration, which is typically represented by the campaign of “losing weight for fitness” of county-administration. In 2003, Xu Yong considered that the way of the county-administration reform is “condensing county administration”, and he pointed out that “condensing county administration” meant not only “reducing and condensing organs”, but also “establishing a responsible government, preventing harsh government and building fine government.”<sup>9</sup> “The reduction and optimization of administration organs will not only reduce the administration costs and expenses, but also conduce administration efficiency and upgrade the quality of public services. Therefore, the success of the reform of administration organs will constitute a strong stimulus to the administrative reform of county-administration.

The last is the reform of personnel system of county-administration. This reform aims to cultivate and establish a quality staff required for development of county-administration. The personnel system reform should never be reduced to the reform of appointment or dismissal of officials or public servants, and should not be regarded as reduction of the administration personnel of county-administration. The personnel system reform should be carried out with a view to long-term development of county-administration, in order to establish a stable and quality staff for the county-administration. In 2008, Yu Jianrong and Cai Yong Fei discussed the four salient problems of the county-regional economic development in a centralized way: lack of money, lack of power, lack of talent, and lack of land<sup>10</sup>. The lack of talent mentioned above means lack of quality talents necessary for the development of county-administration, and it does not mean lack of population.

The reform of county-administration is also a reform of governance. The county-administration is a geographical concept. Every specific county has close relation with the surrounding counties and neighboring cities as well.

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8 Sun Xueyu: Analysis of the Necessity of Expansion of Strong Counties' Power and Reform of the System in which Counties Directly Administered by Municipalities; in: Chinese Public Administration, 2006 (5).

9 Trend of Reform of Countryside Governance – Strengthening Rural Areas, Simplifying Country-level Administration and Reduction of County-administration [J] by Xu Yong published on Strategy and Management 2003(4)

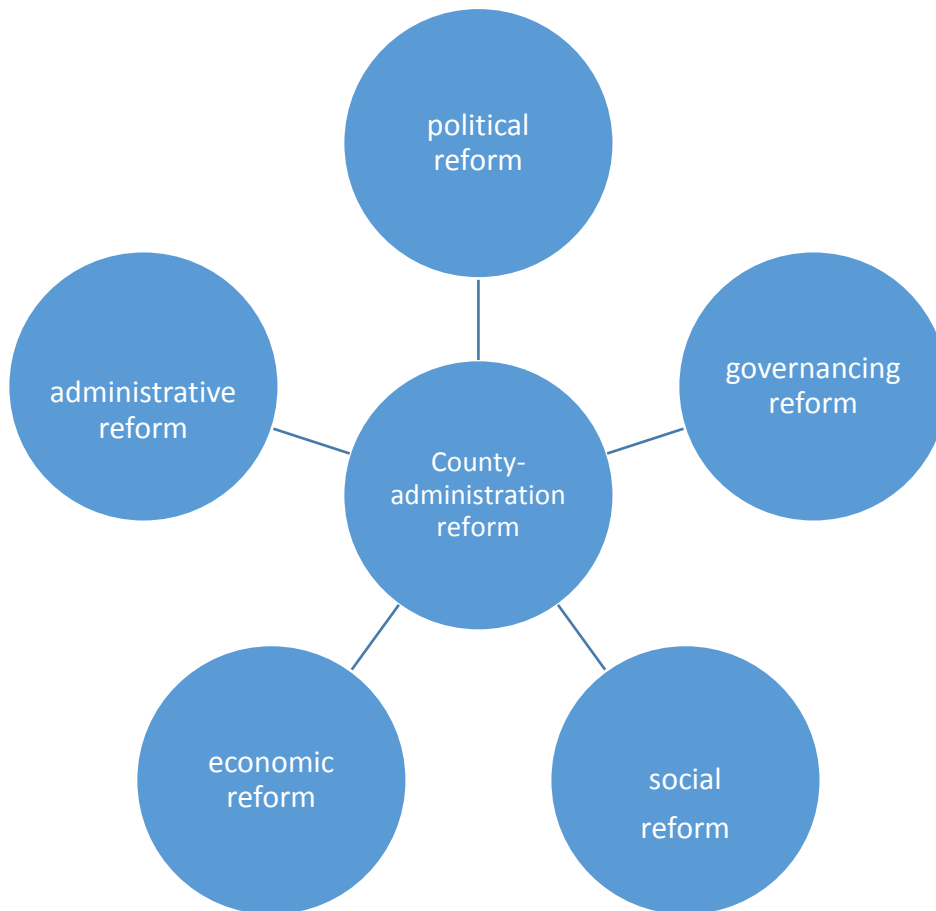
10 Yu Jianrong; Cai Yongfei: Country-administration Reform is the Breakthrough of China's Reform; in: Southeast Academic Research 2008(1).

With the social development, the public services and public crisis across counties or municipalities will become more and more, which needs joint governance together with municipalities and county-administration. The original status of being fragmented has to be changed under the new social condition.

The reform of county-administration is also an economic reform. The economic reform of county-administration is a “gas station” for the development of county-administration. The economic development and prosperity constitutes the material basis for the overall development of county-administration, and is also an important criteria of measuring the overall development of county-administration. The economic development and prosperity of county-administration depends on stimulus from economic reform. If the economic reform succeeds, then it will become a constant stimulus to the long-term economic development and prosperity, and further strengthen the economic foundation for the overall reform of county-administration.

In addition, the reform of county-administration must be a social reform. Since the early period of Qin Dynasty implemented the system of prefectures and counties, the county-administration has always been a barrier for social stability. There must be sufficient preconditions for the county-administration to exert the active function of barrier: the social contradictions, social conflicts and social problems were completely exterminated, or at least alleviated well, in their seminal state or early periods. With the intensification of social reform of county-administration, it will make favorable social conditions and social support for political reform, administrative reform, governance reform and economic reform that are related to social reform. If the reform of county-administration wins popular social support, then it's complete success will not be something very difficult.

Political reform, administrative reform, governance reform, economic reform and social reform jointly constitute the basic contents of the reform of county-administration. No single reform can be carried out in disconnection from the other reform items. If we carry out one item of reform in isolation, the final result will probably not be ideal. In other words, the five items of reforms constitute a reform system in which they support one another. On the basis of such conclusion, we put forward the PAGES model of the reform of county-administration as follows:



### **III. County-administration Reform and Harmonious Development between Municipalities and Counties**

Harmonious development between municipalities and counties is both the target and the requirement of county-administration reform. There are a total of more than 2,000 county-level administration zones in China, and the development differs very much. As we know, China's economy is uneven, and this is represented by the fact that the difference in development of every county is very obvious; and even in the same area, the difference between the development of counties and cities is also salient. If we let such a situation continue automatically, the result will be very serious: it will affect not only the health of the whole national economy, but also the social stability and finally political stability. Therefore, the reform of county-administration must take harmonious development between municipalities and counties as its constant pursuit, so as to maintain and materialize social fairness, and boost the building-up of the harmonious socialist society.

The harmonious development between municipalities and counties means that the high development of cities must be based on the development of counties. The development of cities may not be materialized at the cost of the interest of economic development of counties, and may not be materialized by depriving or plundering the resources of county development on the strength of administrative force. In fact, if the counties within a municipality are all poor and underdeveloped, then even if the city among them is very developed, the superior status of the city can hardly continue; the high development under such background is nothing but seeming prosperity, if we cannot describe it as false prosperity.

The harmonious development between municipalities and counties requires that high development of cities must be based on its own capacity for development. If a city's development is materialized only by depending on administrative force or other political resources, then such a result will be caused finally: once administration force becomes ineffective, or the supply of such political resources is cut, the city will fade easily. A city's development must be based on the increase and upgrade of its own capacity for development, so that the high development of a city will be ensured ultimately.

The harmonious development between municipalities and counties requires cities to exert its basic functions wholly, which means that cities must take great improvement and upgrade of social efficiency as its own task. In those developed countries, the urban economy generally takes up a relatively high proportion (generally 80%) in the national economy, which is the best evidence of "city representing efficiency". China's urban economic volume is relatively small and has not reached the extent of representing the social efficiency. If the city efficiency is not upgraded generally, the result would probably be "harmonious stagnation" of municipalities and counties, which had ever been evidenced in the period of China's "Planned Economy" system.

The harmonious development between municipalities and counties could not be realized without the normal operation of basic functions of county-administration, namely, the basic function of maintaining and boosting social fairness. If such a basic function is vacant in county-administration, then the social unfairness will be intensified; when the social unfairness reaches a breakthrough point, serious social contradiction or even violent social unrest will likely be induced. With a capacious coverage, county-administration contains the most majority of China's population; if the county-administration cannot efficiently exert its basic function of maintaining and boosting social fairness, then social contradiction or social unrest will not be a complete alarmist talk.

The harmonious development between municipalities and counties necessary requires county-administration to take urbanization as its mission and take integration of urban and rural areas as final target. With a view to the harmonious development between municipalities and counties, county-administration has to transcend its limits continuously, so as to materialize urbanization and to realize urban and rural integration finally. In this sense, city is the final target of the development of county-administration. In fact, nowadays cities had ever been counties, and nowadays counties will be future cities.

## **The Utility Analysis of the Province-County Direct Governance Strategic Reform Promote the Urban-Rural Integration Development**

LI Shaohui

The key of development of urban and rural integration is to step up the development of the rural economy with county-level economy, so as to materialize legal equality between rural and urban areas. On July 9, 2009, the Ministry of Finance of the PRC publicized Proposal on Enhancing the Reform of “County-level Finance Directly Administered by Province”, which states “before the end of 2012, we are to strive to boost the reform of county-level finance directly administered by province in full swing in the country except national autonomous regions”. So, it is obvious that the reform “county directly administered by province” represents the general trend. The practice of “county directly administered by province” has proved that it can boost county regional economy and upgrade the status of counties, and therefore, the strategic reform “county directly administered by province” may advance the urban and rural integration by boosting county regional economy. On the basis of the fact that the local administration system restricts the development of urban and rural integration, this article points out that county-level governments constitute the important platform and carrier for China’s development in urban and rural integration, and in addition, this article analyzes the expected effect of the strategic reform “county directly administered by province” on the development of urban and rural integration.

### **I. Local Administration System Restricts Development of Urban and Rural Integration**

With the development of the socialist market economy, especially the development of regional economy, and the change of administration environment and means, the various irrationalities brought out by the system of “county directly administered by municipality” have emerged. The emergence and intensification of such irrationalities widen the difference between urban and rural areas, and county regional economy is therefore prevented and the administration efficiency is further lowered. The governments of rural areas gradually become the dependency of city’s governments while the power of

city's governments is strengthened. This inequality in legal status between rural and urban areas causes the increasing difference between them, which seriously refrains the urban and rural integration.

*1. Consideration could not be given to both rural and urban development*

The original intention of arrangement of the system of “county directly administered by municipality” was to enable the favorable resources and status of cities to drive the economy of the countryside areas within the administration of cities. In fact, however, except those provincial capitals and mid-developed cities, the cities with weak industrial base or the cities just upgraded from county level to prefecture level can hardly exert such a function. Such cities have many difficulties even in their own development, and of course they are unable to help the counties and countryside areas within their administration in development. What's more, in the practice of operating the system of “county directly administered by municipality”, some municipalities will favor urban areas more than rural areas: large amounts of funds are invested in urban development and the development of rural areas are ignored, and sometimes even the funds originally planned for rural areas are diverted into urban areas. Obviously, the countryside economy with much difficulty can not rely upon the central cities that are not powerful in economic strength.

*2. Industrial separation between rural and urban areas still exists*

In the era of the planned economy, the industrial separation between rural and urban areas was typically represented by weak relation between urban and rural industries. The core of urban industries was modern industries and service industry, and meanwhile, in the rural areas, there were only plantation and simple processing. Such industrial structure lacked interaction and the joint development could hardly be realized. The system of “county directly administered by municipality” did not ultimately change the condition in which the rural and urban economy differed too much and there was few relation between them. The trend of market economy did not boost the rural and urban development under a whole plan, and what's more, it intensified the separation between urban and rural areas.

### 3. *Serious “Bubbles” in Urbanization*

With the implementation of the system “counties directly administered by municipalities”, some county-level cities that are not qualified for being upgraded as municipality and county towns are striving to be upgraded as municipalities with a view to benefit, which causes the system “counties directly administered by municipalities” to mutate in its progress. At present, many “municipalities” do not have the nature of municipal administrative zone any longer, and they have become regional administrative zones with countryside as main body. Even many “municipalities” rely mainly upon agriculture for their economic development, just like super “county” of agricultural function or semi-agricultural function; and there are great differences between them and real cities, which caused “Bubbles” in urbanization.

## **II. The Role of County-level Governments in Boosting Urban and Rural Integration**

Establishment of Socialist New Countryside and enhancement of urban and rural integration have been China’s important development strategy. If we can say the important role of county-level regions in China’s socialist economy development determines that the county-level regions become the most important platform for materialization of urban and rural integration, then the special roles of county-level governments in the state’s governing system determine that the county-level governments constitute the most important organizer and implementer in the progress of urban and rural integration.

Firstly, the relative stability in governance of counties determines that county-level governments are the most suitable for the role of organizers and planners of the Project of New Countryside.

Currently, there are a total of 2861 county-level administrative regions in China (except Hong Kong Special Administrative Region, Macao Special Administrative Region and Taiwan province), covering a 90% of the whole area of the country and accounting for more than 60% of the country’s total population. Therefore, in the sense of administrative division, counties are the most suitable administrative regions for implementing the overall planning project for urban and rural economic and social development. The relative cultural and geographic independence in counties determine that the overall planning within counties is always the optimum choice for materializing the scale effect of local public resource supply.

Secondly, counties connect urban and rural areas, and this character determines that county-level governments are the most suitable administration for undertaking the responsibility for planning urban and rural development as a whole.

Counties are connection between modern industries and traditional agriculture, and between modern urban culture and traditional rural culture. County-level governments must develop modern industries and protect and boost traditional agricultural economy concurrently; county-level governments must actively boost urbanization and maintain social order in rural areas concurrently; county-level governments must spread modern civilization so as to enable rural and urban residents to enjoy the modern civilization fruits, and county-level governments must protect beneficial cultural and ecological resources in rural areas. The function of county-level governments is highly comprehensive, and they are the most suitable for exerting the structural function of “industry supporting agriculture” and “urban areas stimulating rural areas”.

Thirdly, the relatively complete function, power and organizational structure of county-level governments determine that they have relatively strong freedom for action and they are suitable for undertaking the role of planning as a whole urban and rural economic and social development in harmony.

In sense of administration classification, county-level governments are the undertakers of transforming macro policy into micro policy. Compared with provincial and municipal governments, the functions of county-level government are relatively micro and county-level governments are performers of the state’s policy and guiding lines. Compared with country-level governments, county-level governments own relatively complete functions, administration power and sound organization structure, integrating administration, service, coordination and supervision. It can be said that county-level governments are both enforcement organization for the guiding principles and policies of the CPC and the country, and the organs leading the politics, economy, culture and social affairs in specific areas; and county-level governments are more suitable for organizing whole-planned development in urban and rural areas than provincial, municipal and township governments.

Fourthly, county-level governments’ role in integrating resources from region and sectors and in coordinating contradictions enable them to have special advantages in planning urban and rural development as a whole.

County-level governments have relatively complete function, power and organizational structure, and they have the capacity to carry out unified arrangement of and coordination for the public affairs in specific region; the county-level governments have relative independence in region. On the other hand, county-level governments are also final execution organ of affairs in specific sectors and the final organizer of resources from every sector. The functional departments in the vertical administration system will have to rely upon county-level governments in implementing their respective administration targets, and such departments will distribute the resources within their administration scope to county-level governments for final distribution. Such a system constitutes a great challenge to county-level governments in performing functions, puts the county-level governments at the focus of the internal contradiction of such system, and meanwhile, such system enables county-level governments to have great freedom in materializing their relatively independent administration targets. County-level governments may make the most use of such a role, integrate the resources from region and sectors and arrange the rural and urban economic and social development under a whole plan<sup>1</sup>.

### **III. Effect of Strategy of Counties Directly Administered by Province on Advancement of Urban-rural Integration**

The strategy of counties directly administered by province can boost the urban and rural integration because of the root reason that the expansion of power of counties directly administered by province in finance and affairs can stimulate county-level governments to more enthusiasm for economic development and administering social affairs, and can enable county-level governments to make unified plan with a view to long-term development within county, and because of the root reason that the strategy can conduce various elements to flow in a rational way, conduce county regional industrial structure to be upgraded and optimized, enhance the improvement of urban and rural infrastructure so as to form rational urban living system, and carry out innovation in system continuously.

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1 He Xianming: Economic and Social Development Effect of Reform "Counties Directly Administered by Provinces" by- Analysis on the basis of individual case from Zhejiang province; in: Journal of The Party School of CPC Hangzhou Municipal Committee 2009 (2).

(1) The system “counties directly administered by provinces” can stimulate all departments under county-level governments to more enthusiasm and responsibility for work

Under the traditional administrative system, the county-level governments have little autonomy with weak financial capacity, and under most circumstances, they are only relying upon the instructions and financial supports from the upper-level governments; the county-level governments can only act according to the plans made by the upper-level governments, and they neither have power nor undertake responsibility, which leads to a situation that the departments under the county-level governments have not enough enthusiasm or responsibility for work.

The strategy reform “counties directly administered by provinces” aims to materialize the direct administration of county-level finance by province, reduce the financial loss in the intermediate links, and avoid the financial withholding by municipalities, so that all the subsidies, supporting funds and special funds from provinces to counties will be strengthened and efficiency will be increased. Thus the administration costs will be decreased, the provincial control is strengthened, and the fund use efficiency and administration efficiency are increased. In addition, the increase in the county-administration power in financial affairs and examination and approval enables county-level governments to have financial power to carry out overall planning for rural and urban development with all its strength. Under the condition that county-level regional economy is underdeveloped, the reform “counties directly administered by provinces” is undoubtedly beneficial to county-level regional economy and countryside economy as well.

(2) The reform “counties directly administered by provinces” boosts optimization and upgrade of county-level industrial structure

According to New classical economics and industry economy, the flow of resource elements, funds and labor among sectors will observe the principle of profit tendency. With the economic growth, the flow of production elements among sectors causes the industrial structure to experience the evolution: “1st, 2nd, 3rd industry”, “2nd, 3rd, 1st industry”, and then “3rd, 2nd, 1st industry”. In consideration of the evolution of industrial structure in set order, and on the premise of optimization and upgrade of industrial structure, the urban and rural integration is flow of resource elements in the space of the three industries.

In essence, the reform “counties directly administered by provinces” is a new distribution of public administration power and social resources, and it

will ultimately boost the county-level regional economy. The core of the reform is to “retain benefit for counties”, to clearly divide the main taxes and share proportion of them by province, municipality and county, to increase the base of quota of subsidy from province to county accordingly, to verify the amounts of the refund of “two taxes” budgeted for central fiscal revenues, the income tax refund, export rebate for county-level, and to distribute the special appropriate funds, funds allocated for special purpose, and the transfer payment subsidy to county-level. All such measures will provide powerful support for county-level regional economy, clean out those system and mechanism obstacles existing in the development of county-level regional economy, so as to enable counties to develop all sectors with all their financial capacity and to realize fast development.

In the respect of development of township enterprises, the tax right readjustment is concerned in nearly all practice of the strategy “counties directly administered by provinces”. The counties directly administered by province have the same examining and approving power in reducing taxes as the municipalities that have districts under administration, and such system is conducive to retaining of benefit for enterprises and expanding of enterprise accumulation, and the system can encourage enterprises to re-invest in expansion of production, and stimulate enterprises to expand size and develop faster. While the strategy “counties directly administered by provinces” boosts township enterprises and further boosts fast development of county-level regional industries, it boosts the development of county-level regional tertiary industry, so that the county-level industrial structure becomes more rational.

(3) The strategy “counties directly administered by provinces” stimulates county-level governments to strengthen innovation in system

According to the opinion of institutional economic school represented by Douglass C. North, the economic growth is closely related to system, the social technical structure determines the upper limit of social economic activities, the favorable system can stimulate economic activity to its upper limit, and the unfavorable system will cause economic activities to take on declining tendency. As a strategy selected for boosting social economy and coordinating contradictions between rural and urban areas, whether the urban and rural integration can stimulate economic growth effectively is contingent upon whether it can render effective policy system. The strategy “counties directly administered by provinces” stimulates county-level governments to more enthusiasm for providing policy system and probing into innovation of

system. Such policy and system innovation will play a coordination role in rural and urban integration in the following respects:

### 1). Drive for Urban and Rural Integration

By effectively boosting system innovation in agriculture, the strategy can stimulate agricultural production efficiency and output, so as to enable agricultural sector to provide surplus of agricultural products and resources while maintaining reproduction of itself, to provide labor force and products for non-agricultural sectors and to create demand for agricultural machines and related industrial products, technology and information. By effectively boosting system arrangement for industries and non-agricultural sectors, and under policy support in related enterprise system and investment and financing system, the strategy can boost non-agriculturalization and industrialization of national economy, so as to create driving force for absorbing surplus labor from agriculture and provide supply drive to agricultural development. Through effective system innovation in economic element flow, the strategy can help the recourse elements of industries and agriculture to flow and integrate one another, so as to materialize rational allocation and new combination of industrial and agricultural elements and redistribution of benefits, to boost agriculture industrialization in rural areas and industrialization and urbanization in rural areas, and to finally realize urban and rural integration.

### 2). Performance in Space of Urban and Rural Integration

Through effective policy in urban development and planning policy for urban and rural areas, the strategic innovation can enable towns and villages in all grades, sizes and functions to be distributed in order, in rational division of function, and in harmonious landscaping, so as to satisfy the requirement for harmonious economic development in rural and urban areas and further strengthen the economic relation between urban and rural areas. The convenient and high-efficiency infrastructure constitutes the fundamental conditions for existence and high-efficiency operation of the economy in urban and rural areas, and constitutes the guarantee for internal and external interaction of urban and rural areas. By boosting the system arrangement for urban and rural development effectively, the strategic innovation can enhance the network use in and modernization of infrastructure in urban and rural areas, so as to satisfy the requirement of flow of elements between urban and rural areas, and further boost optimization of urban system, harmonization and modernization of urban and rural landscaping and materialize spatial integration of urban and rural areas.

#### (4) Expansion of Power Enables Counties to Select Better Economic Layout Model

Economic layout is influence and intervention in spatial composition of economy elements by the subject, so as to make economy develop in favor of the subject. The influence of economic layout upon urban and rural spatial structure differs from one economic layout to another as follows:

1. Economic layout determines the state of labor division and cooperation among cities, towns and rural areas; and the close cooperation in work among cities, towns and rural areas can boost urban and rural integration.
2. Economic layout affects the distribution of property and fortune, as economic development differs in areas and causes income differ.
3. Different Economic layout causes different distribution of resources. Resource distribution is very important to the development any department and any industry, and especially to the development of agriculture and rural areas.<sup>2</sup>

With influence from the elements such as natural environment, historic condition, economic basis and location, economic layout differs from a county to another very much. For example, those backward areas take the layout of “growth area” as the main model, underdeveloped areas take the layout of “point-axis” as the main model, and those developed areas take the layout of network model. Different layout models require counties to select the model suitable and corresponding to respective conditions so as to boost the urban and rural integration. After implementation of the strategy of “counties directly administered by province”, counties may select the layout model favorable to respective development on the basis of their respective natural and historic conditions, economic base and location advantages.

#### (5) The strategy “counties directly administered by provinces” is conducive to improvement of urban and rural infrastructure

The infrastructure is the fundamental element for supporting and ensuring social and economic activities, including transportation, post and telecommunications, water supply and drainage, electric power supply and other production facilities, and commercial and technology education, sanitation, culture, finance, insurance and other social public facilities and public service facilities. The urban and rural infrastructure is the carrier for urban and rural integration and constitutes the precondition for interaction and cooperation

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2 Shi Xiao Hong: Research into Power Expansion of Strong Counties and Mechanism and Effect of Urban and Rural Integration, 2009.

between urban and rural areas. The development of infrastructure is of great significance to urban and rural integration, and the strategy “counties directly administered by provinces” can boost development of counties’ infrastructure because of the following reasons:

Firstly, the strategy “counties directly administered by provinces” enables county-level governments to have financial power in investing in infrastructure development

The infrastructure is public facilities, which are mainly supplied by government bodies; and the financial revenues constitute the basic guarantee for infrastructure development. Under the system “counties directly administered by municipalities”, the prefecture-level cities are absorber of county-level financial revenues and take great amounts of county-level financial funds, and thus county-level governments have no funds in investing in infrastructure development. After the strategic reform “counties directly administered by provinces”, the provinces are to strengthen direct financial administration of counties and transfer payment, so as to ensure that county-level governments have sufficient funds to invest in infrastructure development.

Secondly, the strategy “counties directly administered by provinces” enables county-level governments to have power to invest in infrastructure development

Under the system “counties directly administered by municipalities”, the prefecture-level cities’ governments adopt policy in favor of cities. They not only tend to use the fiscal revenues collected the counties within their administration in urban infrastructure development, but also tend to distribute the projects of infrastructure development in the urban areas, which makes counties have neither funds nor power to invest in infrastructure within counties. After the strategy “counties directly administered by provinces” is implemented, according to the policy of direct application for examination and approval of the relevant items in the development projects, the policy in favor of cities may be avoided and the infrastructure may be developed on the basis of the actual demand of the areas within the county-administration.

#### **IV. Conclusion**

Administrative system reform is a systematic project involving politics, economy, geography, culture and many other elements, and it must be treated

seriously and operated in a scientific way. At present, the practise of the strategy “counties directly administered by provinces” are always carried out with a financial view, and the real administrative reform for “counties directly administered by provinces” are in pilot period. Therefore, in order to develop county regional economy, implement regional integration and joint development, to materialize free flow of production elements among counties under the principle of combination and share of power<sup>3</sup>, and to finally materialize the situation of rural and urban integration in which coordination and interaction is carried out between province and counties, we have to carry out deep and complete research and investigation, make whole planning in scientific manner, sum up experience, so as to find a reform method suitable for economic and social development while maintaining relative stability.

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3 Liu Yapin: System Reform “Counties Directly Administered by Provinces” and Regional Economic Development; in: Cooperative Economy and Technology 2009 (6).



### **3. RECENT REFORMS OF LOCAL GOVERNANCE IN CHINA AND GERMANY**



## **The Experience and Enlightenment of Hainan's Administrative Level Reform in China**

PENG Jingyi, BI Puyun

### **I. The formation of city governing county system since the establishment of the People's Republic of China**

After the establishment of People's Republic of China, the formation of city governing county system has gone through five stages.

- (1) At the beginning of the founding of our country, in order to guarantee the vegetables and subsidiary food supply in the city, it implement the city governing county system in Wuxi City, Xuzhou City, Lanzhou City and other places, generally one city only governs one county.
- (2) In the late 1950s, "in order to adapt to the rapid development of Chinese socialist construction, especially the great leap of industrial and agricultural production and rural people's commune since last year, it closely combined city with the village so as to stimulate the mutual support of industry and agriculture and facilitate the deployment of labor", the NPC Standing Committee passed "The Decision of Municipalities and Larger Cities Being Able to Lead the County and Autonomous County", affirming the city leading county system in legal form. At the end of 1960s, there were 48 cities leading 234 counties and autonomous counties, and governing 6 county-level cities throughout the country.
- (3) In the early 1960s, due to the economic difficulty and the short supply, the central government decided to adjust the organizational system of the city and town, and narrow the suburb, stopping the implementation of city governing county. At the end of 1965, there remained only 25 cities that led 78 counties and one autonomous county<sup>1</sup>.

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1 The Ministry of Civil Affairs in People's Republic of China: *The Reform of Administrative Regions' Division above the County Level in People's Republic of China (1949~1983)*, Beijing: Surveying and Mapping Press, 1988.

- (4) In the late 1970s and early 1980s, in order to stimulate the common development of urban and rural areas, the “city governing county” system was put on the agenda again. The central government decided to combine the prefecture and city and let the city lead the county, since then, city governing county system has become the basic division mode.
- (5) In 1999, the CPC Central Committee and the State Council issued “The Opinions on the Reform of Local Government Organization”, said: “the districts coexisted with prefecture-level city should combine with the prefecture-level city; the districts coexisted with county-level city, and its city (county) has reached the standard of establishing prefecture-level city, we remove the organizational system of the district, establish the prefecture-level city and implement the city leading county system.” Since then, city governing county system has been further strengthened, and China has become one of the few countries with multi-level system.

**Tab. 18.1: The formation process of city governing county system after the founding of our country**

Time	Aim	Characteristic
in 1949	guarantee the subsidiary food supply in the city	generally one city only governs one county
in 1959	adapt to the great leap and rural people’s commune	affirm the city governing county system in legal form
in the early 1960s	severe shortage of food supply in times of economic difficulty	stop city governing county
in the late 1970s and early 1980s	city driving the town	occupy the land and expand the city
in 1999	adjust the organizational system in the district	remove to build the city

Source: according to “The Reform of Administrative Division above the County Level of People’s Republic of China (1949-1983)”

City governing county system has produced its due positive role, for example, many regional center cities have got better development and so on. However, from a global point of view, it has failed to achieve the goals of urban-rural balanced development originally set. According to the statistics, in 2009 the counties' gross population in China reached 931 million, accounting for 70.1% of the national gross population; the counties' local GDP reached 15.05 trillion yuan, accounting for 50.05% of the national GDP; the national counties' local fiscal general budget revenue reached 659.2 billion yuan, accounting for 23.01% of the national local fiscal general budget revenue, that is to say, with the 50.01% of the national GDP, and 23.01% of the fiscal scale, the counties' economy holds the public affairs accounting for 70.1% of the national population.

**Tab. 18.2: The Statistics of China County's Economic Conditions in 2009**

	<b>total population</b>	<b>total GDP</b>	<b>fiscal revenue</b>
<b>absolute number</b>	931 million	15.05 trillion	659.2 billion
<b>share of the counties of the national total</b>	70.1%	50.05%	23.01%

Source: "Chinese County-Level Economy Yearbook"

There are large differences between the scales of county economy: the average value of the top 100 counties' average per capital gross national production is more than 15 times of that of the low 100 counties<sup>2</sup>. The gap between the income of urban and rural residents does not shrink but expand instead: in 2010, the per capita net income of rural residents was 5919 yuan, while the per capita disposable income of urban residents was 19109 yuan, the ratio of urban and rural residents' is 3.23: 1. The rural Engel coefficient was 41.1%, and urban 35.7%. According to the prediction of "2011 Rural Economy Green Book" issued by Chinese Academy of Social Sciences, the ratio of disposable income of urban residents and the per capita net income of rural residents is 3.26: 1 in 2011, expanding 0.03 compared with that of 2010.

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2 The Editorial Board of Chinese County Economy Yearbook. "Chinese County Economy Yearbook", Beijing: Social Science Literature Press, 2010.

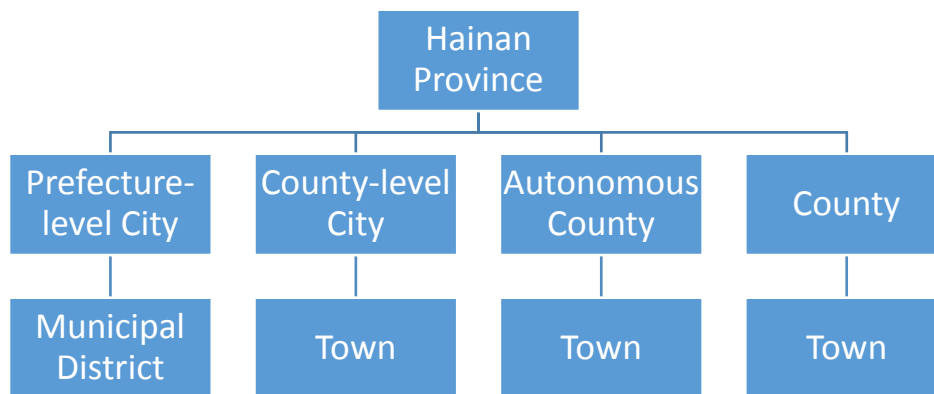
It is in this context that China began the pilot of province governing county. In 2008, the CPC Central Committee and the State Council issued “The Opinion on the Reform of Local Government Organization”, and proposed to promote the fiscal system reform of province directly governing county (city), places where conditions permitted could explore the system of province directly governing county (city) according to the law, expanding the social management and economic management power of county-level government. In 2009, the CPC Central Committee Document No. 1 issued to “promote the fiscal system reform of province directly governing county (city).”<sup>3</sup> The State Council issued “The Notice on the Key Work Opinions of Deepening Economic System Reform”, proposing that the places where conditions permitted could begin the reform pilot of “province directly governing county (city)”, expanding the economic and social management power of county-level government, and actively exploring the ways and means of province directly governing county (city). Until 2011, China has implemented financial management reform of “province directly governing county” in 970 counties of 27 provinces, it is clear that the reform has a strong meaning to “return”.

## **II. The experience of province governing county system in Hainan Province**

In 1988, Hainan Province was established; it also conducted the special economic zones, whose main task was to explore to establish the socialist market economic system. According to the requirements of central government, Hainan Province stated to establish the local administrative system of province directly leading city and county from the very beginning, implementing the administrative structure and management mode of “city and county are divided and conquered”:

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3 Meng Yuanxin: The Observation of Financial Management System Reform of “Province Directly Governing County in China; in: Background and Analysis 2009 (201)



The system has the following characteristics: the provincial government is the senior government, whose main function is to formulate plans, policies and guide and supervise the lower-level government. City and county governments are mid-level government, whose main function is to implement laws and policies, stimulating the social and economic development. Although there is a difference of level between the city government and county government, they are not subordinate to each other. Town government is the grassroots government, whose main function is the social management and public service. Therefore, compared with the other province in China, Hainan Province successfully reduces a level of government.

If only seen from the outside, the above systems only reduce a level of government, but seen from the inside, they have three advancements.

- (1) Significantly reduce the administrative intervention. From 1999 to 2006, Hainan provincial government in six batches has cleaned up 945 and canceled 293 administrative approval items, canceled and adjusted 15 annual audit and annual inspection items, reduced and adjusted hundreds of administrative approval rights. According to “The Administrative Permission Law of People’s Republic of China”, in 2004 it cleaned up again thousands of administrative permission items, canceled more than 200 administrative permission items, and also successively decentralized 65 administrative approval items and 43 administrative permission items to the city and county. The reform of administrative approval system and the cancel of many administrative permission items enable the government to change from almighty government to limited government, reinforcing the institutional foundation to promote the province governing county.

- (2) Significantly decentralize the administrative authority. From 2000 to 2006, the provincial government has successively decentralized 62 administrative approval items and 43 administrative permission items to the county (city). In 2007, the provincial party committee proposed to gradually decentralize the administrative management authority of the provincial city to the county (city). In 2008, the provincial government officially decentralized 197 economic and social management authorities, of which there were 166 economic management authorities, accounting for 84.2% of the total number of decentralized powers; 31 social management authorities, accounting for 15.8% of the total number of decentralized powers. A series of approval items involving economic and social development will be decentralized to city and county, including: the approval of reduction or exemption of enterprise income tax, the first review of enterprise value-added tax rebates, the business registration of foreign investment enterprises, the project approval of investment below 100 million, the overall planning approval of towns' land utilization and so on. The reform not only decentralizes all the administrative approval rights, which can be exercised by the city and county according to national regulation, to the city and county, but also realizes the direct joint of province to county on personnel and finances, therefore realizing province directly governing city and county in the real sense.
- (3) Solidify the reform achievements by the legislations of the special zones. In April 2009, the Standing Committee of Hainan Province passed "The Decision on Further Improving the Management System of Province Directly Governing City and County", determining the reform content in the form of local legislation. In order to solve the legal questions in the process of decentralizing power, Hainan started the legislative authority of the special zones to guarantee the smooth implementation of the reform.

### **III. The enlightenment of province governing county system in Hainan Province**

The successful practice of province governing county system in Hainan Province gives people a wide range of useful enlightenment, mainly including:

- (1) It is the need of improving the market economic system. Over 30 years of reform and opening up development, China has become the largest developing country, the world's second largest economy, the largest exporter and the second importer, possessing 5.5 trillion dollar GDP and 2 trillion dollar foreign reserves. During the world financial crisis in 2008, according to the

statistics of World Bank, China's contribution to world economic growth was more than 50%. At present, China is playing a pivotal role in the world economy and political situation. While all this is benefited from the establishment of socialist market economic system. There are two basic requirements of the market economy, one is the diversification of the market subject, and the other is the service of government functions. It is clear that decreasing the administrative level, reducing administrative costs and stimulating government transformation are the necessary elements of improving market economy system. The current implementation of "city governing county" is established under the economic thought of "planned commodity economy" and "planned economy supplemented by market regulation". The core of "city governing county" system is how the city strengthen the leadership of the rural areas, while the market is in a subordinated position. In other words, it emphasizes the effect of that "visible hand". Today, it requires more the market subject to play a role in improving socialist market economic system, while the government returns to macroeconomic regulation, market supervision, social management and public service. In other words, it emphasizes the effect of that "invisible hand".

(2) It is the need of promoting the balanced development of urban and rural areas. China is still a developing country, and is still in the primary stage of socialism; the dual economic structure---the situation of coexistence of agricultural economy and industrial economy, rural economy and urban economy will exist in the long-term. System of tax allocation reform in 1994 reduced the proportion of local government revenue, especially fiscal revenue of the county and town government declining sharply, the proportion of county and town finance declined to less than 20%, the minimum self-sufficiency coefficient of the county-level finance was less than 0.5, the financing gap reached more than half. The weak county and town financial situation made it hard for the county economy to change the rural public service. Under the system of financial division, the prefecture-level city maintained its political power to operate by depriving the financial resources of some counties and county-level cities. The current system of the superior inspecting and appointing subordinate cadres and the system of financial division of the superior and subordinate make the prefecture-level finance share a part of the paying tax of the county-level. According to the statistics, 60%-70% of the financial revenues in some counties are turned over to the central government, province and the prefecture-level city, and 80%-90% of the rest are payroll finance, 10%-20% of the rest funds are used as the economic development and construction funds, playing little role in the development of the county economy.

In a sense, the prefecture-level city is actually a “pump”. The experience of province directly governing county in Hainan indicates: through reasonable division of the income scope of province, city and county, transferring payment, tax returns, income tax returns and others are directly verified by the province and then are subsidized to the city (county), effectively alleviate the financial difficulty of the county and town. A batch of poor cities and counties, whose previous local financial revenues used to wander between 10 million to 30 million yuan all the year round, now most of them have entered the “100 million yuan club”.

**Tab. 18.3: The Statistics of China Local Administrative Level from Qin Dynasty to the Republican Period**

Level	two-level system	virtual three-level system	three-level system	coexistence of three-level and four-level	multi-level system
existing number of years	290	610	600	276	350
the proportion of history	13.60%	28.70%	28.20%	13%	16.50%

(3) It is the need of integrating with international standards and respecting the history. From the point of view of international level, among the nearly 200 countries and regions in the world, whose local administrative level are two-level and three-level, accounting for about 67%; only 21 countries have more than three levels, accounting for 11%; India’s local administrative level implements three-level system of state-county-district; Germany’s local administrative level has three-level of state, county city and town; France’s local administrative level has three-level of district, province and city; Britain’s local administrative level also only has three-level; Japan’s local administrative level has two-level of capital, sect, prefecture, county and city, ting and village; America also implements the coexistence system of two-level system of state-city and three-level system of state-county-town. Viewed from the international experience, the countries with a mature market economy have

adopted flattening two-level and three-level local administrative system. Viewed from the Chinese history, in the more than 2100 years from Qin Shi Huang unified China to the end of Republican Period, the local administrative level is two-level system for 290 years, accounting for 13.6%; virtual three-level system for 610 years, accounting for 28.7%; real three-level system for 600 years, accounting for 28.2%; coexistence system of three-level and four-level for 276 years, accounting for 13.0%; multi-level system for 350 years, accounting for 16.5%. Therefore, from the Chinese history, three-level and the below levels are normal. In this sense, reducing administrative level not only means integrating with the international standard, but also means respecting history.

#### **IV. Conclusion**

China has large population, vast territory and extremely complex situation, the practice of province governing county in Hainan Province doesn't and can't provide a mode of "one size fits all" for the nationwide administrative level reform. However, the successful practice of Hainan Province can provide beneficial reference for the nationwide administrative level reform. That is to say, the experience of Hainan cannot be applicable everywhere, but also being like the coconut trees that only bear fruit in Hainan. Focusing on it instead of ignoring it, paying attention to it instead of despising it, that's the right attitude.

It is a fact that the provinces of China are too big, unable to govern so many counties. This problem is actually not difficult to solve. One way is to properly diminish the provincial administrative regions. There are as much as tens of millions of population in the provincial-level administrative regions in China, the populations of some provincial administrative regions are even close to 100 million or more, this kind of situation really needs to change. The second way is to establish a "virtual level" between the province and county, namely establishing provincial government agency, which represents the provincial government to implement the basic social management and public service on several counties. It neither requires tedious structure of the first level government, nor the accompanied "four sets of leading group". The third way is to combine the above two together, namely on one side properly diminish the provincial administrative regions, and on the other side establish a "virtual level" between the province and the county, maybe this is a more effective way. In fact, these methods "have existed since ancient", basically

consistent with the ubiquitous national psychology, and entirely feasible in practice.

It is a fact that there are too many cities' first-level personnel to emplace. This issue is also not difficult to resolve. It is in need of people to diminish the province, to make the city "virtual" and to strengthen the county. In this sense, on the contrary, the reform provides new opportunity for us to reasonably emplace personnel and let everybody fully display his talents and uses. Most importantly, the market needs people, and especially the professional people. One of the important tasks in the structural reform is to encourage a lot of people, especially the professional people to go to the market, becoming the owner of finding resource, integrate resources, creating wealth and accumulate wealth.

Is it possible just to reducing one level of government if the proposition of this article is too simple? Good question, we like to consider the problem more simple. In fact, in many areas of the reform, our problem is not lacking in design and conception, but having excessive design and conception; not grasping the common sense, state and convention, but being far away from the common sense, state and convention. Today, we particularly need to simplify the seemingly "complex" questions, and return to the common sense, state and convention. At present, "lie, boast and empty verbiage" prevails; "entering from the shallow and coming from the deep" is in the fashion, we really need to "ruthlessly eliminate the encumbrance".

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## **From “Empowering Township from Power Expansion” to “Strong Township Expanding Power” - The Achievements and Prospects of “Urban-Rural Integration” Strategy in Chengdu**

SHAO Yu, WANG Qiyou

### **I. The origin of “power expansion strengthening strong town”: priority development of “key town”**

At the beginning of the 21st century, Chengdu took the lead to implement the development strategy of “urban-rural integration”. This strategy is implemented mainly through two paths: first, Chengdu is divided into three economic spheres according to the distance from the central city, concentrating on the gradient construction and development of various spheres; second, as to the district (city) and county in the second and third spheres far away from the central city, the towns with some better conditions are established as “key town”, making them obtain policy, funding and resource for priority development, and becoming as soon as possible the “fulcrum” leveraging the fast development of the underdevelopment areas, eventually achieving the goal of joint development and prosperity in “global Chengdu”.

For this reason, Chengdu issued “The Opinion on Accelerating the Construction of the Key Town” in September, 2004, identifying 30 “key towns”; it also issued “The Opinion on Accelerating the Construction of the Priority Development Key Town” in 2005, identifying 14 “priority development key towns”. By issuing the two “opinions”, we aim at concentrating the limited resources, making the “key towns” become regional center town with scientific planning, complete functions, prosperous economy, flourishing social undertakings, beautiful environment, unique style and strong capacity of radiation and promotion; making the “priority development key towns” become a small city with fast economic growth, excellent living environment and strong function of radiation and promotion; the two will work together to achieve the goal of “urban-rural integration”.

According to the “opinion”, Chengdu seeks to “let go the work, support the policy and strengthen the equipment of cadres” for the key towns and priority development key towns. In the series of special policies, financial spe-

cial care is the core, its basic spirit including: increasing the funding investment of city and district (city) and county the two-level finance on key towns; the related fees of involved construction with the town, such as urban construction matching fee, water resource fee and so on, in addition to the delivering parts according to national regulations, the rest will be all left in the key towns; land transfer benefit and related fees, in addition to the delivering parts according to national regulations, the rest will be all left in the key towns. Therefore, through empowering the key towns, Chengdu opens its big screen to stimulate the priority development and rapid growth of the township economy.

## **II. Specific measures and development achievements**

Since the implementation of priority development strategy of key towns, all the key towns, especially the priority development key towns, through improving town planning, fostering leading industry and innovating institutional mechanism, they greatly improve the urbanization level, enhance the economic strength and also accumulate the valuable experience in urban and rural overall development. At present, these towns are striding forward to a town with positive industrial advantage, high population concentration, excellent living environment and prominent style and feature, initially possessing the potential to lead off their areas where their experience should be summarized.

First, initially undertake the transfer of central city's industries, and lay a solid foundation for the booming of industries. For example, Huaikou Town in Jintang County relies on the basic advantage of Jintang power plant, Jiulongtan power plant, Baiguo hydropower station and so on, undertakes the heat-engine plant transferred from central city, and constructed the Huaikou Town into the electricity energy base of Chengdu. Meanwhile, Huaikou Town seizes the chance of shoemaking industry transfer from the central city, and plans a shoemaking industrial park with seven square kilometers, striving to build a capital of women shoes in China. An electrical energy base and a shoemaking industrial park will completely change the industrial pattern and development foundation in Huaikou Town, which has gradually become a highland in the third circle economic development.

Second, explore to establish town-level urban management system and innovate the management style of grassroots planning and construction. The planning, construction, road administration, environment, city appearance, environmental sanitation and other management work of the key towns

should follow the urban standards. Some key towns establish the urban management enforcement team as the agency of Urban Administration Bureau in the district (city) and county; the functional departments in the district (city) and county can also accredit personnel to the key towns, expanding the government's public management functions to towns, villages (communities) and farmers concentrated residential areas. Explore the "grid" planning and construction management style, with the village (community) as the basic unit, strengthening the village (community) principals' construction and supervision responsibility to the areas; integrate the neighboring two or more villages (communities) into a district, divide the whole town into several planning and construction enforcement areas, and the village-town construction office of the town government will be responsible for the inspection and enforcement in the district.

Third, make appropriate adjustments of township organization and operation system so as to make the organization settings meet the operational needs. According to the principle of "simplification, efficiency and practicality", under the premise of not exceeding the size of existing organization establishment, we specially establish the urban and rural overall development as well as urban management department as the internal organization being responsible for the urban planning, construction and municipal management in the town as well as the reform of rural property right system, industrial and agricultural industrialization development and other urban-rural integration work. Each key town has established government affairs services hall, each village (community) has established government affairs service center or convenience service station; establish the career management service center in the key town, undertaking the social labor guarantee, intellectual resource, cultural, sports, radio and other public services as well as the guidance of the town.

### **III. The existing problems**

After implementing "power expansion strengthening town", Chengdu has made remarkable achievements, showing the overall effect by "expanding power" realizing "strong town". However, with the deepening implementation of these policy measures, some new problems have gradually taken shape.

(1) *There are some differences in policy implementation of the key towns*

As key towns have different basic conditions, development stages, local economic development level and original financial forms of distribution, all the key towns' constructions generally have the following three types of specific modes.

*First, it is a relatively independent operational model.* Its characteristics are that within the scope of the town, the state-owned land transfer benefit, in addition to the part delivering to the central and provincial finance according to the rules, the rest remains in the local place. The key is that the construction funding and various expenses of the key towns are mainly resolved by the town itself. Therefore, the township government has actually become a relatively independent financial body, correspondingly also become the main body of construction and development. Although this can furthest mobilize the enthusiasm and initiative of the town level, the premise is that the township revenue and financing capacity can support a lot of money needed for the construction. Once this mode can operate effectively, it is easy to generate a virtuous cycle effect, and this kind of town often has a better development.

*Second, it is an operational model supported with emphasis.* Its characteristics are that it continues to retain the original finance share system of the town, district (city) and county, the construction funds of the key towns are comprehensively resolved by the district (city) and county; the financial revenue of the town mainly guarantee the daily operation, and the construction funds are mainly invested by district (city) and county. Under this mode, district (city) and county become the main body of the key towns' construction, while town government become its executive and partner with weaker independence, departing from the original intention of "power expansion strengthening town". Moreover, it relies on the high-growth and high-investment of the county finance, therefore it has greater uncertainty.

*Third, it is a semi-autonomous and semi-independent operational mode.* The revenue and expenditure pattern of the district (city), county and township remain unchanged; according to the principle of priority to the basic expenditure, county finance pays the key towns the public funds of the minimum standard; the construction funds of the town can apply for the county finance according to the needs of the project and paid by the project. In brief, the town is the main body of construction and development with relatively independence; but the town's finance is not yet independent, the required con-

struction funds are comprehensively resolved by the county's finance. Therefore, it is a semi-autonomous and semi-independent operational mode. In this case, it determines that its growth rate is relatively slow, but it's benefiting to cultivate the independent ability of the township.

*(2) The township urban management function and management capacity need to be strengthened*

According to the principle of "local management", all the key town governments should undertake a large amount of economic development tasks, and also undertake a lot of work---shouldn't be managed, not managed in place and not managed well within the existing framework, distributing the energy of urban construction management. For example, according to the current management system, the urban management and enforcement authority of planning, construction, road administration, environmental protection and other areas are in the county department, but in practice, limited by the number of personnel and geographical conditions and many other restrictions, these functional departments cannot send enough personnel to take uninterrupted inspections and enforcements on the key towns, the government still undertakes a lot of management work, forming an embarrassing situation of "small horse drawing big cart" and "big foot wearing small shoe".

*(3) The organizational structure and establishment need to be improved*

Although the internal agencies of the township government have made some adjustments, but limited by the establishment and management system, especially due to insufficient "power expansion", in general this adjustment is still repaired and mended. At present, the internal agency of the township government cannot meet the needs for further development, and the function of town government still focus on the economy development, not giving enough considerations to public service and social management; it is incompatible with the growing urban management and social service of the key towns. In order to eliminate the situation, we need to fully authorize the township government, allow some "breaking tradition" attempts of the township administration management, and explore the management model more suitable for the development of key towns.

#### **IV. The countermeasure, outlook and thinking of “strong town expanding power”**

The key towns acquiring priority development under the framework of “global Chengdu” are facing the serious constraint of management power; “township system, county level workload and municipal requirement” are the true portrayal of the current township management operation. “Strong town expanding power” is the inevitable choice to solve this dilemma, that is to say, continue to untie the “strong town” having been developed, and also eliminate the institutional drawback restraining its further development.

##### *(1) Recent action suggestion*

First, accelerate the reform and innovation of administration management system in the key towns. Some key towns have become small towns with fast economic development and strong population absorbing ability, with urgent need to be authorized with corresponding administration management limitation. At present, the key is to strengthen the decision-making scope and enforcement authority of the township government, and change the seriously unequal situation of township property right, power and staffing with complex social management and public service. In addition to continue to increase financial support, as long as development and reform, economy and trade, construction, planning, environmental protection, housing, urban management enforcement, homeland, family planning, public security, price, forestry and other departments involve in the limitation of urban management, project approval, household management, social management, etc, we should fully authorize the key towns’ government to directly executive the rights; the cadres below the section level can be uniformly distributed and utilized by the town party committee, some professional and technical personnel on planning, management, finance, banking and other fields should also be transferred from the upper department to enrich the key towns.

However, the “empowerment” for the strong towns should also be controlled to prevent changing “power expansion” into power games. “Power expansion” is not a reward, the unprincipled expansion of power will create problems, and empowerment should serve the needs of real management functions. Accordingly, the assessment of the township government after expanding power should focus on public construction, public service and other urban elements closely relating with people’s livelihood, but not emphasis too much on the economic indicators.

Second, further improve the leadership ability of the key towns' leading groups. The kind of leading groups determines what kind of development efforts and development speed is. The key town is the key to the development strategy of "global Chengdu", relating to the overall situation of "urban-rural integration" development strategy, therefore, whether it is the standard of selecting and using personnel or in the self-consciousness of the leading cadres, we must free our mind, update our ideas and dilute the traditional administrative level. The leading cadres in the key towns should have the mind, vision and courage of "global Chengdu", the ambition of finding a foothold, overlooking the world and making friends all around the world, and possess the coping capacity and executive capacity adapting to fast development and profound changes.

Third, pay attention to the quality of the population absorbed. Population quality is the basis and guarantee of the development condition and speed of a region. Population quality is a strategic problem, in the natural state, improving the population quality of a region requires long-term effort. But for the keys towns of priority development, with big industrial structure changes, and dramatically improved entrepreneurial environment and living environment, they have the better condition to implement the talent strategy and build the talent depressions, completely being able to optimize the population structure with lesser cost in a shorter time. For example, Huaikou Town in Jintang County now has a population of only 82000, with town built areas of 6.5 square kilometers, but its development goal is to build a medium-sized city being able to accommodate 200000 people with the built areas of 12 square kilometers. This means that there will be more than 100000 people are migrants. The external population attracted will directly affect the development speed and development level of Huaikou Town.

## *(2) Long-term development prospects*

From "power expansion strengthening town" to "strong town expanding power", its important is that it will affect the basic patter of China's urbanization in the future, and will also directly affect whether China's urbanization and industrialization being able to combine together or not, as well as the real realization of "urban-rural integration" strategy. In the long run, China has more than 2000 counties and more than 40000 towns, if the defects of the two levels could be compensated on the infrastructure construction, high-quality educational resources, excellent medical resources and other public services could be fully extended to the town level, they will have great impact

on the development of our future economic society. It is one of the real essential conditions to open the vast rural consumer market, while opening the rural consumer market is precisely the main driver of future economic growth in China.

*(3) Some thoughts on “strong town” and “power expansion”*

At last, it is appropriate to think about such a problem, whether it is “power expansion strengthening town” or “strong town expanding power”, why do “power expansion” and “strong town” always link together? “Expanding power—strong town—expanding power again” shows the development logic of “expanding means strong, being strong then expands, expand again to be stronger, being stronger then expands again”. The other side of strong power matching the strong town implies that reality of “no expansion, no strong”, and the trend of resources keeping concentrate on the dominant end. But in deep meaning, we can’t exclude power worship and the over-expansion of government’s self-consciousness. In fact, after “power expansion strengthening town” or “strong town expanding power”, some places still haven’t fundamentally resolved the original problems, which are only dispersed or hidden by levels’ conduction. Therefore, township administration management getting rid of “small power and weak function” is just taking the first step, how to implement the “the equal rights and responsibilities” is the key to “power expansion.”

## **Rural Public Governance and Public Service in Chengdu: Practice and Thoughts**

MAO Zhixiong

The third Plenary Session of the 17th Central Committee has passed "The Resolution of CPC Central Committee on Rural Reform and Development and Several Major Issues", which formally sets forth the objective of rural reform and development by 2020: realizing "significantly advance of equalization of basic public service in urban and rural areas", "the effective protection of farmers' democratic rights" and "further improvement of rural social management system". It points out the direction for our local government to further promote rural public governance and public service. To achieve above objectives suggested by the central government, we need to thoroughly implement the scientific concept of development, adhere to building a new socialist countryside as a strategic task, and follow the path of agricultural modernization with Chinese characteristics as the basic direction, with the fundamental requirement of speeding up the integration of urban and rural economic and social development to form a new pattern. Then we will further accelerate the development of rural public utilities; expand the coverage scope of public finance in rural areas, guaranteeing the rural masses' education, labor income, medical service, a sense of security and housing, thereby promoting the comprehensive progress in rural society. We will further improve the democratic management system in rural areas, with the emphasis of expanding the orderly participation, promoting information disclosure, making a sound consultation procedure and enhancing power supervision. Focusing on strengthening the grassroots political power, we will develop the democracy at the grassroots level, guarantee farmers with more democratic rights, as well as promote rural economic society with a good and fast development.

Chengdu is the capital of Sichuan Province, the science and technology, trade and financial center, transportation and communication hub in southwest China determined by the State council, with a total area of 12,100 square kilometers, household population of 11,733,000, of which agricultural population of 4,566,000. Since 2003, especially 2007 it was approved the national overall urban and rural comprehensive coordinated reform pilot area, Chengdu municipal party committee and municipal government made

in-depth implementation of the overall strategy for the overall scientific development of urban and rural and adhered to regard the public governance and public service in rural areas as an important task. Focusing on the village level, it is critical to establish an urban-rural unified public service system. It should focus on establishing the requirements fitting for the changes of farmers' production, living and residential patterns, the basic public service of urban and rural overall development and the social management standard system, focus on improving and ensuring the powerful public financial investment security system meeting the operating requirements, focus on improving the public service management mechanism of democratic appraisal, democratic decision-making and democratic supervision, focus on building rural public service and society management team with perfect cooperation, orderly management and effective service. The city's rural public service and social management level have been improved significantly, strongly promoting the development and prosperity of urban and rural economic society. We mainly work as the following aspects.

### **I. Improving the governance mechanism at a new village level**

Improving the governance mechanism of the rural grassroots is the basis and condition for the development of grassroots democracy. To establish the governance mechanism of the rural grassroots meeting the requirement of the new era, it is critical to combine the actual situation of China and the reality, accelerating to establish the democratic self-governance mechanism at the village level to ensure both the Party's leadership and villagers' self-governance rights. Combine the need to uphold the Party's leadership and to ensure that the people are the masters of the country with the need to rule the country by law, and implement it to the rural grassroots, making it the institutional basis of dealing with the relations in rural areas, therefore further consolidating the Party's leadership and governing capacity in the countryside.

We focus on the following three aspects:

- (1) First, strengthening the village-level Party organization leadership. Adhere to focus on the construction of leading bodies, guarantee to establish the Party organization, and improve the way of leadership, we effectively strengthen the leadership of village-level Party organization to villager committee, collective economic organization, the communist youth league, conference of women representative and other organizations, cultivating social organizations with service, public welfare and mutual aid.

Under the leadership of village-level Party organization, we will establish the governance mechanism at a new village level focusing on villagers' self-governance and the wide participation of social organization, effectively promoting the village-level Party organization leadership way to change from the direct management to guiding the villagers self-governance according to laws.

- (2) Second, establish the villager council system. Actively promote the villager self-governance mechanism of regarding villager meeting as the highest decision-making agency, and the villager (villager group) council as the permanent council decision-making agency and villager committee as the executive agency. Villager council is responsible for the villager meeting, reporting the work and being subject to their supervision. The villager committee is the executive agency of the villager council, being responsible for implementing all the decisions of the council. Practice has proved that through the establishment of the villager council, it fully mobilize the enthusiasm of the farmers, effectively resolves many problems arising from the government representing the farmer. In the post-disaster reconstruction, the important matters during reconstruction and all kinds of difficult issues will be resolved during the council by the villager self-governance in the rural disaster areas.
- (3) Third, straighten out the relationship of village self-governance organization. Focus on "Three Clarity", that is to say, clarify border between government and village self-governance organization function, standardize government and village self-governance organization social management and public service content, strengthen the government at all levels providing the basic public service responsibility for the countryside; clarify the relationship between village self-governance organization and collective economic organization, promoting the separation of collective economic assets' management function with villager self-governance function, strengthen the principal status of collective economic organization in the market; clarify the relationship between the village self-governance organization and the other organizations at the village level, support the communist youth league, conference of women representative and other group organizations to work under the leadership of the village-level Party organization. For example, in the Xindu area of our city, the Sanhe street applies the grassroots governance model of "two committees, three conferences, one center and economic organization", promoting the change of traditional single community management system to multiple subjects collaborative governance system.

## II. Advance the construction of grassroots democracy

Advance the construction of grassroots democracy is not only the major reality problem concerning the rural reform and development, but also the key to construct the socialist democracy. To advance the construction of grassroots democracy, we should focus on taking the law to protect farmer's right to know, to participate, to express and to supervise, thoroughly carry out the democracy election practice with the basic requirements of direct election and being fair and orderly, and the democracy management practice with the purpose of self-education, self-management and self-service, as well as the democracy supervision practice with the main content of open village affairs, finance supervision and the masses discussion, constantly promoting the institutionalization, standardization and routinization of the grassroots democracy.

We focus on the following work:

- (1) First, introduce the system of direct election. In 2003, the first implementation of "direct election" of township party secretary in China, with "mass democratic recommendation and direct election of party members" as the main content, and then the scope of direct election expands to the key enterprise, school, and hospital and so on. From the 2003 pilot to now, there are 198 township party secretary elected by direct election in the city, in the village (community) general election in 2007, there were 3331 secretaries of village and community party organization all elected by direct election, effectively stimulating the enthusiasm of the rural masses to be interested in politics and participate in the reform.
- (2) Second, improve the democratic appraisal system. Establish and improve the evaluation index system that meeting the requirements of reflecting scientific concept of development and correct view of achievements, meeting the actual requirements and being popular and easy to understand, constantly explore telephone appraisal, network appraisal, the third-party surveys and other appraisal methods. Actively promote the appraisal methods like "one household, one vote", adhere to implement the annual appraisal system of township party secretary and secretary of village (community) party organization, initially in the whole city forming the social evaluation mechanism of area (city) county, department and township (street) leaders, village (community) cadres, ordinary party members "four social evaluation network" and "superior evaluates the

subordinate, public evaluate the officer, grassroots evaluate the agencies". For example, each year, in the democratic appraisal of the township party secretary, the number of participated party members and mass representatives are nearly 100000, with ten thousands of suggestions. Third, enrich the grassroots democratic practice. Actively innovate the realizing form of grassroots democracy, widen the participation channel of grassroots democracy, and comprehensively promote the permanent system of congress of party representatives and the tenure system of party representatives, comprehensively carry out the openness of "three will-be", fully implement the openness of party affairs, government affairs and village affairs. So far, the city has held more than 1200 party committee at all levels, the NPC standing committee, and government standing committee, more than 100000 people attending the meetings; more than 1100 party committee members, 6500 party representatives, and 74000 party members participating in the "three contacts" activity, contacting with 32000 party member and 230000 masses. All the administrative villages in the city implement the openness of village affairs, the public openness reaching 100%.

### **III. Straighten out the authority power and financial power of the township government**

The biggest drawback of the original township management system is that the authority power does not match the financial power, to some extent leading to the unclear distinction between the function of the two rural committees and the phenomenon of holding all the power. Therefore, in order to strengthen the rural public governance and public service, we should further straighten out the authority power of the township and strengthen the financial power of it, consolidate the management function of the township society, and promote the change of "money raising people" to "money resolving issues", creating a favorable external environment for the villager self-governance.

We focus on the following three tasks:

- (1) First, change the function of the township government. Adhere to the breakthrough of changing functions, focus on the efficiency building, and further clarify the authority power and responsibility of the township government, weaken the economic development function of the township government, and strengthen the social management and public service

function of the township government. In China, we first carry out the rural administrative management system reform with the main content of adjusting the township government administrative area and rural team management system reform, and explore to establish the township administrative management system adapting to the construction of functional area. In recent years, the city has removed and merged 30% township and 46% village, the development space of center town and center village has been further expanded; the system of “two-level government and three-level service” has been basically established in the county and town.

- (2) Second, simplify the township government agency. According to the principle of “simplification, efficiency and unification”, we fully make adjustment of the township agency setting and administrative establishment, standardize the public institution setting and simplify the township (town) staff. In recent years, the township and village level in the city has reduced 1028 administrative establishments, 1133 party leadership post, 1945 township public institutions, and 10994 public establishments. For example, through the reform, Pi County removes 154 township public institutions, recovers more than 1500 establishments, and shunts more than 4000 staffs; the average expenditure has been saved more than 100 million yuan per capita for the finance each year.
- (3) Third, improve the township financial system. According to the requirement of public finance system and the target of equalization of urban and rural basic public service, we give the corresponding financial resources of the authority power for the township to dominate autonomy, and establish the township financial management system corresponding with the overall urban and rural development. At the same time, each year gradually increase the financial investment to the rural public service. Since 2003, Chengdu finance has invested more than 50 billion yuan to the “three rural”, with unprecedented amount of investment effort, coverage scope and benefiting masses. Only in 2009, the municipal financial investment to rural education, medical treatment and health reached 4.11 times, 3.88 times and 4.13 times of that of five years ago. Especially in 2009, our city brought the annual public service funding of 300000 yuan of each village and community into the budget, therefore the annual financial investment reached over 700 million yuan, and the financing could reach 5 billion yuan in 2 or three years at most, investing all these into the construction of rural public service facility.

#### **IV. Establish a sound rural public service mechanism**

Rural public service supply does not adapt to the requirement of public service, but leads to the supply contradiction of rural public service. To strengthen the rural public service, it is essential to establish rural public service supplying mechanism with classified supply, while the government should do well in the basic public welfare service; rural self-governance organization relies on the market to develop the rural public service in the form of marketization.

We focus on the following three service supplies:

- (1) First, strengthen the supply of government's responsible project. The basic pattern of this project is: unified standard and moderate advancement; unified planning and reasonable layout; unified design and optimized function; unified financing, the city gives the money while the county invests the land; unified implementation and professional management. This pattern reflects the equalization and fairness concept of urban and rural public service. For example, in terms of the standardization construction of rural primary and secondary school, in 2004 the city authorized a state-owned company as financing platform and construction owner, the city finance invested 300 million yuan project capital fund, and loaned 700 million yuan, the county (city) matched and utilized the land, launched in 2004, in 2005, we built 410 modern schools. For another example, in terms of the standardization construction of township public hospitals, the government invested 400 million yuan in 2006, unifying planning, standards, style, logo and device configuration, carrying out the separation of administration and governance, medical service and medicine, income and expenses, accounting and appointing, formulate the establishment, post and salary, constructing a standardized public hospital in each township.
- (2) Second, focus our efforts on the supply of government's dominant project. The basic pattern of this project is: unified standard, unified stationing, unified deployment, city subsidies and full coverage construction. For example, since 2008, the city applied the operation pattern of the city giving money to construct plants, the county giving money to lay pipe and outsourced service, focus on the township sewage treatment plant and associated pipeline network, and the concentrated residential areas' sewage treatment facility construction in the villages with more than 50 households, overall constructing urban rural sewage treatment facility system with large, medium, small and micro-combined, multi-form, multi-

level and multi-technology, realizing the goal of township sewage treatment plant full coverage by the end of 2010. For another example, we apply the pattern of the city subsidizing, the county investing, standardized charging and society leading, each constructing a standardized center kindergarten in 224 towns (streets) in the whole city.

- (3) Third, achieve the supply of the government's guiding project. The basic pattern of the project is: unified standard, stationing and subsidy, boosted by the city and implemented by the county. For example, the city adopts the pattern of unified standard and distribution, and quality management construction, realizing the goal of full coverage of village-level pharmacy, shop and agricultural store in 2006. Another example, according to the requirements of gathering globalization, treatment standardization, facility landscape and sustainable operation, we adopt the pattern of "household gathering, village receiving, town transporting and county handling", and realize centralizing treatment of the rural garbage. At present, the rural life garbage collection system in the city has covered nearly 3000 villages, benefiting 5.48 million people in rural areas.

## **V. Deepen the rural comprehensive reform**

To strengthen rural public governance and public service, we must further promote rural reform and institutional innovation, give full play to the basic role of market in the allocating resources, and constantly improve the vitality of rural economic and social development.

We focus on three reforms.

- (1) First, it is the reform of rural property system. Centering on "returning rights and enabling function", we verify the rights, register and certificate the rural collective land ownership, collective construction land use rights, land contract and management rights, forest rights and house ownership, founding city, county, and town three-level rural property exchange center. Establish the farmland protection system, every year the city and county two levels finances are arranged 2.6 billion yuan to farmland protection fund (the subsidy standards of basic farmland is 400 yuan per mu each year, that of general farmland is 300 yuan per mu each year), in order to improve the production capacity of farmland and the pension insurance subsidy of farmers, who are responsible for the farmland protection. Up to the end of 2011, the city has been basically completed the verifying the right and certification, a total of 4.076 billion yuan farming

fund has been granted, benefiting 1702000 households; a circulation of 26345 rural property, the amount of 11.558 billion yuan.

- (2) Second, it is the reform of land management system. With the land consolidation and the increase and decrease of urban rural construction land as the carrier, according to the “four” principles---new rural construction industry development, architectural style and morphological diversity, environment integration and infrastructure sharing, we effectively integrate special funds of land remediation and transform funds of medium and low production land, construction funds of irrigation and water conservancy, funds of “six small projects”, rural roads construction funds and other agriculture-related funds, strengthen strongly rural land comprehensive improvement, and make efforts to radically change the rural face and farmer’s production and living style. By the end of 2011, the city completed 731 rural land comprehensive remediation projects, investing more than 41 billion yuan, newly increasing 300000 mu of farmland; implement 140 projects about the increase and decrease urban and rural construction land, investing nearly 20 billion yuan, especially in post-disaster reconstruction, with the use of pilot policy of the increase and decrease urban and rural construction land, raising 8.4 billion yuan of funds for the rural reconstruction.
- (3) Third, it is the reform of rural financial system. Organize rural commercial bank, local corporate insurance company and consumer finance company, and actively encourage the found of social capital to participate in village bank, rural fund mutual cooperative and microfinance company, establish the interaction financing mechanism of bank and insurance combining with the rural credit financing and agricultural insurance, advance rural property mortgage financing, expand the scope of rural effective collateral, stimulate the marketization, capitalization and fairness of rural property resource value, and solve the problem of “where money come from” in the agricultural and rural development. At present, the Rural Property Transfer Guarantee Company in the city guarantees loan of 1.592 billion yuan for the rural collective or household. Especially in the post-disaster reconstruction, through rural property security guarantees, we raise 724 million yuan of reconstruction funds for the masses.

Strengthening village-level public governance and public service not only promotes the city’s agricultural and rural work, but also stimulates the healthy development of economic society. In 2012, the city’s gross regional production was 813.89 billion yuan, with year-on-year growth of 13%, the volume and growing rate respectively ranked the third and first place in the

sub-provincial cities; the local public finance income reached 78.1 billion yuan, an increase of 18.9%; fixed assets investment reached 589.01 billion yuan, an increase of 17.7%; social total retail sales of consumer goods reached 331.77 billion, an increase of 16%; urban residents disposable income per capita reached 27194 yuan, an increase of 13.6% than that of last year; rural per capita net income reached 11501 yuan, an increase of 14.2%; urban and rural income gap narrowed from 2.66: 1 in 2002 to 2.36: 1 today. While compared with the requirements of CPC Central Committee and the State Council, provincial party committee and provincial government, compared with the expectations of the masses, our work still has a big gap. Next, we will further promote rural public governance and public services, and innovate institutional mechanism, guarantee the rights and interests of farmers, stimulate the rural harmony and promote a sound and rapid economic and social development in rural areas.

*First, there is a more prominent marketization direction.* Deepen the reform of rural property right system; actively carry out verifying the rights of rural private plot, rural unused land, public facilities and collective enterprise occupied land and other land used rights, and steadily push forward the rights to contracted management over the long term. Accelerate the construction of rural property factors transfer market, strive to foster the trading market for collective construction land use rights, basically establish the system of collective construction land benchmark price. Coordinate the implementation planning of regional land comprehensive remediation, fully respect the wishes of farmers, follow the market rules, and link together to promote the land comprehensive remediation. According to the requirements of national modern agricultural demonstration zone, we continuously improve the land output rate, resource utilization rate and labor production rate, and stimulate the agricultural standardization, scale and intensive production. Expand rural effective range of collateral, explore to establish agricultural re-insurance system and catastrophe risk diversification mechanism, encourage the rural areas to develop mutual cooperative insurance and commercial insurance business, comprehensively use entrusted loans, secured loans, interest subsidies and rural property mortgages and other means to guide financial capital and social capital orderly in larger scale into agriculture and rural areas.

*Second, there is a more prominent democratic orientation.* Adhere to “independent, voluntary and self-government” principle of the masses, standardize the democratic procedures, improve the procedure rules, focus on straighten out the relations of village-level party organization, villager self-governance organization and collective economic organization, establish a sound scientific,

standardized and institutionalized democratic decision, democratic supervision and democratic discussion mechanism. Adhere to return the rights to people and villager self-governance combine with the village-level organization general election, determine the authorization relations of villager meeting to villager council, standardize the election procedure of council members, forming a sound operation rule for the villager council. Strongly develop service-oriented, nonprofit and mutual social organization, play their active role in village-level grassroots governance. Adhere to the principle of fully respecting the wishes of the masses and going deep among the masses throughout the work, strengthen and perfect the working mechanism of listening to the voice of the people, observing people, do work for people, exclude people's concerns and solve people's problems. During the policy formulation and work advancement, we fully respect, listen carefully and extensively absorb the opinions of the masses, eliminate "on behalf of people" and coercion, fully realizing the transfer of "government rights standard" to "citizen rights standard".

*Third, there is a more prominent fairness orientation.* Improve agricultural and rural investment guarantee mechanism, improve the transfer interest of government land and the ratio of farmland occupation tax new income with agriculture, strongly implement farmland protection and quality improvement project, and increase the input of rural public welfare construction project. Strengthen the rural infrastructure construction, grasp the flood control project and flood control system, accelerate the transformation and upgrading of rural power grids, improve the rural road network encryption level. Strengthen the construction of rural ecological environment, carry out the activities of beautiful environment town, ecological village and ecological home creation, and implement the urban and rural environmental comprehensive management. Promote the development of rural culture and education and health service, improve the rural three-level medical and health service network, and promote radio and television entering into every household, town theater construction, and cultural information resources sharing and other cultural projects. Improve the rural social insurance level, accelerate to improve urban and rural residents' basic medical insurance and catastrophic health care mutual complement insurance system, guide the rural residents of the right age to participate in the urban residents' endowment insurance, realizing the integration of urban and rural residents medical insurance. Deepen the reform of urban and rural household registration management, and guide the rich people in rural areas to transfer to the urban

areas; they also enjoy the same public service and social security benefit with the urban residents.

## **The Practice Exploration of Fuyang`s County Administrative Reform: Improve the Operation Mechanism of the Public Power and Built the Modern Service-Oriented Government**

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At present, China is still in the course of social transformation from traditional society to modern society. The structure of government public power is transforming from the traditional mandatory power to the modern public power, which emphasizes the contractual and service nature of government. However, as China is in the specific transforming course, the contractual and service nature of public power has just emerged but not been put into effect completely. Many structural and operational mechanism defects, such as loose resource configuration, transparency's absence in decision-making, slack power and difficult implementation in each department, the lack of restriction power and insufficient authority of supervision, still exist in the public power.

To address these problems, since 2007, Fuyang municipal committee and municipal government have undertaken bold exploration and practice on the operating mechanism of public power in accordance with the requirement of integration of enhancing the strategic guiding capability of Party committee, coordinating and integrating ability of government as well as implementation and creativity of departments of all levels. After several years of efforts, a new operating mechanism of decision-making, implementation and supervision, which combine multiple constraints and inter-coordination together, has effectively promoted the sound and fast development of Fuyang city. And specifically, 15 special committees have been established for the classification and inclusion of similar function departments into one system. And this system is directed by one leader and its routine businesses is coordinated by each responsible department that assuming this function with the assistance of other departments thus to clarify everybody's responsibility and supervise its execution, avoiding the confusing accountability, and realize the function integration and smooth operation with minimum cost and without organizational downsizing and staff augment.

I. For decision-making, transforming the decentralized decision-making into integrated and coordinated decision-making through the function of “special committee”, and enhancing rationality of their decision-making

Despite of personnel decision-making, government performs importantly in the project arrangement, allocation of funds to maximizing resource benefit and public interest. Therefore, we will give full play to the integrating and coordinating capability of “special committee” and carry out a integrated, rational and feasible decision-making via integral planning and financial system.

The project planning and financial arrangement shall perform in accordance with the following procedures. Firstly, according to the principle of “town and township government coordinate and package and each department direct and supervise”, township government and department submit projects to each special committee as needed; second step, each special committee make choice between the submissions of township government and each department, then report the result to the Planning and Coordinating Committee and the Managing and Operating Committee of Public Asset after their primary coordination; third step, according to the principal of “keeping planning scientifically and rationally , focusing on the key points, and integrating and coordinating to optimize performance”, the Planning and Coordinating Committee and the Managing and Operating Committee of Public Asset shall put forwards the project budget of the whole city in a coordinated way basing on the financial status of the city as well as the projects priorities; fourth step, the governmental project budget shall be released at the end of this year and then go through four deliberation steps: research of the government, deliberation of municipal People’s Congress, consultation of the CPPCC municipal committee and decision-making of municipal party committee. And the detailed budget will be issued by the people’s Congress and make sure that basis, scope, and amount of the government funds allocation is accessible and transparent on the beginning of the year; fifth step, subject to the decision-making results of the four procedures above, the Planning and Coordinating Committee and the Managing and Operating Committee of Public Asset shall issue the project budget of the whole city to each special committee, department and township.

We have strict requirements for the steps above: investigation shall be carried out carefully and profoundly while underreporting and falsifying report are prohibited in declaration in the research and declaration steps. And the discussion of each special committee shall fully coordinate and integrate

all projects within their duty scopes, the Planning and Coordinating Committee will check and audit the project strictly out of the cage of original department, and make overall arrangement considering the project priorities. Therefore, with checks and coordination made in all levels, we have achieved good results in the following three aspects:

1. Obtain more rational projects. We have finished the transformation from decision-making at department level to the city level. And we have set priorities for the projects and ensured the direct funds allocation by each project to achieve a more rational project arrangement, a more reasonable financial investment and made best use of the limited government financial resources. Thus we have improved our work efficiency and the once existed phenomenon that the departments taking charge of the project instead of the government and loose supervision of the projects as well as its funds have disappeared completely.

2. More rational funds allocation. Funds arrangement shall be carried out according to the principals that two-way check of incomes and expenditures and unified control of income and expenditure. Once going through “four decision-making procedures”, the funds for this project would be guaranteed sufficiently and paid on time no matter how complicated and fickle the situation may be. Therefore, we avoided that many departments competed to obtain and begin one project before it become financially secured, preventing the “uncompleted project” and enabling us to pool resources to solve major problems.

3. More transparent decision-making process. Through these repeated check and review of the project, and centralizing the decision-making right of department to “special committee” and codetermination of the four teams of municipal government, all income and expenditure of the government was close supervised by the four teams of municipal government. Previously, even the leader in charge did not exactly know or have access to the annual disposable funds of one certain government department. Now, with this “four decision-making procedures”, this number is accessible to many people and the decision-making process become open and public.

Additionally, a decision-making process regulation have been established within the municipal Party committee, municipal government, villages and town (sub-district) office as well as governmental departments since 2009, realizing a standard decision-making process.

II. With the improvement of a series of supporting mechanism, changing from passive to active and raising the validity of implementation

Establishing the execution mechanism that “the project will be overall controlled by the department, led by the leader, guided by the performance evaluation and promoted by the supervision”, making all works’ co-gent implementation.

1. Department is responsible for the execution. Special committee system realized the systematic management of departments bearing similar duties. Work is emphasized while the concept of department faded and different department is coordinated and integrated instead of just taking charge of different division. Integral planning and financial system carried out the management of project and funds of the whole city in a holistic way, making department into actually executing department, clarifying duties of each department and gaining a more powerful execution. Meanwhile, the integral planning and financial system emphasized on the annual early planning. The annual plan and budget is transparent and accessible to everyone and all projects are financially guaranteed. Thus township government sections will not waste much effort on the problems such as how to make money, how to gain profit and how to get funding. The saved effort could be put into development, project, management and service optimization.

2. Leaders guide the execution. The work shall be assigned to certain person whose performance be evaluated and be carried out in an overall way. The municipal leader shall take charge of certain line and point, setting a example and guide the work in the field, acting as a line commander as well as a combatant. Each municipal leader assumed some work until it is completed. The municipal leader plays the role of the CPC party chief of a certain township (sub-district) team.

3. The result of performance evaluation guides the execution direction. According to the requirement raised by central government, we create a new and scientific evaluation system with which we stimulate the work passion and entrepreneurial zeal. One, we classify the performance evaluation of different township government sections. Firstly, highlighting classification. Subject to the construction of a main functional region, considering actual status such as the transportation condition, resources and environment, economic foundation and developing potential, we classify all 25 towns (sub-district) into three classes: comprehensive development region, industrial-oriented region and agriculture-oriented region. Similarly, for the governmental organ

at municipal level, we divide these organs into window service, internal service and the other unit. We draw up different developing goal and working task for different type of organs. Every year, we evaluate their performance separately which is similar to avoid running and swimming athlete compete together. Enhance the working enthusiasm of the vast cadres. Secondly, highlighting the key point, especially for the evaluation of special project. Special project is the key point of the overall task of the city. Every year, special project is put forward considering to the central task of this year, and new key point, requirement as well as goal will be set. Through the performance evaluation of special project, we want to make government and department at all levels concentrate their effort on the special project, on developing their competitive industries, on concentrating on implementation of central task of municipal party committee and municipal government, ensuring that all work of this city concentrate on the same goal. Thirdly, rewards and penalties. We give rewards to the goods and fine the bad instead of only no punishment to de bad. Two, we evaluated a leader comprehensively. We use the assessment methods for municipal leaders established to reinforce the comprehensive evaluation of municipal leaders. We not only sort all leaders within one team, but also rank all leaders taking charge of the work in the same category horizontally. Leaders with low-ranking will not be classed as reserved cadres. And those who rank last and the second worst and fail to reach the expected standards in two consecutive years will have to face the investigation of the organization department who will take the measures such as having a talk, persuasion or admonition, occupation adjustment or demotion or removing them from their position as the case maybe. Three, evaluating the service of general cadres. We carried the “evaluation and problem-addressing action” throughout the city, including following aspects: on one side the project evaluation and renovation of work style of governmental organs in order to improve the execution of cadres, and on the other side, the service evaluation and renovation of bureaucracy in order to upgrade environmental soft power themed by strengthening coordination and integration, accelerating execution process, taking a tight watch on the work style and improving service level. We evaluate the service of all institution personnel of all township (sub-district) government, each unit of municipal institution, each project headquarters and other public institutions on the review meeting. A rank of all personnel would be released during the meeting and the last two persons at the rank list would declare their stands and altitudes. The evaluation result will be published on the media and linked up with the performance evaluation of the department and persons in charge, enhancing the overall consciousness, sense of duty and performance consciousness.

4. Supervision and examination will promote the execution. We establish a supervision office, a bureau-level institution, in the municipal party committee and municipal government, coordinating and making overall plan for the supervision throughout of the city. A supervision network comprising of people from five different levels and fields as municipal leaders, four offices, Discipline Inspection Committee(Supervision Bureau), Party representatives, members of National People's Congress and the members of the Chinese People's Political Consultative Committee, experts, non-governmental persons is established, having sufficient power, integrating the resources and forming an overall supervision. The supervision office will refine the work into practical program and explicit working task, goal, requirement, deadline and department and leader in charge of each task by the form of Letters of Responsibility, forming the target duty system. Normally, we strengthened the supervision and check of the progress and completion status of everyday work through the six systems: daily-report system, commitment approach system, regular meeting system, statements and reports system, supervising and examining system and informing system, ensuring each task is finished as planned.

With the establishment and improvement of series of supporting mechanism such as "target, duty, supervision and evaluation", we made sure the implementation of following items: clear and definite time schedule, inverted working plan, process monitoring, object management, and explicating duty division, binding responsibility, checking and acceptance of the result and rewards and punishment in the light of performance evaluation. Therefore, we enforced the procedure of task assignment at the beginning of the year, supervising and urging in the middle of the year and achievement evaluation at the end of the year, preventing from leader's relax and laziness, improving the implementation level and creativity of leaders and ensuring the progress of major project and key work of the city.

III. Transforming from multiple supervision to integral supervision with the great supervision system, enhancing the authority of supervision.

We established the Administration Committee of Great supervision, integrating and coordinating various kinds of supervision resources such as supervision within the Party, supervision of the National People's Congress and specialized governmental institution, juridical supervision, democratic supervision from the Chinese People's Political Consultative Committee as well as the social supervision including public opinion supervision, establishing the three-dimensional great supervision mechanism with the internal supervi-

sion, supervision within the system and out of the system. The Administration Committee of Great Supervision's source control measures, and the overall organization and coordination of Discipline Investigation Committee have increased the power of the Discipline Investigation Committee and enhanced the authority of supervision.

1. Strengthen the control over the use right of funds. We have reinforced the measures in the following three aspects: firstly, the separation of decision-making and management. With the implementation of the overall plan and overall financing, we unified the budget and the project confirmation and determine a project according to the plan, coordinating the decision-making process by "four steps" above. Thus, each department could focus efforts on the project management, avoiding to acting as the decision maker and regulator at the same time, preventing the black box operation, power-rent seeking, black hole of funds and unit-owned exchequer. Secondly, separation of operating funds and project funds. Functional budget, special budget and construction budget would be made respectively. Each department could kept the daily spending supporting their normal function while special funds and construction funds would be allocated to certain project through the national treasury centralized payment or centralized funds allocation for fiscal revenue instead of going through any department. Now, we have realized the separation of functional fund and project fund at village-level to avoid the retention or diversion of any agriculture-related funds. Thirdly, we have reinforced the supervision and regulation of some governmental investment project. A supervision center of governmental investment projects framed by "one database, three centers, one platform and four subjects" (Government-investing Project Database, Review Center for Government-investing Project, Public Resources Exchange Center, Supervising Center of Government-investing Project), reinforcing the prevention and control as well as supervision of 10 links in the engineering construction field such as design, bid and tender, supervision, quality control, security, schedule, site, funds, alternation and contract management. We held the execution and supervision strictly and managed the government funds well and ensuring the overall supervision of the government-investing project before, during and after the event.

2. Strengthen the supervision of administrative examining and approving authority. We made solid progress in the revolution of "Two Focus and Two Implementation", fully implement the mode of administrative approval. In accordance with the "separating the approve and regulation right", 36 departments enjoying the administrative approving right were merged by their

function, and establish the Administrative Licensing Office whom was regulated by other relevant administrative offices, building up the internal supervision system. All issues and personnel of administrative approval functional department throughout the city were merged into the Administrative Service Center, which had acquired sufficient authority and set up the service window. We actively promoted electronic approval, building up the “Online Administrative Service Center” and real-time supervision system of administrative authority and video monitoring system in the Administrative Approval Center and so on. Thus, we have achieved the online service, real-time service and real-time supervision of all administrative procedures, ensuring efficient approval and sound supervision and realizing the transforming from managing people by people, by rules to by technology.

3. Reinforcing the supervision of administrative enforcement right. In order to regulating the administrative enforcement, after the clear up and solidification of administrative power, we have built up the online administrative penalty system supported by the construction of the sunshine power information platform and unified the supervision. The managing scope of the administrative penalty system covers all administrative enforcing departments to achieving overall control, registration and monitoring. Meanwhile, we regulated the discretion right of administrative penalty in a unified way and established the standard database of administrative penalty measurement and applied it into operational process of administrative penalty, realizing the no self-discretion right in administrative enforcement and a just and fair administrative penalty. Additionally, our management was carried out by incomes and outcomes separately to avoiding the enforcement officer’s illegal enforcement to get money.

IV. The development of public power operating system is a systematic project and is still under research and exploration. Our experiences and gains are below:

1. It must be guided by strategic planning. Strategic planning needs not only strategic wisdom but also the most comprehensive, systematic and extensive public power. The long-term development of one place depends on whether they have a clear direction firstly. Strategic planning, goal and idea, planning scheme and policy measures must go ahead of the rest. On the basis of extensive discussion, national-wide argumentation, and the participation of experts, we have drawn up and implement the Development strategic planning

of Fuyang city, which have established the developing goal by 2030, development orientation, development layout and development path and laid the foundation, premise and direction for the function of public power.

2. It must be focused on coordination and integration. The efficient function of public power depends on the smooth and unhindered function and performance instead of the number or the size of the institution. In order to meet the requirement, we should focus on the construction of the coordination idea, the integration of resource factors and power of each department, and the improvement of governmental regulation capability and leading force. The “special committee mechanism” established broke through the barriers among the divisions of planning, project, funds, budget, township and department, “special committee” and the four teams within the municipal government, coordinating and integrating the regulative resources and explicating duties and function boundaries of different department, confirming government’s public service duty. Thus, decision-making, execution and supervision power is divided, achieving a more scientific and rational decision-making result, much smooth the implementation and more effective supervision, and sketching out the primary profile of a modern public service-oriented government.

3. It must be based on the function transformation. A good execution of public power is root in function transformation of government from regulation-orientation to service-orientation, and the role of government shall be transformed from local magistrate to public servant. Governmental department’s function of our city is undergoing deep transformation with series measures. For instance, Supervision department’s function has changed from case investigation to problem control and prevention in advance; department of development and revolution focusing on preliminary work seriously instead of approval acquirement, giving full play to the coordinating effect of development and revolution department; financial department broke up benefit of each department and enhanced their public awareness by implementing the great finance system which features in centralization of financial power, coordination of funds, unified budget, project negotiation, supervision and performance evaluation. Function of finance department changed from management of financial affairs to operation of financial affair while the department finance has changed into public finance; Department of audit changed from post-auditing mainly into overall auditing throughout the whole course of the event, preventing the waste, illegal action and corruption during the project construction from the source.

4. It must follow the principle of transparency and publicity. Transparency of public power could prevent corruption significantly. Transparent procedure of decision-making, policy inquiry, policy-making and result accessing had guaranteed public's right to know, supervising, judging and participating. Firstly, public decision-making. Adhere to the principal of investigating, negotiating, arguing and group discussion ahead, then making decision, especially for the decision-making of project funds. We have strictly enforce the "four steps for decision-making", achieving more transparent public power. Secondly, open policy inquiry. Ask cadres and the mass actively on the major issues and collect opinions in all direction. Make sure that ask for opinions of the mass during development strategy planning, the masses participate in the development and share the development achievement. Thirdly, public policy. Any administrative decision-making items, standard documents, work process and service standards closely related to the masses or social management function of government shall be published on the government affairs network and ensure the public's right to know and supervising. Fourthly, actively public the decision-making status, project schedule, personnel placement, supervision and other items concerned by the masses to the society for their awareness.

## **Territorial and Functional Reforms on the local Level – Current Developments and Challenges in Germany**

Jan ZIEKOW, Axel PIESKER

### **1. Introduction**

Territorial and functional reforms of the local level have a long tradition in Germany. Although they can be understood as a permanent task for any innovative administrative policy, they occur only periodically, but when they do, such reforms generate broad effects that have impacts beyond the borders of a regional state. Because they face pressures to adjust to changing demographic, economic, and technical circumstances, state and local administrative structures cannot be static and must constantly be adjusted to fit the changing environment. (Lorig 2010: 497; Mecking/Oebecke 2009: 1; Wallerath 2009: 191).

Examining the approaches to reform implementation in the last fifty years in Germany we can distinguish a temporal dimension that has led some contributors to identify different reform waves, or phases, as well as different reform objectives and intensities within these waves. Following these observations, in the section below this article briefly outlines the structure of the German state. Next, the specific challenges and developments at the local level will be discussed. Afterwards, the different reform approaches and waves in Germany will be introduced. Subsequently, current reform activities in three regional states are presented in detail in order to demonstrate how this topic has increased in importance over the past years. Finally, the last section draws some important conclusions from the developments observed over time.

### **2. Challenges and developments on the local level**

Bull (2008) stated that the object of discussion regarding territorial and functional reforms has not really changed since the 1960s. The primary question remains whether the fragmented organisation should be maintained in order to preserve the ideational value of the existing communes (e.g. integrative power and the provision of identity) or if bigger administrative units should

be built so as to improve the performance of the local level (Bull 2008: 286-287).

The conditions for the first large territorial reform after the Second World War in the 1960s were characterized by the combination of different developments that created a reform-friendly climate. Due to changes in agricultural production the number of people working in agriculture had decreased considerably while a new wave of urbanization was under way. At the same time post-war era economic growth had slowed and faith in the scientific planning of politics and administration had increased (Wallerath 2009: 201-202). In this context, Mecking and Oebbecke (2009) refer to the use of new methods of “modern administrative science” and political planning as instruments for analyzing complex situations and finding forward-looking solutions. The far-reaching reform approaches of the 1960s were intended to secure for the population habitation, employment, technical infrastructure (water, energy, waste disposal), education, transportation and conditions for leisure time activities as well as to improve these conditions for future generations. By establishing a new hierarchical network of different central points distributed across the country the reformers attempted to equalize living conditions throughout Germany (Mecking/Oebbeck 2009: 6).

With German reunification came the need to adjust the local socialist structures in the east to the standards of the West German state structure. Because of the multitude of new tasks given to the counties and county-free towns, the first reform steps were focused on this level. Out of respect for the role played by local civic groups during the peaceful 1989 revolution, post-communist East German politicians chose to not fully integrate the municipal level in the reform approaches carried out during the first years of the transformation process (Wollmann 2010: 256-259).

Since the middle of 1990s, when reformers realized that the performance of the inter-communal bodies established parallel to the county reform were insufficient, the municipal level has increasingly become the target of reforms. The political decision-makers decided they could now pursue a sounder reform strategy because, first, they had completed the initial territorial county reforms and second, they had given up their protective position that excluded the municipalities from reforms. Thus, the East German regional states extended their previous approaches by carrying out a more forceful local territorial and organizational reform (Kuhlmann 2009: 116-117).

In the last few years, the dramatic demographic changes in German society have developed into one of the most pressing new challenges facing public infrastructure, as they are leading to an aging society and a population drain from rural and structurally weak areas to the suburban areas of bigger and medium-sized cities. In addition, a loss of trust in the state's capability to solve problems has led reformers to consider the creation of bigger units. They argue that the devolution of state tasks is inhibited by the current fragmented territorial structures of the local level. Hence, they demand an adjustment through the establishment of bigger administrative units; otherwise the local authorities are seen as overburdened by the devolved tasks. While this argument is not new, it has gained new relevance due to the increasing burden of debt the public authorities have to face. In response to this development, reformers have promoted the integration of single purpose state authorities into concentrated administrative units, the devolution of further state tasks to the local level and the establishment of bigger administrative units. These developments clearly show that there is a withdrawal of the state, with such reforms and reorganizations reducing its physical presence (Wallerath 2009: 202-203).

Additionally, the current reform approaches are still based on the belief that the existing organizations are the reason for the sub-standard performance, functional loss and insufficient planning. A new challenge that the counties, county-free towns and municipalities have had to face since the 1990s is increasing financial constraints and fiscal emergencies, which are likely caused by the fragmented territorial structure of the local level (Bull 2008: 287).

The above discussed developments show one thing: That the main objective behind local territorial reforms is always to improve the performance of the administrative units. However, the specifics of the reform phases are highly influenced by the actual basic conditions within which the approaches are developed and implemented.

Alongside territorial reforms, the local level can also be the target of functional reforms. In the past, the main motive for carrying out a functional reform was a permanent migration of tasks to higher levels of administration. This migration process was pursued even after territorial reform, often seen as a prerequisite for meaningful functional reform, was carried out. This raised occasional questions of why bigger administrative units had to be established in the first place. In the end, functional reform was connected to the objective of attaining a durable and balanced assignment of tasks, and to

guarantee that no further migration of tasks to a higher administration level occurred (Püttner 2007: 49-50).

In the context of current reform approaches to devolve tasks, three central problems can be identified that represent challenges for the local level. First, despite the positive reform effects, the administration, as well as business representatives and the central associations of the communes, report that new coordination problems (e.g. additional expenses, assignment and coordination problems) have been caused by the integration of the devolved tasks into the administrative procedures of local authorities. In addition, the integration of employees from one level into a new level has led to tensions and conflicts in the new administration. Second, an important precondition for efficient and effective task fulfilment is the attainment of optimal economies of scale. This requires highly-specialized, highly-educated and experienced employees, as well as specific technical equipment. However, local authorities can only make efficient use of these when the utilization ratio is high enough. In some policy fields every individual local authority does not have enough individual cases (of specific administrative procedures) and thus can experience difficulties in fulfilling the requirements of efficient implementation. It is difficult to preserve the expertise previously located in the special-purpose authorities when their highly specialized staff members are redistributed to each local authority.

In this context, local level administrations have reported facing problems such as task fragmentation, deficient expertise, longer handling times because of undersupplied standard operating procedures, and growing unpredictability in administrative performance. To these difficulties we can add also mid- and long-term problems. By extending their employees' scope of responsibility, requirements for the further education of staff raise considerably. However, because the administration keeps changing, by the time the staff is re-trained in new specializations the organization has evolved even further, thus requiring yet another round of staff re-training. At the same time, the requirement to reduce expenses related to every reform forces most local authorities to stop hiring and advancing employees, a practice that could lead to an ageing and unmotivated staff. Finally, a problem in the context of task devolution is that when local authorities are fully in charge of a task (decision making, financing and consequences of their action) they face huge challenges resisting political and economic pressures, as well as meeting functional necessities.

Ebinger (2010) emphasized that the long-term consequences of the current trend of devolving tasks to the local level are: uninhibited reduction of

tasks (e.g. service provision), that administrative performance and circumstances are becoming more heterogeneous, and the worsening of the local business environment vis-à-vis competitors. (Ebinger 2010: 54-61).

### **3. Territorial and functional reform waves (waves and types)**

We can distinguish two sub-types of territorial reforms, classified according to the level at which they are carried out. First, given the two-tier structure of the local level in Germany, there are territorial county reforms whose purpose is to rearrange the territories of the counties into larger units. The enlargement of administrative units serves to reduce the total number of counties in a regional state. Second, below the county level, the municipal level is also an object of reform efforts focused on enlarging and rearranging the territorial structure of municipalities (Hennecke 2009: 213-214; Kuhlmann 2009: 114).

As already mentioned above, territorial and functional reforms on the local level are not new phenomena in Germany. This topic appears periodically on the political agenda of the regional states' governments. For the post-war era Kuhlmann (2009) identified two waves of territorial reforms on the local level in Germany. These will be presented in the following sections.

#### *3.1. Territorial reforms on the municipal and county level*

The first wave of reforms occurred in the 1960s and 1970s and drastically reduced the number of municipalities and counties in the West German regional states. About two-thirds of the then existing municipalities disappeared from the map, while the number of counties was reduced from 425 to 235. At the county level, authorities generally selected minimum sizes between 100,000 and 150,000 inhabitants. In addition, the ratio of the number of municipalities in each county was set to be between 1:10 and 1:12. The biggest municipality of a county was not supposed to contain more than one-third of the county's inhabitants. Despite these rules of thumb, we still find significant differences between the regional states in terms of how county and municipal level reforms were carried out. While North Rhine-Westphalia and Hessen considerably reduced the number of municipalities in their territory, regional states like Rhineland-Palatinate or Schleswig-Holstein chose not to implement radical territorial reform. These two states established a

new administrative level between the counties and the municipalities to enhance the efficiency of administration on the local level without sacrificing the independence of the small-sized municipalities that became part of these newly created inter-communal bodies (Kuhlmann 2009: 113, Wallerath 2009: 200-201, Wollmann 2008: 50).

A second wave of reforms was initiated in the East German regional states immediately following German reunification. In all five East German regional states, territorial county reform was implemented in the early 1990s, starting with Brandenburg in 1993 and followed by the rest in 1994. Although the implementation of the reform concepts turned out differently in each regional state due to different strategies and constellation of actors, the overall reform effort can be seen as a success. Overall, the number of counties was reduced from 189 (1993) to 87 (1994) in a very short time. However, although it was necessary, the East German regional states decided not to carry out territorial reform on the municipal level at the same time, as it was seen as too conflict-laden. At first they focused only on voluntary mergers and cooperation between municipalities (so-called *Verwaltungsgemeinschaften*, *Ämter*) instead of legally forced amalgamations. Although this “soft version” of territorial reform was seen as a viable alternative to amalgamations, new ideas for carrying out municipal reorganization and territorial reforms surfaced in the middle of the 1990s. Additionally, further steps were taken to optimize the existing inter-communal bodies by raising their minimum size. The policy makers intensified their efforts by integrating proposals for territorial reform on the local level into their political agenda. Thus, legally forced amalgamations were no longer a taboo topic.

In East Germany, we can distinguish two strategies by which the regional states reformed the territorial structure on the municipal level. First, a rather restrained-conservative strategy, characterized by the expansion of inter-communal bodies while still preserving the independence of each municipality, was chosen by some regional states. The second strategy was sounder and was characterized by a transition from municipal reorganization to territorial reform through amalgamations, by force if necessary. The policy makers choosing the second strategy also essentially maintained the inter-communal bodies and continued optimizing these structures. However, by forming unitary municipalities (*Einheitsgemeinden*) they set new priorities for their reform agenda. Despite these efforts to reform the territorial structure within the five East German regional states, it is quite remarkable that more

than 80 percent of the East German municipalities are still part of inter-communal bodies. This number can be interpreted as indicating some inefficiency in the structure of the municipalities remains (Kuhlmann 2009: 114-119).

### *3.2. Functional and administration structural reforms*

Several authors (e.g. Mehde 2008: 51, Püttner 2007: 49) point out that there is also a close connection between territorial and functional reforms. Territorial reforms are partly seen as a prerequisite for carrying out functional reforms (reforms of competences), whose goal it is to rearrange state tasks and competences between the existing levels of local and state administration. These differ from ‘administration structural reforms’, which are reform approaches focusing on a rearrangement of the administrative levels themselves, e.g. by dissolving one of those levels (Hennecke 2009: 213).

Functional reforms are considered a permanent task of German administration policy. However, there is no comprehensive decentralization legislation in Germany that can be applied to all municipalities, as for example in France. Because the regional states hold the competences for municipal legislation we find different variations of task devolution to the local level. In Germany, based on the German Basic Law and ‘administrative federalism’, task devolution flows from regional states to municipal and county administrations. Direct devolution of tasks from the Federation to the local level is not possible because, according to German Basic Law, the federal level has no direct access to the local level. A widespread version of functional reforms is “administrative decentralization”, in which the local level gets new competences without having a say in the local parliament about what these tasks will be (“cropped devolution of tasks”) (Kuhlmann 2009: 119). The following section gives a brief overview of the different types of task devolution to the local level.

#### *3.2.1. Devolution of tasks to the local level as an element of functional reforms*

Ebinger (2010) states that the recent efforts to devolve tasks to the local level are a by-product of the functional reforms currently being implemented. But task devolution—as one form of task fulfilment—competes with other alternatives, such as privatization, devolution to third parties and (de-)concentration within the state administration. Since 2005, when the comprehensive administration structural reforms were implemented (e.g. in Lower Saxony),

the devolution of tasks has been carried out with varying intensities and in various legal forms (Ebinger 2010: 48).

But what does the devolution of tasks to the local level actually mean? Looking at the legal literature, you discover that there is no examination of the topic. Therefore, Burgi (2010) developed a definition for this term in order to clarify what we are actually talking about. He understands devolution of tasks to the local level as a transfer of tasks from the regional state administration to local authorities (municipalities and counties). In this context, transfer means more than just a withdrawal of the state because the regional state still wants to see the devolved functions exercised and not abandoned. That is why the government possesses responsibilities to ensure task fulfilment. Hence, task devolution to the local level is not part of territorial reform but is a functional reform. According to article 84 Paragraph 1 set 1 of the German Basic Law, it is not possible for these tasks to be passed from the regional states to the Federation. The devolution to the local level means that there is an assignment of state tasks from the direct to the indirect state administration, as local authorities are legally responsible administrative units and not just public authorities (Burgi 2010: 23-24).

According to Burgi (2010), there are two main types of task devolution to the local level. First, a “false” devolution of tasks is characterized by devolving tasks that do not become a part of local self-government, that is, delegation to the local level without the local level having input into the issue. The second main type – so called “real devolution of tasks to the local level” – is characterised by the fact that the devolved tasks are supposed to have the character of self-government issues (Burgi 2010: 29-31).

### 3.2.2. Waves of functional reforms

Kuhlman (2009) identifies three clear strands in the decentralization debates since the Second World War. While Schleswig-Holstein and North Rhine-Westphalia (NRW) took their first steps for delegating tasks to the local level right after the second world war, the main push for a comprehensive decentralization debate in all West German regional states came with the territorial reforms of the local level starting at the end of the 1960s. In order to adapt the structure of tasks on the local level to the new territorial structure, functional reforms were focused on devolving tasks that had been exercised by the immediate authorities of a regional state (mostly special authorities on the lower implementation level) to counties, county-free towns and municipalities. However, task devolution varied in scope in the different regional

states. For instance, comparatively NRW pursued the most far-reaching steps for devolving tasks from the regional government administration to the local level and could be seen a forerunner in task devolution, especially regarding implementation and permission tasks. In comparison, the activities in Baden-Württemberg were characterized by decentralization of a more limited scope. Thus the subsequent reforms in this regional state could be understood as being an attempt at “catch up modernization”.

Another important step in the decentralization debate was the reintroduction of local self-government in East Germany after the coming into force of the GDR’s local constitution on May 17th 1990. The transformation process in East Germany was characterized by the comprehensive decentralization of political and administrative competences. The task portfolio of the newly established administrations at the local level increased tremendously. A multitude of public tasks, especially within the healthcare, social and cultural sector, that were previously exercised mainly by the state were devolved to the local level. Already within the first local election period measures were undertaken to devolve state tasks to the communes. This was done because two-tier structured regional states tend to create a sort of intermediate level of administration by installing single-purpose state authorities that promoted a “sectoral pillarization” of regional government authority. The density of single-purpose state authorities in the regional states was even higher in the East than in West Germany, which was criticized early-on by the association of local authorities. The functional reform in the Eastern regional states can also be seen as a complement to the territorial county reform, much as they were in West Germany. The main purpose was to adjust the task structure of the counties to their new territorial structure in order to correct the top-heaviness of the administration through devolving first-instance administrative competences to the county-free cities and counties (Kuhlmann 2009: 119-121).

The third decentralization wave started at the beginning of 21st century, with three distinct paths being recognizable:

1. Decentralization and Re-Concentration (Baden-Württemberg)
2. De-Concentration (Lower Saxony)
3. Regionalization (Mecklenburg-Vorpommern)

Baden-Württemberg is a textbook example of comprehensive decentralization of single-purpose state authorities, while at the same time the general state administration at the intermediate level was functionally upgraded and strengthened. The comprehensive administration structural reform (the so

called “Teufel-Reform”, named after the minister president at that time) came into effect on January 1st 2005. This reform was necessary because of the limited success of the functional reforms of the 1970s. Over time, in many policy fields a parallel structure of general state administration and a variety of mono-functional special-purpose state authorities (450) had developed. The core element of the new reform was the complete dissolution of 350 of these units. The tasks and personnel of the higher federal state and special-purpose state authorities were to be integrated into the four German Regional Councils, while the lower special-purpose state authorities were to be integrated into the 35 existing administrative district offices and the nine mayor’s offices of the county-free towns. However, territorial reform (e.g. on the county level) was not part of the reform package, which made it easier for the counties to accept it (Kuhlmann 2009: 121-122).

To date, you can find the second reform approach only in Lower Saxony. Compared to Baden-Württemberg, it is less focused on devolving state tasks to the local level than on carrying out an administration structural reform by dissolving the district governments and transforming the regional government authority from a three-tier to a two-tier structure. Although there is a high decentralization potential related to this reform option – most of the state tasks exercised by the district governments could be devolved to the local level – a very low percentage of these tasks were actually devolved to the counties and county-free towns. Kuhlmann (2009) states that the decentralization effect remained minimal because just 10 percent of the state’s tasks were eventually devolved to the local level after the dissolution of the district governments. On the one hand, in the course of the reform 121 federal state authorities were dissolved. However, on the other hand, since 21 special-purpose authorities have since been founded and most of the state tasks have not been devolved to the local level but to these special-purpose authorities or departmental administration, representing a considerable upgrading of the sectorally organized state administration.

The third decentralization option is characterized by regionalization. For a long time this “alternative” was seen as a theoretical model or the typical objective of the political opposition for reforming the district governments in three-tier structured regional states. Nevertheless, Mecklenburg-Vorpommern has taken concrete first steps towards legislative implementation of regionalization. The core idea behind regionalization is the devolution of state tasks, including the bundling and coordination functions, to independent (regional) administrative units that exercise these as mandated tasks (Auftragsangelegenheiten). A more detailed analysis of this decentralization

option follows in the next section where three current reform examples from a potential fourth reform wave are presented.

#### 4. Conclusions

Territorial and functional reforms are an important and necessary instrument for policy makers to respond to present and future challenges such as demographic change and economic and financial developments. Although they can be understood as a permanent task of administrative policy, they occur in reform waves because they are connected to drastic changes in the local environment and are, therefore, highly conflict-laden. One reason why these reforms are conflict-laden can be found in the goals which underlie them. On the one hand, they are intended to better the performance of the local authorities, while on the other hand their democratic and political viability must be ensured. To carry out a territorial reform successfully, several aspects have to be considered. First, the goals of a reform project have to be well-balanced. A single-minded orientation towards efficiency aspects will lead to problems with constitutional courts, as the most far-reaching approach to date in Mecklenburg-Vorpommern shows. Second, to change territorial structures it is necessary to overcome the bureaucratic inertia of the affected local authorities. Therefore, reforms require a carrot and stick approach that offers, on the one hand, incentives (e.g. a debt relief, governmental support during the process, freedom of choice for the fusion partner) for a given period of time during which the local authorities can actively shape the process. On the other hand, it is also important to use the “stick” – in this case the announcement that legally forced fusions will be carried out – if the affected local authorities are not able to initiate the fusion process within the specified time period. Third, to increase the acceptance of the reform measures it is helpful to clearly communicate the advantages of the reform project. This can be done by offering debt relief that would improve the financial situation of newly created administrative units. A possibly more convincing argument might be a comprehensive functional reform combined with any territorial reform. This dual approach would promise to strengthen the local level by devolving more tasks to the enlarged local authorities.

It is clear that probably the most important goal for carrying out territorial reforms, considering current problems such as demographic change and the financial situation of many local authorities, is to improve the performance of public administration at the local level. However, other instruments can also contribute to reaching this goal. For example, the technical possibilities

and potential of E-Government to make administrative procedures easier and more efficient have not yet been fully tapped. E-Government also could help to compensate for the problems caused by the enlargement of local authorities (e.g. longer distances for the citizens to the local administration). Beyond this, inter-communal cooperation also offers an option to enhance efficiency while initially retaining the independence of the participating local authorities. This approach helps smaller local authorities to jointly provide a range of services with a level of quality that would not be possible for each of them alone. Such cooperation can also be seen as a first step towards eventual fusion because it can build trust, which is an important prerequisite for an eventual fusion process.

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## **Territorial Reforms - An Approach to ensure effective and efficient Administration in times of Demographic Change?**

Dirk ZEITZ

The contribution briefly describes territorial reforms in Germany during the last years. It explores the main drivers of reform – demographics and financial issues – which represent major challenges for Länder and their municipalities. Moreover, two examples for recently implemented and discussed territorial reforms in two German Länder are investigated.

### **1. Demographic and financial background**

There is some good news as regards the demographic development in Germany. Germany's population does not decrease in numbers anymore. The year 2011 was the first year since 2002 without a further decline in population. Currently the population is around 81,8 million.<sup>1</sup> The increase in 2011 and also in 2012 cannot be attributed to a raising number of births, but is more the consequence of an inflow of migrants from other European countries, in particular from Southern European countries, moving to Germany because of better economic prospects and a robust labor market. The recent years are exceptions however from the overall trend of a declining population. The fertility rate of 1,4 newborns per woman over the last 40 years is below the required rate to maintain a constant population. Considering this rate one can expect that population is to decrease in future. In 2011 there were 190.000 more deaths than there were newborns. Taking into account the official assumptions taken in the 12th coordinated population projections of the Federal Statistical Offices and the uncertainties in the projection, the population in 2060 will be in an interval from 62,0 million to 77,7 million.<sup>2</sup>

Whereas these numbers give a picture on the developments on the aggregate level, one should also have a look on the regional developments of the

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1 Federal Statistical Office, Press release 255 / 2012-07-25.

2 Federal Statistical Office (2009): Germany's Population by 2060. Results of the 12th coordinated population projection; Zeitz, D. (2010): Assessing uncertainties in population projections. A test based on the 12th coordinated population projection for Germany.

population. One can observe a high heterogeneous development since the year of German reunification in 1990. While total population increased by roughly 2 percent, four out of six Eastern German Länder, Brandenburg and Berlin being exempted, have been losing more than 10 percent of their population. Following reunification a strong migration from eastern to western Länder took place, which accounted for around 1.5 million inhabitants or 10 percent of German Democratic Republic's (GDR) total population. In particular the well-skilled labor force and the younger persons left their hometowns in the east for better perspectives in the west, whereas less skilled people often remained. After a first large wave of migration within the first years of reunification, in the meantime the degree of east-west migration has scaled down significantly. Nowadays we rather find migration patterns from rural areas to cities and from less prosperous regions to more prosperous that today can also be found in some larger metropolitan areas in Eastern Länder (such as Berlin, Dresden or Leipzig).

Because of the fact that migration occurred foremost in Eastern Länder those show a net loss in substantial human capital. Particularly they suffer from the younger that moved who are not available as parents. If at all, then their kids are born in other Länder. This causes that these Länder are ageing at a much higher pace.

But it does not remain the only problem how to maintain an adequate level of public goods and administration in increasingly sparsely populated areas. The challenge is, to achieve this with smaller amounts of financial resources. The Länder in the eastern part of Germany will lose transfers that have been made available to them for developing of infrastructures after reunification. The federal supplementary grants of the Solidarity Pact II (7 billion euros in 2012) are gradually phasing out until the year 2020. Moreover, also the financial means provided from European structural and cohesion funds will also decrease over time as the regions are catching up. A reduction in population also leads to declining revenues from the horizontal fiscal equalization scheme among the Länder. In particular the Eastern German Länder heavily rely on those transfers. They still account for a high share of their total revenues (for instance in Brandenburg roughly 40 percent). Furthermore, the introduction of the so-called debt brake not allowing any longer debt financing of the Bund from 2016 and of the Länder from 2020 will not provide the opportunity to finance existing infrastructures by deficits. Since the costs per capita for providing public services increase exponentially with decreasing population, Länder will to make the administration more effective and efficient. Territorial reforms, in most cases amalgamations

of municipalities, are considered as adequate approach to benefit from economies of scale and scope in this regard.

The challenges from the demographics and the financial situation can be summarized as follows:

*The Eastern Länder in the short- and medium-term and the Länder in the western part of Germany with some delay in the longer term are facing the challenge: How to ensure more effective and efficient, citizen centered public services subject to constitutional requirements?*

## **2. Heterogeneity in administrative structures and the fiscal relations of Länder and municipalities**

Looking from outside of Germany often the fact is neglected that there is a high degree of heterogeneity in administrative and territorial structures. If one compares some basic data on administrative structures of the Länder then a large variance becomes evident. This is caused by the patterns of Germany's federal structure. Each Land organizes its administration and its territorial structures by itself. All Länder have own constitutions and jurisdictions. Moreover, Länder regulate the systems of financial relations among the municipalities. Consequently, all Länder have established different systems of fiscal equalization schemes considering specific needs of their municipalities and territorial characteristics. Those schemes differ for instance as regards the level of equalization between fiscal capacity (i.e. tax income per capita) and the financial demands or needs of the municipalities. Each Land has adopted an own appropriate definition what a "conceptual" financial demand of a municipality may be. Due to the nature of Länder as quasi-autonomous states, the reform of administrative and territorial structures and of the fiscal equalization schemes are permanent construction fields of Länder governments.

The differences between the Länder can be taken from the table 1 showing the administrative structures for the 13 area states. Two issues are worth-mentioning. The first are differences in the administrative divisions. Whereas all Länder have counties and non-county cities as administrative division we find differences in the administrative levels above and below. So some Länder have organized the territory in administrative districts. The second difference is whether there are municipal alliances which perform administrative tasks of the alliance member municipalities. The member municipalities do not

have own professional local administrations, but have assigned to some extent<sup>3</sup> their function to the municipal alliance. Three specific types of municipal alliances throughout the Länder can be differentiated: Amt, Verbandsgemeinde and Verwaltungsgemeinschaft.<sup>4</sup>

**Tab. 23.1: Administrative structures by Länder as of 2011**

Area States	Administrative districts	Counties			Municipalities			Municipal alliances
		Total	Non-county cities	Counties	Total	Municipalities	Alliance member municipalities	
Baden-Württemberg (BW)	4	44	9	35	1101	190	911	270
Bavaria (BY)	7	96	25	71	2056	1069	987	313
Brandenburg (BB)	-	18	4	14	419	148	271	53
Hesse (HE)	3	26	5	21	426	426	-	-
Mecklenburg-West Pomerania (MV)	-	8	2	6	805	40	765	78
Lower Saxony (NI)	-	46	8	38	1010	288	722	131
Nordrhine-Westphalia (NW)	5	53	22	31	396	396	-	-
Rhineland-Palatinate (RP)	-	36	12	24	2306	48	2258	163
Saarland (SL)	-	6	-	6	52	52	-	-
Saxony (SN)	3	13	3	10	468	232	236	94
Saxony-Anhalt (ST)	-	14	3	11	220	103	117	19
Schleswig-Holstein (SH)	-	15	4	11	1116	83	1033	87
Thuringia (TH)	-	23	6	17	913	125	788	116

Source: Federal Statistical Office

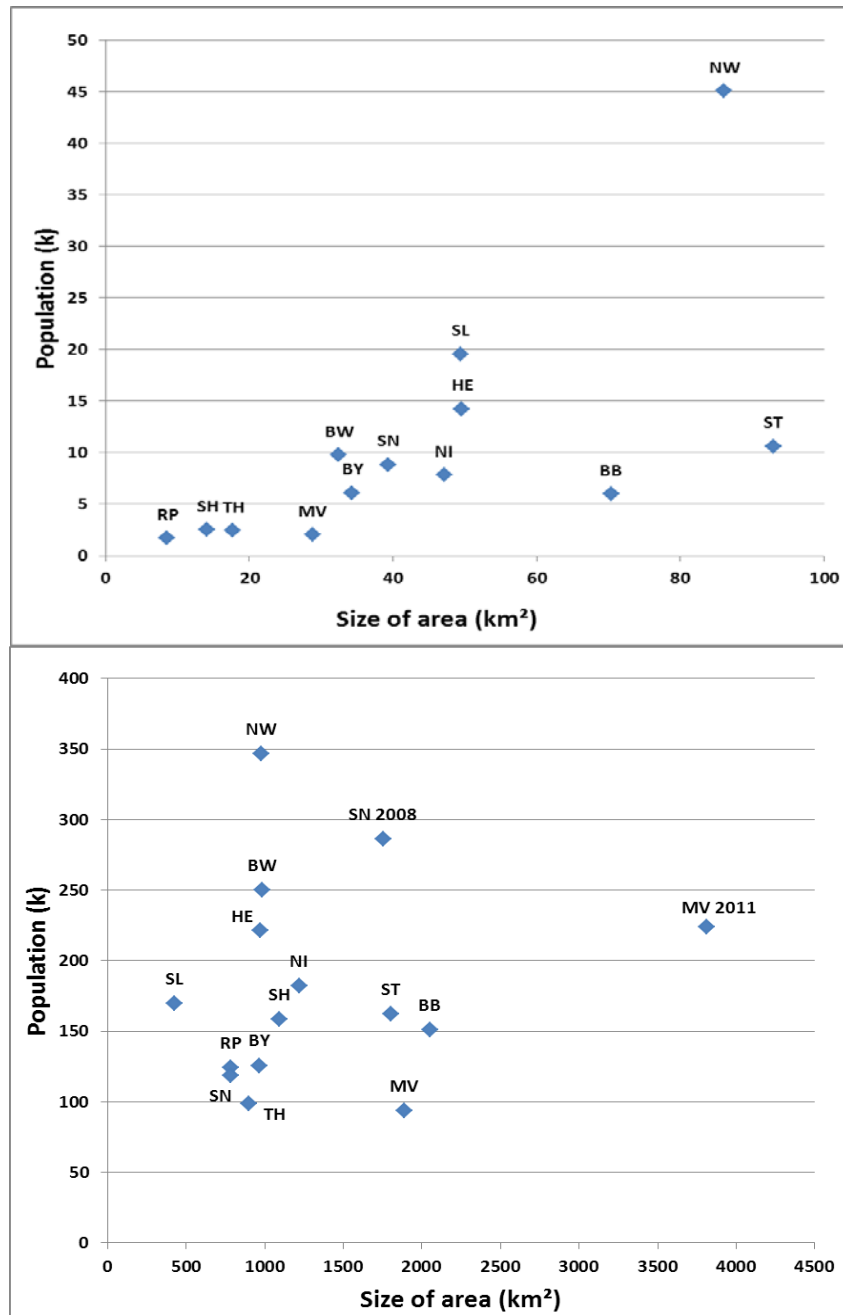
A second difference between administrative structures between the Länder will become clear if one looks at indicators such as the average population and the average size of municipalities (figure 23.1). Whereas the average population of a municipality in Rhineland-Palatinate has slightly more than 1.700 inhabitants, an average municipality in Northrhine-Westphalia has a population of 45.000 (figure 23.1 left). As regards the counties (see figure

3 Depending on the model.

4 For a discussion on the models of municipal alliances see Kuhlmann, S.; Richter, P.; Schwab, C. and Zeitz, D. (2012): Kommunal und Verwaltungsreform: Optionen zur Neugestaltung der Gemeindeebene in Brandenburg.

23.1 right part) it can be observed that the average size of a county in Mecklenburg-West Pomerania (3811 km<sup>2</sup>) after the reform of 2011 is almost ten times the size of the average county in Saarland (428 km<sup>2</sup>).

**Fig. 23.1: Average population and size of municipalities and counties by Länder**



Source: Federal Statistical Office; own calculations

What the data in the table 23.1 and figure 23.1 do not provide is how these structures have developed over time. There are some important differences to highlight. The territorial structures and the number of municipalities in Western Länder remained stable since the last “wave” of territorial reforms which dates back to the 1970ies. Since then two Länder, Lower Saxony and Rhineland-Palatinate, abolished the division of the territory in *Regierungsbezirke* (administrative districts). The tasks of *Regierungsbezirke* were partly shifted down to counties or non-county cities or have been assigned to newly set up state offices or state agencies. We have also seen functional reforms in some Western Länder such as Baden-Württemberg and Northrhine-Westphalia, which assigned some tasks (e.g. office of environmental issues) carried out by specific particular state agencies to *Regierungsbezirke*. In summary, the focus of administrative reforms in the Western Länder in the last 20 years was more focused on functions and the assignments of tasks rather than on territorial reforms. In the Eastern Länder since reunification we have seen both types of reforms. During the last years we see there already the second wave of territorial reforms, after the first took place in the middle of 1990ies.<sup>5</sup> In the Eastern Länder there have been a considerable number of amalgamations at the municipal level, but also the number of counties has been reduced significantly. In Saxony-Anhalt the number of municipalities through amalgamations decreased from 1364 to only 220, i.e. by 80 percent in only 20 years. In Saxony the number of municipalities today is 468 compared to 1626 in the early 1990ies.

### 3. Examples of Recent Reforms

Two recent examples of territorial reforms shall be studied in more detail in the next sections.

#### 3.1 *Reform of counties in Mecklenburg-West Pomerania*

In 2011 a reform of counties took place in Mecklenburg-West Pomerania. Mecklenburg-West Pomerania is located in the northeastern part of Germany at the Baltic Sea. It is one of the Länder that have suffered the most from migration within Germany and it is the Land which will depopulate the most

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5 Examples of territorial changes on the county level in the eastern Länder are Brandenburg 1993, Mecklenburg-West Pomerania 1994 and 2011, Saxony 1994, 1996 and 2008, Saxony-Anhalt 1994 and 2007 and Thuringia 1994.

in future. The population decreased from 1.9 million to 1.6 million since reunification. The reform of 2011 focused only on the level of counties and non-county cities. The level of municipalities was not regarded in this reform. The territorial structures even after the reform therefore remains divided into small sections with a high share of municipalities with less than 500 inhabitants. Those municipalities remain below the minimum population threshold a municipality should at least according to local constitution in Mecklenburg-West Pomerania.<sup>6</sup> Against initial plans the territorial reform was not accompanied by a functional reform that would have reassigned administrative tasks and functions among the administrative levels.

Following the last reform of counties in 1994 the new administrative structures of 2011 foresees 6 instead 12 counties und 2 instead 6 non-county cities. The new formed counties in Mecklenburg-West Pomerania (3811 km<sup>2</sup>) have an average size that is the double of the Land with the second largest counties (Brandenburg). The average population of counties will be above 200.000 inhabitants also in the year 2020 according to population projections. This is considered the required number of inhabitants in order to ensure an effective and efficient administration at county level. In unchanged territorial structures the average population of the counties would have declined to 86.000 inhabitants. A major reason for the reform was the financial situation of non-county cities and counties which run large public deficits.

The boundaries of the new counties resulted from the boundaries of the previously existing counties that were merged. Only in one case the territory of a former county was split and its territorial parts were integrated in two different new counties. Whereas the cities of Rostock and Schwerin retained non-county cities, four out of the six non-county cities also became part of a county and were granted the status of "large city in the county". For the latter cities this means a downgrade of their former status. However, the four cities became the administration center of the county. Moreover, the cities still perform functions such as the ones of the building inspection office and monument conservation that are in principle tasks of the county, but are of particular importance for urban development. Tasks of planning, decision-making, execution and control concerning the entire area of the county are performed by the county administration. A particular problem in implementation of the reform is the transfer of assets of a non-county city to the county because in exchange of the asset transfer compensation has to be negotiated and granted. In practice this concerns school buildings, refuse collection services

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6 Kommunalverfassung Mecklenburg-Vorpommern, § 1 Abs. 3.

and local public transport. Further practical problems are related to the transfer of staff from the former jurisdictions to the new ones and to the costs resulting from the reform as removals and from renting enlarged office premises in some cities.

Interesting to note is that the non-county cities which were integrated in counties have a status similar to a non-county city in the local financial equalization scheme. This potentially leads to higher transfer payments to those cities as the assumed financial needs are larger by definition. The cities that were seating the county administration in the previous territorial structures receive consolidation grants as compensation.

The citizens were involved in the reform as they decided on the new counties' names in referendum at 4 September 2012. The involvements' aim was to support a debate among citizens about the counties and to achieve a higher degree of citizen's identification with the new counties.

The territorial reform was accompanied by intense discussions on the issue whether sparsely populated counties which cover a large territory do not represent an impediment against voluntary political participation of citizens. So the voluntary political engagement of citizens for instance as selected members of the county council could suffer from long road distances to go in order to participate in council meetings. Another question related to the issue how the presence of the public administration can be sustained in the periphery of the county. In practice this concerns the road distance still reasonable for citizens to arrive at her/his local administration office and also the question what alternatives could be found to permanent local administrative office (for instance mobile citizen offices, development of IT infrastructures).

At this point of reform implementation it remains still open whether the reform and the new structures of counties in Mecklenburg-West Pomerania will be sustainable in the longer term.

### *3.2 The Discussion of Territorial and Functional Reform in Brandenburg*

The second example to study is the Land of Brandenburg. Currently there is not yet a reform taking place (the last reform dates back to 2003) but there is an on-going debate on future territorial structures and on the assignment of functions, the opportunities to strengthen local self-administration und participation of citizens. Since March 2011 a Commission introduced by the

Landtag of Brandenburg has been elaborating concise suggestions for reform.<sup>7</sup>

In the core of debate stands thereby the level of municipalities and municipal alliances, not the level of counties as in Mecklenburg-West Pomerania. The case of Brandenburg is different in particular in terms of demographic change. Since reunification Brandenburg has not lost population as other Eastern Länder. However, there are very heterogeneous developments within the Land of Brandenburg. In the areas of the Berlin-Brandenburg Metropolitan area – Berlin is completely surrounded by territories of Brandenburg – we have seen an increase in population over the last 20 year while there are strong decreases in rural areas of Brandenburg.

In Brandenburg we find the Amt introduced in 1992 as the model of municipal alliances. In other Länder, alternative models exist such as the Verbandsgemeinde or Verwaltungsgemeinschaften. An Amt in Brandenburg consists of up to eight alliance member municipalities. At the same level stand the amtsfreie Gemeinden which are larger municipalities that have an own administration and are not an alliance member municipality. The Amt is not an additional level of local self-government but is a municipal alliance that pursues the purpose of preserving and strengthening self-administration of its alliance member municipalities. If the member municipalities did not share the costs of a joint administration they would be too small and would not have sufficient financial capacity to perform its functions. The Amt in contrast to the model of the Verbandsgemeinde does not have a council elected by citizens who live in an alliance member municipalities and therefore does not have a immediate democratic legitimized institution.

In the reform of territorial structures of 2003 it was determined that an Amt or amtsfreie Gemeinde should have at least 5.000 inhabitants in order to secure the financing of an effective and efficient public administration. In light of demographic changes as of today 14 of 53 Ämter have a number of inhabitants below this threshold, in 2030 it can be expected that 28 Ämter will have less than 5.000 inhabitants.<sup>8</sup> In comparison with the thresholds set for municipal alliances in other Länder, the threshold of 5.000 inhabitants seems low as they are usually in a range of 10.000 – 12.000 inhabitants. However in Brandenburg we find already today areas that have extremely sparsely

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7 Enquete-Kommission „Kommunal- und Landesverwaltung – bürgernah, effektiv und zukunftsfest – Brandenburg“ (EK 5/2) eingesetzt am 15. März 2011.

8 Landesamt für Bauen und Verkehr (LBV) Brandenburg (2012): Bevölkerungsvorausschätzung 2011 bis 2030. Ämter und amtsfreie Gemeinden des Landes Brandenburg.

populated. In the amtsfreie Gemeinde Groß Pankow only 16 persons live per square kilometer.

In Brandenburg a high number of the administrative budgets of Ämter and smaller amtsfreie Gemeinden are in the red. In future this situation is expected to deteriorate further as particularly rural areas will be hit hard by declines in population. For these reasons Brandenburg is looking for more effective and efficient territorial structures than today and a structure of tasks and responsibilities among administrative divisions in order to realize economies of scale and scope to the largest extent possible. The objective of the new administrative and territorial structures is to raise the degree of capacity utilization of existing infrastructures but also to keep a close-to-citizen and citizen centered public administration.

The question in Brandenburg is which model of municipalities' alliances is best to meet those requirements:

One option discussed is the reorganization of Ämter in ordinary municipalities. In such a model the alliance member municipalities would lose their status as municipality and would be merged with other ones to form a new municipality. They would become districts of the new formed municipality. The councils of the up to eight alliance member municipalities in the Amt would be replaced by the council of the new formed municipality. This reform option may have advantages arising from savings that result from the abolishment of the individual political councils but may have the disadvantage of giving up political self-administration from the perspective of the merged alliance member municipalities. It may be more difficult to enforce political interests that are district related in a larger council. In the new formed structures it also may be more difficult to achieve political compromises in the council if the interests of the former alliance member municipalities had diverse and heterogeneous interests.

The second option policy makers in Brandenburg discuss is the introduction of the model of the Verbandsgemeinde. In this model the alliance member municipalities are kept as legally and political independent territorial units. At the same time the Verbandsgemeinde itself is a self-administration territorial unit from legal viewpoint. In contrast to the Amt the Verbandsgemeinde has an elected representation of citizens. The Verbandsgemeinde therefore has a higher level of democratic legitimization than the Amt. However, with an increasing number of alliance member municipalities the burden from coordinating and decision making significantly increases. Rhineland-Palatinate where the largest Verbandsgemeinde has more than 50 alli-

ance member municipalities serves as negative example. One should therefore consider a maximum number of alliance member municipalities in order to reduce burdens from political coordination.

A third alternative discussed are mergers of existing Ämter. The idea is that Ämter with a larger population could be sufficiently effective and efficient that they could also perform functions that are in most Länder performed at the county level. Consequently, additional tasks could be delegated from counties to Ämter. The problem in this respect is that a larger extent of tasks performed by the Amt requires a democratic controlled supervision. The performance of tasks would otherwise not be adequately democratically legitimized. The model of the Amt that has a council only consisting of the mayors of its alliance member municipalities would have some limits in this respect.

All three models of alliance member municipalities have in common that there is a discussion on the minimum population a municipalities and the alliance member municipalities should at least have in order to ensure an effective and efficient public administration. However, the determination of a minimum number of inhabitants crucially depends on the administrative tasks to be performed at this level.

The future will show whether Brandenburg decides for one of the options outlined above.

#### **4. Summary**

Currently we can observe discussions on the implementation of territorial reforms in a number of Länder. Territorial reforms are often accompanied by reforms in the assignment of functions. We can see territorial reforms in particular in those Länder which have faced a decline in population due to migration and which are therefore particularly hit by demographic change and decreasing financial resources at the same time.

The types of territorial reforms differ between Länder. This is not only true for the choice of the reform model but also relates to the issue how Länder implement the reforms. The trend, however, is heading in the direction of larger, both in terms of population and area, administrative units. To this end most Länder have set financial incentives for amalgamations and mergers of municipalities on a voluntary base, they have introduced so-called wedding gifts for municipality mergers.

While the topic of sustainable territorial structures was for the time being on the agenda of the Eastern Länder, it is arriving also the Western German area states in light of demographic change. Also there, a number of Länder discuss different reform options, in Rhineland-Palatinate a reform of municipal alliances (Model of Verbandsgemeinden) is currently underway.

Even though there are reform efforts in order to retain an effective and efficient public administration in times of demographic changes, we do not know much about the success of the implemented reforms. One can refer to an evaluation gap in this area. Questions such as whether the reforms led to the expected outcomes or resulted in savings over time cannot be clearly answered and are left for further research. Empirical evidence of 13 different models in 13 area states in Germany suggests that finding a clear answer to the question of optimal territorial structures is not trivial. Also the two examples have shown that the search for solutions is still ongoing. A good reform design should, this is can be learnt from reform experiences, take into consideration a multidimensional approach that incorporates territorial structures but also the assignment of tasks and the financial relations. In order to find an adequate reform design, the involvement of stakeholders such as citizens can be a factor to make a reform work.

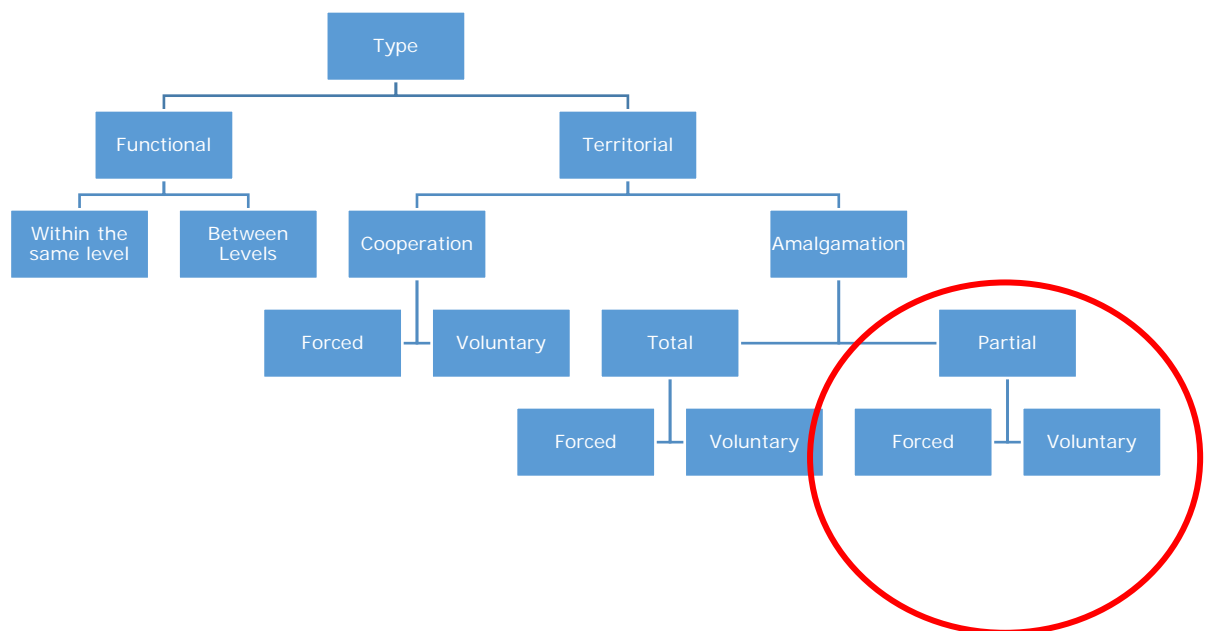
## Functional and Territorial Reform in Rhineland-Palatinate - Recent Issues and Lessons learned

Gunnar SCHWARTING<sup>1</sup>

### I. Introduction

On September 28th 2010 two very important reform laws passed the parliament of Rhineland-Palatinate. The first concerned the rearrangement of tasks and duties mainly between state and local level (“functional reform”). The second contained steps towards a territorial reform. The two types of reform are shown in Figure 24.1.

**Fig. 24.1: Types of Reform**



Source: Own illustration

1 This article expresses only the personal views of the author. He thanks for very helpful comments Jesse P. Lehrke from the German Research Institute for Public Administration Speyer.

Functional reforms can take place within one level or between different levels. Examples of functional reforms within one level are the bundling of duties in one single administration or, on the other hand, their unbundling, though the latter is quite rare. However, usually functional reforms are supposed to be top-down, i.e. from the state to mostly the county level. Sometimes a shift of tasks from the counties to the municipalities can be observed as well. Importantly, the transfer of tasks calls for sufficient administrative capacity to exist on the receiving end.

Territorial reforms can even be made without changing the boundaries of local authorities through establishing institutions for closer cooperation. This is the case if one (or more) inter-local bodies are charged with the provision of specific public services. Thereby, a new authority is created. Inter-local cooperation is long known concept.<sup>2</sup> In most cases however, it is developed voluntarily.

Yet for most scholars territorial reforms are connected with amalgamations. This process can be done by looking at all local authorities (in Germany even the counties<sup>3</sup>) - but a partial approach is possible too. Examples of this are found in the new Länder where the boundaries of the counties were changed (in some cases even twice) in recent years. The territorial reform in Rhineland-Palatinate follows a partial approach in another sense. It includes the municipalities while leaving aside the county-level (see red circle in Figure 1). Territorial reforms can be forced by law but voluntary amalgamation has also occurred several times. Rhineland-Palatinate intended to follow both paths.

In most Western Länder of Germany the last fundamental reform including functional and territorial aspects took place in the early seventies of the last century. Further functional reforms followed and many isolated reforms could be observed both on the state and the local level.

Considering the state level there were three important developments in Rhineland-Palatinate:

- the outsourcing of the construction office and the road authority to public enterprises;
- the spatial concentration of state administrations for specific purposes, e.g. the forest offices;
- some changes in the budget, e.g. the development of a pension fund.

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2 See the article on inter-local cooperation below.

3 If the county level is mentioned this includes the county-free cities too.

Local administrations – not only in Rhineland-Palatinate – have been influenced by the paradigm of New Public Management (NPM) since the 1990's. Following the principles of NPM new organizational structures as well as a more flexible budgets resulted. Moreover, customer-oriented service provision became common in public offices over time. The latest reform was the introduction of accrual accounting into local bookkeeping, a framework fundamentally new for the local budgeting process.

## II. Framework of the Reform

The need for a new fundamental reform<sup>4</sup> was obvious. During the discussion on the 4<sup>th</sup> development program 2008-2018 for Rhineland-Palatinate future challenges mainly arising from demographic change played a prominent role. At the beginning of the reform process the former minister of the interior, Karl-Peter Bruch,<sup>5</sup> therefore drew attention to the following points that call for a new structure of local authorities:

- demographic change will occur throughout the Land, though, of course with different intensities,<sup>6</sup>
- that the fiscal crisis of the public sector will see high and fast increasing short-term debt in many local authorities,<sup>7</sup>
- the changes in public services and public service provision, and
- the possibilities provided by new information and communication techniques

Other goals to be reached were a better quality of local public services, provision of public services through ways and means (“close to the people”) and

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4 For an overview see M. Wallerath, *Steuerung des Wandels durch kommunale Gebiets- und Funktionalreformen – Zur aktuellen Kommunal- und Verwaltungsreform in Rheinland-Pfalz*, DÖV 64 (2011), p. 289ff. This paper refers mainly to the literature about the reform process in Rhineland-Palatinate.

5 S. K.P. Bruch, *Die Kommunal- und Verwaltungsreform in Rheinland-Pfalz*, in: K. Beck/J. Ziekow, *Mehr Bürgerbeteiligung wagen*, Wiesbaden 2011, S. 137f.

6 The county of Bitburg-Prüm for instance will lose about 5% of its population until 2020 while the county of Mainz-Bingen still will grow by 3,2% in the same period. But in both counties the share of people aged more than 65 will raise between 2020 and 2035 by nearly 50%.

7 The mean short-term debt (for current purposes) per capita has now (mid-2011) reached 1.400 Euro; it exceeds long-term investment related debt.

improved possibilities for citizen participation in public affairs.<sup>8</sup> These considerations correspond to similar reform agendas in other Länder.<sup>9</sup>

In addition the development of the new reform must be seen in light of spatial, social and economic structures that have developed over the last four decades, i.e. since the last territorial reforms:

- New traffic routes that allow for more dispersed settlement of people and that have led in turn to growing commuter flows;
- Working conditions have changed rapidly (e.g. flexible work schedules, home office);
- The improvement of traffic connections have opened up new economic opportunities in some regions;<sup>10</sup>
- The importance of the industrial sector has declined; some sectors such as the shoe industry have disappeared completely;<sup>11</sup>
- The service sector has become dominant; within this sector tourism has become increasingly important, which calls for specific and new infrastructure;
- The migration mainly of younger people and families to the suburbs that has been ongoing for a long time has led to a lot of spillover-effects that are not (fully) compensated for by fees or grants (“Suburban-Central City Exploitation”);

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8 The reform process was accompanied by two scientific expertises: M. Junkernheinrich/J. Ziekow, *Begleitende Gesetzesfolgenabschätzung zu den Entwürfen des Ersten und Zweiten Landesgesetzes zur Kommunal- und Verwaltungsreform in Rheinland-Pfalz 2010*, and J.J. Hesse, *Gutachterliche Stellungnahme zur Kommunal- und Verwaltungsreform in Rheinland-Pfalz 2010*. Both studies can be found at [www.isim.rlp.de/staedte-und-gemeinden/kommunal-und-verwaltungsreform/gebietsreform/](http://www.isim.rlp.de/staedte-und-gemeinden/kommunal-und-verwaltungsreform/gebietsreform/)

9 See for Brandenburg S. Kuhlmann/P. Richter/Ch. Schwab/D. Zeitz, *Kommunal- und Verwaltungsreform: Optionen zur Neugestaltung der Gemeindeebene in Brandenburg*, *Speyerer Forschungsberichte* 270 (2012), p. 5f.

10 One good example is Montabaur, a small town beneath the railway track for the high-speed train between Frankfurt and Cologne. Montabaur got a railway station; as a result commuters could reach either Francfort or Cologne in half an hour.

11 A good description of development in a shrinking city in Rhineland-Palatinate is given by J. Bauer, *Stadtentwicklung – Stadtumbau vor dem Hintergrund der demographischen Entwicklung in Pirmasens*, in: *Deutsch-Französisches Institut/Wüstenrot-Stiftung, Demographie und Stadtentwicklung: Beispiele aus Deutschland und Frankreich*, Ludwigsburg 2006, p. 205ff.

- In addition: the now widely accepted ideas of sustainable growth call for a cautious and thought out use of land, therefore suburban sprawl has become highly criticized;
- Many problems and challenges cannot be met within the boundaries of a small municipality; thus bigger entities or more cooperation between municipalities are needed.
- Last but not least, due to the rising complexity of public service provision local administrations require a well-skilled labor force and are facing a shrinking work-force.

At this point I should mention the fundamental (and still common) paradigms of spatial planning in Germany: The principle of equivalent living conditions as mentioned in Article 72 of the German Constitution. This does not mean equality in every aspect; but the sum of all elements of living conditions should not differ too much. The second paradigm is the theory of Central Places.<sup>12</sup>

Following the principle of equivalent living conditions has (often) led to widespread inter- and intra-regional transfers (“giving money by the watering can”). However, faced with demographic change and the fiscal crisis in all public budgets it has become increasingly difficult to ensure equivalent living conditions through financial means.

### III. Optimum size of Local Authorities

The conditions for reforms are quite different between the German Länder. Rhineland-Palatinate – a middle sized Land with a population of 4 million – is slightly different from other Länder. Even after the territorial reform of the seventies it has the highest number of municipalities in relation to its population. There are more than 2.300 municipalities – among them more than 1.000 with a population of less than 500 and only 33 with a population of more than 10.000. So in Rhineland-Palatinate the local sector is very small-sized – even the counties have on average less than 50% of the population of an average of an average North Rhine-Westphalian county.

One of the fundamental theoretical problems of territorial reforms yet to be solved is the optimum size of a municipality.<sup>13</sup> Economies of scale have to

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12 The alternative would be a concentration on growth poles or metropolitan areas combined with the assumption that their development will spread into the hinterland.

13 See Kuhlmann et al. (Fn. ), p. 55ff.

be considered, though so do diseconomies of large scale.<sup>14</sup> A simple assumption is that the costs of public service-production follow a u-shaped curve. But economics is not everything. For a lot of public duties (e.g. water supply) physical conditions such as the topography determine the best scale of the service; other duties must be seen through the eyes of the customers – e.g. touristic regions which do not correspond to administrative boundaries. The Rhine Valley might be a good example with many counties having parts of their area on the borders of the river and parts in its hinterland. The consequence is (often) the formation of organizations spanning or overlapping several counties resulting in a lot of coordination-problems and occasionally also some transaction costs.<sup>15</sup>

In another study Martin Junkernheinrich highlights the following aspects for determining a good (not an optimum) size for local authorities:<sup>16</sup>

- Efficiency (low production and transaction costs)
- Taking into account the preferences of citizens
- Mapping of functions and space (“principle of perfect mapping”)
- Adequate performance with respect to social, economic and demographic aspects
- Sufficient compensation of disparities with respect to resources and potentials

In a political sense optimum size is the best balance between the (political and administrative) capacity to handle local problems and the distance between citizens and the political or professional actors. Therefore, in some Länder very small municipalities are linked together in associations of municipalities with their own professional staff while big cities are divided into several (more or less autonomous) parts. Already at the beginning of the reform process in Rhineland-Palatinate it was clear that the existence of even the very small municipalities should be untouched.<sup>17</sup> There could be voluntary

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14 See e.g. the considerations of B. Tarkan, *Die kommunale Gebietsreform auf der Ebene der Landkreise in Rheinland-Pfalz*, Kaiserslautern 2009, p. 95.

15 Some considerations can be found in B. Tarkan (fn 6), p. 127ff.

16 M. Junkernheinrich et al., *Neuabgrenzung leistungsfähiger Gemeindegebiete 2011*, p. 36, to be found at [www.isim.rlp.de/staedte-und-gemeinden/kommunal-und-verwaltungsreform/gebietsreform/](http://www.isim.rlp.de/staedte-und-gemeinden/kommunal-und-verwaltungsreform/gebietsreform/)

17 For a critical view see H. Wollmann, *Das aktuelle rheinland-pfälzische Reformprojekt im Kontext und Vergleich der Kommunalreformen in Deutschland*, in: K. Beck/J. Ziekow, *Mehr Bürgerbeteiligung wagen*, Wiesbaden 2011, p. 184.

mergers between such municipalities of course but the fundamental structure should remain. As the Minister of the Interior said: “...municipalities guarantee fast decisions close to the citizen. In the municipalities there is very large voluntary engagement.”<sup>18</sup> This expresses the firm conviction not only of the minister himself but of all leading politicians in Rhineland-Palatinate.

As Figure 2 suggests there is no consensus about the minimum size of local authorities in the Länder – let alone some defined optimum (figure 2).

**Fig. 24.2: Recommended Minimum Size of Local Authorities**

<b>Land</b>	<b>Inhabitants</b>
Saxony-Anhalt	10.000
Rhineland-Palatinate	10.000 <sup>19</sup>
Lower Saxony	7.000
Brandenburg	5.000

Although there is no clear evidence about an optimum size, the government of Rhineland-Palatinate did fix a minimum size for the associations of municipalities. The lower limit is set at a population of 10.000 to 12.000. This is a little bit less than recommended by the experts.<sup>20</sup>

#### **IV. Functional Reform in Rhineland-Palatinate – systematic or piecemeal?**

For functional reforms there should first be a critical analysis of tasks and duties to determinate which ones could be eliminated, changed or transferred to the local level. If a transfer to the local level is decided upon then the second step must be an analysis of the administrative capacities of the different local authorities. Thus, functional and territorial reforms are linked quite closely together. If the functional reform takes place in the first step

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18 K.P.Bruch (fn 1), p. 142, own translation.

19 12.000 for Associations of Municipalities.

20 See M. Junkernheinrich/J. Ziekow (Fn. ), p. 2.

then the given administrative capacities define how many duties can be shifted to which level of local authorities. To get an idea of the consequences a reform has some pilot studies should be of use.

The second reform law in Rhineland-Palatinate which embodied the functional reform did not follow this very simple path. The first draft of the law contained 33 duties to be transferred to the local level many of them from the Ministry of the Interiors' sphere of responsibility. The number seemed too low so the ministries were requested to add more duties to the list. In the end a total of 64 duties was reached. But the composition of the so called "64-list" seemed to be an arbitrary selection. Moreover: In some cases the activities to be transferred were those which were quite unpopular in the ministries or corresponding state offices.

On top of this, sometimes the principle of efficiency was heavily violated, as when an activity done by one person in a state office was transferred to 36 counties and county-free cities. Fortunately the 36 counties and county-free cities agreed that one administration should fulfil the task for all others and so, in effect, there was no change. However, the transfer of duties from the state to the local level did raise the need to levy charges for the service from the other local authorities within the county.

Because of the small size of local authorities in Rhineland-Palatinate, the destination of the transfers was mainly the county level. The administrative capacities of the municipalities were (and will remain) mostly too small to take over many new duties. The (possible) complementary process of transfer of duties from the counties to the municipalities did not take place. So the counties can be said to be the winners in this race. For example, while in other Länder like North-Rhine-Westphalia the (much bigger) communities are responsible for such services as secondary schooling, this was and still is a duty of the county level in Rhineland-Palatinate.

## **V. Territorial Reform – first voluntary then forced?**

The territorial reform was limited not only by the existence-guarantee given to the small municipalities. In addition, the borders of the counties – and consequently – of the county-free cities were not to be touched. Thus, the reform was focused on the level of the associations of municipalities and the smaller towns. The government sought mainly to encourage the merger of two such associations or of a town with its neighboring association. The first case of

this type was the merger of the town of Cochem with its neighboring association resulting in a new association of municipalities with Cochem as one of them. To date four more voluntary amalgamations have followed.<sup>21</sup> Based on this low number, it cannot be said that this is a big success of this way to reform administrative structures.

The exclusion of counties and county-free cities has been heavily criticized by the experts who assessed the reform.<sup>22</sup> The creation of better structures for counties and county-free cities will be hindered when the associations of municipalities get their new shape. Sometimes the merger of two municipalities failed only because they are in different counties. Another deficit of this partial approach is the missing solution for the core city-suburb problems. The possibility to lower these problems, the incorporation of neighboring municipalities, seems to be blocked for a long time. So the territorial reform in Rhineland-Palatinate goes only half of the way required if it is to address the issues that inspired the reform in the first place.

The law defines two phases of the reform. In the first phase voluntary mergers are possible – the partners are not set by the law and instead municipalities can choose (if possible) between their various neighbors. Of course they had to respect the boundaries of counties. This phase is supported by the government with financial aid (“wedding incentives”: grants, debt-relief, subsidies for merging costs etc.). The voluntary phase ended according to the law in 2012, for every merger an own law was decreed. Later forced mergers should follow as the law suggested.

But if this had been done as rigorous as stated by the law political problems were expected, as some municipalities have recently seen initiatives and ballots on the issue. In all cases the citizens voted for independence and rejected forced mergers. The votes given in the local ballots show that many citizens were not content with proposed mergers despite the participatory results during the reform process itself. Evidently, as the discussion reached their home and became real, local sensitivities prevailed.

Yet the possibility for forced mergers remained because the law was left unchanged. But at the time this chapter was last updated, the time schedule for the territorial reform has been revised – fusions should be decided upon now but need not be completed until 2019. This hesitation might be a result

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21 See the enumeration of the Ministry on the site: [www.isim.rlp.de/staedte-und-gemeinden/kommunal-un-verwaltungsreform/gebietsreform/](http://www.isim.rlp.de/staedte-und-gemeinden/kommunal-un-verwaltungsreform/gebietsreform/) (read 8.6.2013).

22 See M. Wallerath (fn 2), p. 291.

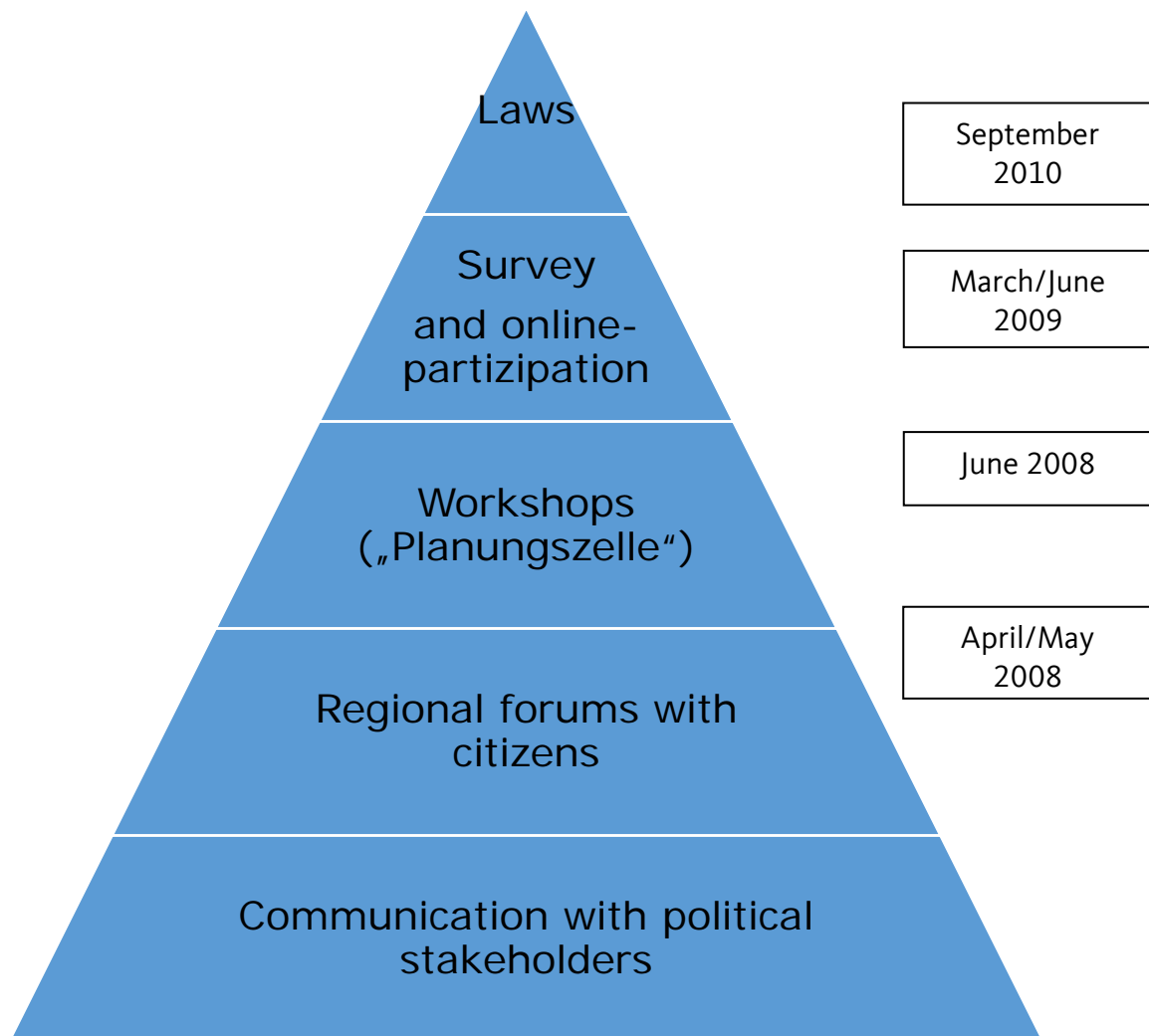
of the political situation. No one denied the need for reform, but unfortunately there was no cross-party consensus about the type of reform. The opposition rejected the reform because of its inconsistency. While the earlier reform of the seventies was supported by both the then leading parties, the Christian Democrats and the Social Democrats, this was not the case this time around. From time to time, the opposition called for a halt in the reform process to reconsider the basic principles, but the government wanted to bring the reform to an end before the next election in 2016. The delay of the reform (which should be completed in 2014 originally) cannot be interpreted as real solution to the impasse.

## **VI. Reform process – Citizens could participate**

One aspect of the reform process in Rhineland-Palatinate is unique and differs from many other similar projects; namely that it includes strong participatory elements (Figure 3).<sup>23</sup> It is one of the first approaches to involve citizens in a complex issue like functional and territorial reform.

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23 For a short description see U. Sarcinelli, Bürgerbeteiligung im Rahmen der Kommunal- und Verwaltungsreform (KVR), Ergebnisse der wissenschaftlichen Begleitforschung, in: K. Beck/J. Ziekow (Hrsg.), Mehr Bürgerbeteiligung wagen, Wiesbaden 2011, p. 149ff.

**Fig. 24.3: Time Lapse of the Reform Process**

Source: Own illustration

At the beginning, information was shared and discussions were held with the political representatives of all local authorities regardless of whether or not they were directly affected. The second step was the inclusion of citizens. In April and May 2008, five regional forums were organized in which 800 people took part. Then, in June 2008 six four-day workshops were held with 25 participants each (“Planungszelle”). The topics of their discussions were:<sup>24</sup>

- Duties of modern local authorities and administrations
- Sustainable territorial structures

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24 See [www.buergerkongresse.rlp.de/die-buergerbeteiligung/die-planungszellen.de](http://www.buergerkongresse.rlp.de/die-buergerbeteiligung/die-planungszellen.de) (read 8.6.2013)

- Service provision close to the citizens and new forms of inter-local cooperation

The participation ended with a representative survey by telephone interviews with 10.000 citizens; in addition citizens could give their comments via the internet.<sup>25</sup> Some of the main results of the survey were

- The majority (63%) supported the reform process;<sup>26</sup>
- 35% accepted territorial changes for their home municipality while 24% rejected;
- Only 36% were interested in participating in the reform process themselves.

One interesting result of this participatory way– which was not expected by everyone – was that citizens were not out of their depths even when confronted with a complex theme such as administrative reform.

Therefore the goals of the reform resulting in the two already mentioned laws were influenced by the opinions of the citizens. They made a lot of detailed proposals especially concerning the quality of local public services but they also rejected radical reforms. This result was not very surprising but the government felt vindicated that it was on the right path.

## VII. Outlook

At the moment the reform does not give many answers on how to meet the challenges of the future. Many pressing questions are open:

- How should services be provided for an ageing society? Are mobile offices a good answer?
- How can private services such as medical care, grocery stores and so on, be guaranteed?
- How can local public services be financed in the future with a (possibly) declining tax base?
- How can local public administrations conserve and improve their professional quality?

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25 The results were published by Polis-Sinus, Kommunal- und Verwaltungsreform – Auswertung der online-Befragung, München 2009.

26 For the results see Polis-Sinus, Repräsentativbefragung im Rahmen der Bürgerbeteiligung zur Kommunal- und Verwaltungsreform, München 2009, pp. 41, 36 and 32.

- How can suburban sprawl be reduced and inner-cities (as well as inner-municipalities) be strengthened?
- How can cooperation – if mergers are not possible or not wanted – be strengthened?

Moreover, there is quite substantial migration into some cities, mostly along the river Rhine. The need to find solutions for the challenges these cities face (housing, traffic, schools etc.) is urgent. This would seem to call for the inclusion of the cities in the reform process, but – as discussed – this is not the case.

Instead the Government announced a follow-up phase for the counties and the cities.<sup>27</sup> Regarding the counties the main question might be their reduction from the current 24 to perhaps 12 or even less. However, one constraint is a recent decision of the High Court of Mecklenburg-Vorpommern. In this Land, the government wanted to form very big counties. The High Court found that the single representative of the county council would not be able to be well-informed enough about such a big entity. For the government of Rhineland-Palatinate this was one of the arguments used to justify the original exclusion of the county-level.

The intended next phase for the cities is much more difficult. If their surrounding municipalities have merged into bigger entities then there seems to be no possibility to extend the city borders. In addition, what might happen – as was the case in Hessen – is the incorporation of the smaller county-free cities (7 cities) into the neighboring county with the resulting loss of their former status. What then would be the outlook for the remaining 5 county-free cities must be questioned.

Thus, the Association of Cities Rhineland-Palatinate has proposed what it sees as a better solution – the formation of a city-county around a given city. The municipalities in this area will not lose their autonomy but a lot of local services could be delivered by the core city. This might lead to economies of scale and might reduce city-suburban conflicts. Broadly speaking this model is a bit similar to the “communautés urbaines” in France.

But perhaps something completely different will happen: After the ongoing reform maybe no second step of reform will follow. Instead there might be many incremental steps much as was seen in the last decades. This trend could be observed even during the ongoing reform. Despite all the compre-

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27 See K.P.Bruch (fn 3), p. 146f.

hensive considerations about a good and sustainable administrative structure for Rhineland-Palatinate in the future, and despite the process of administrative and territorial reform, the Land changed the system of secondary schools fundamentally, with responsibility for all secondary schools transferred to the counties. It is not unlikely that similar things will happen in the future.

What are the main lessons learned from the ongoing reform process in Rhineland-Palatinate?

- A fundamental ex-ante analysis is needed.
- Alternatives should be considered.
- A partial reform is not recommended.
- The challenges of the future need sustainable solutions.
- Even a fundamental reform can be informed by participation of citizens.

Unfortunately, it seems too late to give the reform in Rhineland-Palatinate another, better direction. The now completed new structures might endure long a time, perhaps another 40 years.

## **Benchmarking and Comparisons of Performance of Local Governments in Germany – Approaches, Advantages and Side Effects <sup>1</sup>**

Tim JÄKEL

### **1. Introduction**

“Imagine a world without statistics.  
Government would fumble in the dark [...] and electorates would struggle to hold their political leaders to account”

(The Economist Feb 25th – March 2nd, p. 12 “Don’t lie to me Argentina”)

“It’s a competitive world;  
everything counts in large amounts”

(Depeche Mode: Everything counts. Construction Time Again, 1983)

The measurement of government performance is as old as modern bureaucratic government itself (Williams 2003; Heinrich 2007). This trend accelerated in the late 1980s when benchmarking was imported as a management tool from the private sector in order to enhance efficiency in the public sector. The measurement of performance and its comparison became a popular aspect of the modernization of public administration. Since then the wave of

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New Public Management has abated. We are now aware not only of the virtues but also the flaws which come along with the extensive measurement and comparison of performance in the public sector (de Bruijn 2002). Nonetheless, local practitioners and politicians are in need of reliable information about the efficiency and the quality of the services provided by their municipalities, especially in the current era of austerity.

Benchmarking is used to measure and to compare the performance of a given local government against that of its peers, generally by using policy-related indicators. Take as an example the costs for the disposal of a ton of household waste (in any currency), which is typically used as proxy for the cost-efficiency of local waste management. Or take for instance the average waiting time at your local town-hall if you want to register, for instance, as a new resident. This can be used as an indicator for the quality of service delivery. However, normally performance indicators seem to be more about cost and outputs than about quality and impacts, simply because cost-related data are much easier to gather than information on the quality and impact of administrative actions.

Benchmarking is not necessarily equal to inspections, and it is also different from performance management, although they share some similarities: In the first instance you have to measure performance, in whatever terms. What makes benchmarking so special is that you compare the performance of one local unit against that of its peers. Yet you do not have to do that through an inspection (though you can, of course, if you like).

The way performance is compared and benchmarked among local governments varies widely across the OECD-world (Kuhlmann/Jäkel 2013). While a number of empirical studies around the world deal with the use of data performance measures in state agencies and different layers of government, there has been only limited research on the factors behind the engagement in voluntary benchmarking activities. It is commonly held that there are two main benefits of doing so: the first being the prevention of under-performance, and the second being improvement of performance. Benchmarking can make you aware of potential risks, which in turn will help you to make the right decisions (risk-assessments, or risk-management). A second major virtue is that the members of a benchmarking-club, i.e. local practitioners and decision-makers, share knowledge about innovative solutions which enables them to learn from each other (see Behn 2007).

## 2. Compulsory performance benchmarking

It's helpful to distinguish between statutory local inspections and performance assessments and voluntary benchmarking activities of local authorities. The former plays a minor role in Germany due to federalism and a strong tradition of local self-government. In only in two (out of 16) German states, namely North Rhine-Westphalia and Hesse, does the court of audit assess and compare the performance of all local entities on a compulsory basis to ensure that money is spent properly and a high quality of local public services is achieved. The court of audit in the state of Hesse introduced these benchmarking schemes already in 1994; in North-Rhine-Westphalia the audit office started its work in 2003. Local authorities are subject to a policy-related comparative performance assessment every 3 to 5 years; major cities also see an annual review of their finances. The indicators that are used to measure and rank performance are defined by the state agency and the court of audit respectively. In North Rhine-Westphalia, by far the largest German state by population, current values of performance indicators are compared against a given benchmark. In both states statutory performances assessments come at the rather moderate cost of about 4 million Euro per year. While in Hesse the state government bears the complete costs, local authorities in North Rhine-Westphalia have to pay audit fees.

Statutory performance assessments are usually associated with a number of major flaws: They possibly lead to unintended behavior by the reviewed party that contradicts the initial purpose of improvement. Local actors may focus their attention and policy-actions on the performance indicators they know the reviewers will look at. This might come at the expense of local preferences, which may differ from those of the state level. Another unintended side-effect is the shifting of focus to relatively trivial issues in order to gain a good ranking. In particular this will occur when league tables and values of performance indicators are linked to financial and administrative sanctions. While shifting of preferences is a rather subtle process, window dressing and cream skimming and cheating are offensive reactions to unpopular control from above, widely known as "teaching to the test" in the context of standardized educational tests. Local authorities usually state that compulsory review of their performance increases red tape and results in opportunity costs, further squeezing their time and staff which would be better used providing public services. Furthermore, the review often does not tell them anything new, as local decision-makers are usually already aware of their problems but often lack the fiscal or administrative means to fix them.

The empirical evidence from Germany is mixed. Neither window dressing nor cheating is a problem, as courts of audit lack formal rights to impose fiscal or administrative sanctions for underperformance. Furthermore, there is no urgent need for local authorities to play with the numbers, as the audit office in North Rhine-Westphalia is rather cautious when it comes to the reporting of the results. Only top-performers are named on its website, while the lower sections of the league tables are hid. This is a strategy intended to avoid public shaming and demoralizing local actors. This can be evidence that, although compulsory, local performance benchmarking might follow a mixture of hierarchic and coordinated mode of governance. The court of audit in Hesse is much more direct in the wording of its findings and ensures a high level of transparency to the broad public. Summary reports and rankings of all assessments are published annually.

The audit agencies typically refer to saving potentials which can be identified from comparable performance information, potentials which can be realized through actions in the right situation. The audit agency of North Rhine-Westphalia refers to the example of a local government in which a savings potential of roughly 900,000 Euro could be realized, a conclusion based on its benchmarking results and subsequent consultations. In other cities the audits uncovered saving potentials in terms of human resources, resulting in the local executives publicly proclaiming the realization of these saving as an objective. Data acquired from these benchmarking activities thus may give political decision-makers evidence-based legitimization for budgetary cuts vis-à-vis the citizens and the local administration.

Yet the major problem is to turn performance information gathered by centralized comparative performance assessments into innovations in local policies that can be adopted on a broad scale. State agencies which are in charge of the performance assessments point to numerous examples where a review has led to improvements, especially in cost-efficiency. Nonetheless, a majority of mayors in North Rhine-Westphalia still rejects the notion that compulsory reviews will change decision-making and operating principles routines in their municipalities, this according to a survey from Ebinger and Bogumil (2012).

Some 800 municipalities covering 24 million residents are facing statutory benchmarking exercises in the states of North Rhine-Westphalia and Hesse. Taking into account that Germany has more than 11,000 municipalities (with about 80 million inhabitants), compulsory exercises turn out to be

the smaller part of the benchmarking landscape in Germany. Instead, in Germany voluntary performance comparisons through the self-management of local authorities dominate.

### **3. Voluntary benchmarking exercises**

There has been a wide range of voluntary benchmarking exercises at the local level of government since the mid-1990s. Over this time period the Association for Local Government Management (KGSt) has hosted more than 200 voluntary benchmarking circles, each with dozens of participants from local authorities, involving nearly all local government tasks. In 2010, there were about 720 local government bodies organized into 75 benchmarking circles (Kuhlmann/Jäkel 2013).

Self-management by local authorities has its pros and cons. The use of the resulting performance information is totally up to the participating local authorities with no threat of formal sanctions being imposed by higher levels of government. As a result, according to an internal survey of KGSt, a vibrant exchange of local experiences takes place. At other times, the implementation of a voluntary benchmarking system might be a way to ward off compulsory audits by state authorities and inspectors. However, because these voluntary comparisons are often not made publicly available, citizens struggle to hold their local decision-makers to account.

Another problem locally self-managed benchmarking exercises have to cope with is low coverage among medium and small-sized municipalities. In contrast to the centralized activities discussed above it is up to individual municipalities to decide whether or not to join a benchmarking club. Unfortunately, potential transaction and opportunity costs in the short-term often outweigh, in the minds of municipal leaders, the mid- and long-term benefits from benchmarking activities. Furthermore, the financial health of a municipality strongly affects the likelihood of it taking part in voluntary benchmarking exercises (see below).

### **4. Public debt and the use of benchmarking: An econometric analysis**

#### *Theoretical considerations*

Taking a broad perspective, it is quite clear that the use of performance information has several benefits for local politicians and bureaucrats. Yet in a

world of blame games (Hood 2010) and electoral competition, the same local politicians and bureaucrats also have good reasons to be cautious about presenting and comparing performance information. Thus the general question is why some local governments participate in voluntary benchmarking projects while others do not.

To answer this question through an empirical analysis I use data from a survey conducted by Joerg Bogumil, Sabine Kuhlmann and Stephan Grohs in 2005 (Bogumil et al. 2008; Kuhlmann/Bogumil/Grohs 2008). The survey's purpose was to evaluate the implementation of administrative reforms in Germany at the local level of government. The survey included a question on whether and to what extent the local authority participated in local performance benchmarking circles or competitions with other local governments. I restrict my analysis to the group of unitary (single-tier) authorities (73 responses, see Table 25.1)<sup>2</sup>

**Tab. 25.1: German unitary authorities: The use of performance comparison**

Survey question "Is your local authority involved in inter-communal benchmarking or competitions?"	Freq. N	Frequency %	Cum. Frequency %
Yes, regularly	20	27.4 %	27.4 %
Yes, occasionally	38	52.1 %	79.5 %
Yes, rarely/no/in the past, but not anymore	15	20.55 %	100.0 %
Total	73	100%	-

Source: Bogumil et al. (2008).

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2 There are three main types of local authorities in Germany: (a) municipalities, (b) counties, which comprise of a number of municipalities; and (c) larger cities (single-tier local authorities). The main purpose of counties is to provide those public services that small municipalities are not able to provide by themselves. Larger cities do not belong to a county, which means that they perform the public tasks of both municipalities and counties. In 2005 there were 115 unitary (single-tier) local authorities in Germany, some 300 counties and more than 11,000 small and mid-sized municipalities.

### *Public Debt*

The first variable of interest is the municipalities' levels of fiscal performance, which is measured as debt per capita (average in 2000-2004). Theoretical expectations from the "debt per capita" variable are ambiguous. In a local authority with sound public finances the top-level management may use a performance comparison to promote its fiscal performance. The purpose is to show that – compared to other municipalities – local decision makers are doing a great job. In this case the purpose is to gain output legitimacy, which is equivalent to gaining electoral support for the next local election. However, also municipalities in a bad fiscal situation could be expected to have a strong demand for relative performance information. Instead of advertising their performance, their aim is to learn from other local authorities and improve their fiscal performance as well as to identify saving potentials.

Johansson and Siverbo (2009) examined the causes that lie behind the use of relative performance evaluations (RPE), an instrument similar to benchmarking, in Swedish local governments. They find that a budget deficit increases the likelihood of adopting RPE; the probability of observing RPE utilization is thus higher in municipalities that are fiscally stressed.

In addition to debt, local unemployment rates (UNEMP) and the number of welfare recipients (WELFARE) are used as proxies for socio-economic stress in a given municipality.

### *Number of public employees*

As a control variable we include the number of public employees. In a local authority with a large number of employees, the problem of moral hazard will increase strongly. The availability of a large number of administrative staff leads to proper division of labor and, simultaneously, to problems typical of any principal-agent relationships. For this reason we expect the number of public employees to have a positive effect on the extent to which performance comparison is used by a local authority. Since the relative number of employees differs widely even among unitary authorities, logarithmic values are used in the equation.

### *Ideology of the incumbent mayor*

Whether a local authority uses performance comparison or not might also depend on the political ideology of the incumbent mayor. Johannson and Siverbo (2009) find that a left-wing majority in a given Swedish municipal council decreases the likelihood that relative performance evaluation (RPE) will be adopted. Benchmarking – as part of the New Public Management doctrine – was imported from the private sector to enhance efficiency in the public sector. The idea was to spur competition among (local) jurisdictions. Thus it could be argued that parties supporting economic liberalism – and mayors belonging to these parties – are more likely to use benchmarking, as they also support the idea of applying managerial mechanisms to the public sector. In contrast, left-wing parties in government may oppose management instruments that are inspired by private sector strategic management.

### *An Econometric Model*

To estimate the effects of different potential explanatory variables on an ordinal scaled variable I specify an ordered (logistic) regression model (or proportional odds model)(Long/Freese 2006: 183-222):

$$y^* = \mathbf{x}'\boldsymbol{\beta} + \varepsilon.$$

The dependent variable indicates the extent to which performance comparison is used:

- $Y_i=1$  if a municipality does not or rarely compare(s) its own performance with other municipalities (or did so *in the past*)
- $Y_i=2$  if a municipality compares its own performance with other municipalities *occasionally*
- $Y_i=3$  if a municipality compares its own performance with other municipalities *regularly*.

Instead of  $y^*$ , alternative response categories  $y_i = m$  are observed, with  $m = \{1, 2, 3\}$ . The probability of an observed outcome  $y = m$  ( $m = 1, 2, 3$ ) for a set of explanatory variables ( $\mathbf{x}$ ) equals the probability that the latent variable ( $y^*$ ) falls between the corresponding cut points / thresholds ( $\tau$ ):

$$\Pr(y = m \mid \mathbf{x}) = \Pr(\tau_{m-1} \leq y^* < \tau_m \mid \mathbf{x}).$$

The standard formula for the predicted probability in the proportional odds model is

$$\Pr(y = m \mid x) = F(\tau_1 - \mathbf{x}\beta) - F(\tau_{m-1} - \mathbf{x}\beta),$$

where  $F$  is the cumulative distribution function. Six different models representing different sets of explanatory variables were estimated. The variables debt per capita (logarithmic values) and number of public employees (logarithmic values) are included in all six models. In model 3 and 4 dummy indices are included: The first dummy, represented as SOCIAL, is assigned the value of 1 if the incumbent mayor is a member of the social democratic party and zero if otherwise (model 3). This variable is expected to have a negative relationship with the outcome. A second variable, named LIBERAL, also captures underlying ideology and takes the value of 1 if the incumbent mayor is a member of the Free Democratic Party, a liberal party, and zero if otherwise (model 4). The variable unemployment rate is included in models 3, 4 and 6.

**Tab. 25.2: Explanatory variables**

PARTICIP	1 = non-use / rare use 2 = occasional use 3 = frequent use (see Tab. 25.1)
DEBTLOG	= debt per capita in Euro, mean values 2000-2004 (logarithmic in equation)
UNEMP	= unemployment rate, mean values 2001-2004
WELFARE	= number of welfare recipients per 1,000 inhabitants, mean values 2001-2004
STAFFLOG	= number of public employees, mean values 2000-2004 (logarithmic in equation)
SOCIAL	= dummy variable, equals 1 for incumbent mayor being a member of the social democratic party, 0 otherwise
LIBERAL	= dummy variable, equals 1 for incumbent mayor being a member of the Free Democratic Party, 0 otherwise

**Tab. 25.3: Summary statistics explanatory variables**

Variable	Observations	Mean	Standard deviation	Minimum	Maximum
[DEBT]	72	1337.79	538.75	61.46	2811.42
DEBTLOG	72	3.08	0.24	1.79	3.45
UNEMP	73	11.56	4	6.15	21.38
WELFARE	73	46.89	18.33	19.49	121.2
[STAFF]	72	4435.82	4139.2	748	22500.2
STAFFLOG	72	3.52	0.32	2.87	4.35
SOCIAL	73	0.52	0.5	0	1
LIBERAL	73	0.04	0.2	0	1

**Tab. 25.4: Correlation matrix explanatory variables**

	DEBTLOG	UNEMP	WELFARE	STAFFLOG
DEBTLOG	1.000			
UNEMP	-0.096	1.000		
WELFARE	0.182	0.32	1.000	
STAFFLOG	0.316	-0.113	0.295	1.000

### *Empirical results*

The coefficients of the variable debt per capita (logarithmic values) have the expected negative sign in all estimated models. The estimations suggest a linear negative relationship between the level of fiscal stress and the willingness to use performance comparison.

Also as expected, the variable number of public employees has a positive sign. It indicates that larger municipalities are more likely to use benchmarking regularly. However, the coefficients do not differ significantly from zero.

It is noteworthy that the variable unemployment rate has a significant positive impact on the willingness to use performance comparison. In contrast, while the variable number of welfare recipients per 1,000 inhabitants has a positive sign, it is not significant at 10 per cent level.

**Tab. 25.5: Estimation results**

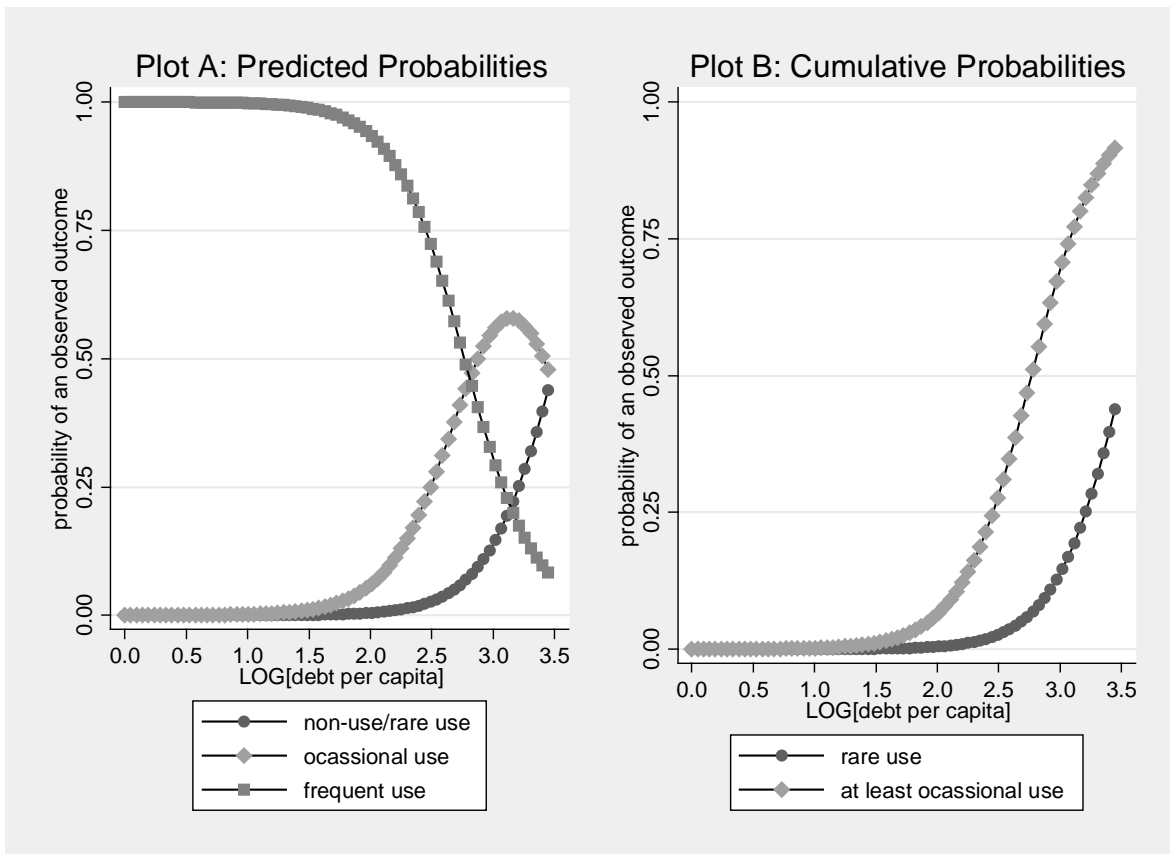
Explanatory variable	(1)	(2)	(3)	(4)	(5)	(6)
	Dependent variable PARTICIP					
<i>DEBTLOG</i>	-3.574** (-2.46)	- (-2.46)	- (-2.34)	- (-2.33)	-3.868** (-2.56)	- (-2.37)
<i>STAFFLOG</i>	0.565 (0.73)	0.719 (0.92)	0.660 (0.85)	0.793 (1.01)	0.473 (0.60)	0.670 (0.86)
<i>SOCIAL</i>	-0.061 (-0.13)		-0.119 (-0.25)			
<i>LIBERAL</i>		1.837 (1.43)		1.690 (1.34)		
<i>UNEMP</i>			0.119* (1.87)	0.113* (1.79)		0.118* (1.85)
<i>WELFARE</i>					0.012 (0.77)	
Cut point 1	- 10.554** (-2.34)	- 9.764** (-2.25)	-8.586* (-1.90)	-7.814* (-1.75)	- 11.226** (-2.50)	-8.636* (-1.91)
Cut point 2	-7.996* (-1.87)	-7.154* (-1.68)	-5.940 (-1.33)	-5.119 (-1.66)	-8.655** (-1.96)	-5.992 (-1.34)
Number of observations	72	72	72	72	72	72
Log likelihood	-68.844	-67.707	-67.030	-66.053	-68.555	-67.061
chi2	8.565	10.839	12.194	14.147	9.142	12.130
AIC	147.688	145.414	146.059	144.106	147.111	144.123

Legend: \*  $p < .1$ ; \*\*  $p < .05$ ; \*\*\*  $p < .001$ . Absolute values of the estimated t-statistics are given in parentheses. AIC = Akaike's information criterion.

The dummy for a Social Democratic mayor has positive effect, while the dummy for a liberal mayor has the opposite. While both these findings conform to the theoretical expectations, their coefficients are not significant.

Estimation results from model 6<sup>3</sup> were selected to illustrate how predicted probabilities are affected by the level of financial liabilities per capita. After estimating model 6 the predicted probabilities of the outcomes  $y = 1$ ,  $y = 2$  and  $y = 3$  are computed. The values of the explanatory variables number of public employees (logarithmic values) and local unemployment rate are set to their mean values, while the values of the explanatory variable debt per capita (logarithmic values) are allowed to range from 3.45 (the variable's maximum, equal to about 2,800 Euro) and 0 (the variable's minimum is 1.79).

**Fig. 25.1: Predicted and cumulative probabilities for non-use, occasional use and frequent use of performance benchmarking**



- 3 Ordered logistic regressions are based on the assumption that the coefficients that describe the relation between category 1 and category 2 are similar to those of the relation between category 2 and category 3. This assumption is called the proportional odds or parallel regression assumption (PRA). To test the PRA you can run a so-called Brant-test, which is a user-written command for the software STATA. The Brant-test estimates different models and/or sets of coefficients, the number of categories of the dependent variable minus 1. In both tests a significant result indicates a violation of the PRA, if the result is not significant PRA is not violated. Brant test statistic for models 1, 3 and 5 provides evidence that the PRA has been violated.

Figure 25.1 plots the probabilities of individual outcomes as well as the cumulative probabilities. As the sign of the regression parameter  $\beta$  is negative, an increase in the debt per capita (logarithmic values) necessarily decreases the probability of being in the highest category of the dependent variable ( $y_i = 3$ ; frequent use of performance comparison) (Cameron/Trivedi 2010: 527).

## 5. Conclusion

Local decision-makers are facing numerous challenges, from economic stagnation to demographic change to environmental issues. Yet in the current era of austerity sound public finances are among the most pressing of issues. There are already plenty of good arguments for why policy-makers should head in the direction of budget consolidation; this article provides yet another one. The empirical results indicate that a high level of fiscal stress, measured as 'debt per capita' (logarithmic values), is an obstacle to the use of voluntary performance comparison measures in German single-tier local government. Evidently, unitary authorities with a high level of public debt (per capita) are giving more weight to the potential short-term, namely transaction and opportunity, costs and the potential loss of reputation than to the potential long-term benefits of comparing your performance against that of your peers.

The implication is that local actors should reduce their amount of financial liabilities in order to broaden their ability to take part in voluntary benchmarking exercises. Thereby they could realize the potential benefits of such exercises, most notably identifying best practices in order to draw lessons for one's own organization ('learning from the best'), possibly including also explaining any performance gaps.

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## **Shared Services by Inter-Municipal Cooperation in Germany: Chances and Obstacles - Some Fundamental Considerations -**

Gunnar SCHWARTING\*

### I.

Inter-municipal cooperation as defined by the Council of Europe “... involves two or more municipalities and institutionalizes their common structural and operational features. Co-operation between them ... is thus given a formal basis and, in functional and social terms, covers two or more communities. In European terms we are talking about co-operation between the authorities closest to the community, often municipalities, with a view to joint management of matters regarded as of general interest to all the participants.”<sup>1</sup>

In Germany there is a long tradition of cooperation between local authorities. It is mainly limited to specific scopes of tasks such as waste or sewage collection and treatment, or the supply of drinking water, tourism, or public transport.<sup>2</sup> These services have physical attributes that make them ideal for cooperation across the borders of single municipalities. Yet, the possibilities to cooperate are still not fully maximized, especially in the field of „back-office services“.<sup>3</sup> Many local authorities fear a loss of political influence or of steering capacity if they transfer some of their own responsibilities to another institution, be it another municipality or a joint body created for a specific purpose.

However, inter-municipal cooperation has received new attention from politicians as well as from scholars over recent years. The cooperation-model seems to be one possible way to increase the efficiency of public services

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1 Council of Europe, Good practices in inter-municipal co-operation in Europe, 2007, p. 1. <https://wcd.coe.int/ViewDoc.jsp?id=1376549&Site=COE> (Accessed 27.6.2013).

2 See Council of Europe (Fn. 1), p. 8 .

3 See f.ex. G. Schütz/P. Pfisterer, Shared Services: Rahmenbedingungen und Anwendungsfelder des Shared Services Modells, in: G. Schütz (ed.), Shared Services: Koooperative kommunale Aufgabenerfüllung, Wiesbaden 2012.

while reducing their costs. It is fair to say that the term „inter-municipal cooperation“ is currently experiencing a renaissance. This discussion is being driven by the rapid changes local public enterprises have recently undergone. The opening of the energy market led them to bundle activities together, e.g. purchasing power on the electricity stock market. Savings banks lost their traditional guarantees by the cities and counties and were forced to look for ways to cut their costs without reducing the service for the customer. A common solution was cooperation in the IT-sector.<sup>4</sup> Yet these examples are only the top of the iceberg that this sector has seen in the past few years.

There are many initiatives to support inter-municipal cooperation in Germany, including:

- An early approach initiated by the Bertelsmann-Stiftung together with the German Association for Towns and Municipalities (Deutscher Städte- und Gemeindebund);<sup>5</sup>
- the state of Bavaria published a short guide to arrange cooperation models; <sup>6</sup>
- the state of North-Rhine Westphalia started a cooperation-project with 4 middle-sized municipalities;<sup>7</sup>
- the state of Hessen gives (small) financial support for inter-municipal cooperation projects;<sup>8</sup>
- the state of Thuringia founded a Centre for inter-municipal cooperation;<sup>9</sup>

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4 See G. Schwarting, *Verwaltung 2025 – Versuch einer Reflexion*, in: T. Trappe (ed.), *Ausgewählte Probleme der Verwaltungsethik*, Frankfurt 2013, p. 169.

5 Bertelsmann Stiftung in Zusammenarbeit mit dem Deutschen Städte- und Gemeindebund, *Kommunale Dienstleistungspartnerschaften – mit Shared Services zu einer effektiveren Verwaltung*, Gütersloh 2007.

6 Bayerisches Staatsministerium des Innern, *Interkommunale Zusammenarbeit – Ein Erfolgsmodell mit Zukunftsperspektive*, München 2012.

7 *Geschäftsprozessoptimierung durch Shared Services der Kommunen*, Abschlussbericht 2009, [http://www.deckert-mc.de/fileadmin/pdf/B1614B01\\_Ergebnisbericht.pdf](http://www.deckert-mc.de/fileadmin/pdf/B1614B01_Ergebnisbericht.pdf) (Accessed 16.6.2013).

8 See Claus Spandau, *Kommunale Shared Services aus regionaler Perspektive*, in G. Schütz (ed.), *Shared Services* (Fn. 3), p. 38ff.

9 See <http://www.serviceagentur-demografie.de/aktuell/projekte/interkommunale-kooperation.html> (Accessed 24.6.2013).

- the Association of Towns and Municipalities North-Rhine Westphalia (Städte- und Gemeindebund Nordrhein-Westfalen) published a handbook on cooperation;<sup>10</sup>
- the Centre for Local Government Management (Kommunale Gemeinschaftsstelle) published several reports on inter-municipal cooperation;<sup>11</sup> and
- furthermore, a lot of field reports have become available.<sup>12</sup>

This article reviews cooperation between neighboring local authorities in Germany. Spatially dispersed cooperation such as (city) networks is excluded. Trans-frontier cooperation<sup>13</sup> with its specific legal attributes as well as vertical cooperation between different tiers of government is not elaborated upon either. Additionally, the scope of the study is the action of the cooperation partners – not the operational work of the cooperation body itself.

Furthermore: The concept of Shared Services is broader than cooperation between municipalities. Shared Services can include different levels of government,<sup>14</sup> private partners and/or citizens.<sup>15</sup> The latter case is known as co-production.<sup>16</sup> These aspects will not be covered in this article. The following concentrates on the horizontal form of cooperation only.

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10 Städte- und Gemeindebund Nordrhein-Westfalen/B.J. Schneider (eds.), *Handbuch Interkommunale Zusammenarbeit*, 2. Aufl. Siegburg 2012.

11 Kommunale Gemeinschaftsstelle Köln: *Bündelung von Verwaltungsdienstleistungen. Grundlagen und Erfolgsfaktoren* (KGSt-Materialien 3/2011) und *KGSt®-Handbuch Interkommunale Zusammenarbeit* (2010).

12 A very profound report is given by the four cities of Nuremberg, Erlangen, Fürth and Schwabach about actual and possible fields of cooperation. *Ergebnisse des Projekts IZ und Neu-Konzeption*, Februar 2012 [[http://www.nachbarschaftskonferenz.de/images/stories/stadtrat\\_15022012\\_sachverhalt\\_top8.pdf](http://www.nachbarschaftskonferenz.de/images/stories/stadtrat_15022012_sachverhalt_top8.pdf) (Accessed 16.6.2013)].

13 See for a more detailed discussion Council of Europe (Fn. 1), pp. 27ff.

14 See the „Job-Centres“ in Germany, a joint body formed by the Federation and single counties or cities.

15 See G. Schütz/P. Pfisterer, *Inhalte der Shared Services-Konzeption*, in: G. Schütz (ed.), *Shared Services* (Fn. 3), p. 13, figure 1.

16 See Elke Loeffler et al. (eds.), *Making health and social care personal and local: Moving from Mass Production to Co-Production*, Governance, Birmingham 2012.

## II.

The rationale for cooperation between local authorities can be manifold. In most cases, it is not one single factor that leads to the joint supply of services, but several:

1. The efficiency of public service provision can be increased by capturing economies of scale and reducing idle capacities;<sup>17</sup>
2. The rising complexity of many local services and tasks calls for specialization and knowledge bundling. This is impossible in small local administrations where the single employees have to handle different operations simultaneously (multi-functional workplaces);
3. Demographic change in many places leading to a slowly shrinking labor supply; the public sector, especially local authorities may soon be faced with workforce shortages; moreover, the population size of many municipalities will go down requiring a reorganization of public services;
4. Some services call for a high standard of performance which cannot be met at acceptable costs by a single local authority. For instance, the safety standards of IT-processes have increased rapidly. Only big IT-centers can bear the costs required to guarantee the required safety;
5. The habits of citizens do not end at the boundaries of the single local authority: Commuters work and live in different places and many public establishments such as theatres, museums or even swimming pools have a catchment area much larger than the city itself;<sup>18</sup>
6. The development of e-government opens new possibilities for cooperation because spatial-temporal distances between workplaces disappear;<sup>19</sup>
7. Last but not least, cooperation is an alternative to the merger of communities or the delegation of tasks to a higher level, e.g. the county.

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17 For example, a fire brigade can protect a certain number of buildings and roads; this may cover the area of two neighbouring municipalities. For a further discussion see Council of Europe (Fn. 1), pp. 17ff.

18 This is the well-known case of „spillover-effects“.

19 A good example is the establishment of points of single contact following the Directive on services in the Internal Market 2006/123/EC, 12th December 2006. At this point the service provider can get all information he needs about the market in the specific state; moreover, the point of single contact is not restricted to information. The service provider can get its required permissions from this “bundling institution”. See also the reference to Italy in Council of Europe (Fn. 1), p. 18.

But, another consideration needs to be introduced. Some cooperation is not done voluntarily between two or more municipalities but is instead forced by law.<sup>20</sup> In the 1970's and 1980's the state of North-Rhine Westphalia established regional IT-centers and every local authority had to join this special purpose association. Another example are the two associations in Rhineland-Palatinate responsible for the procurement of public transport by train. However, forced cooperation is not an issue of this paper which focused on voluntary cooperation only.

The international legal basis for inter-municipal cooperation can be found in the European Charter of Local Self-Government:

#### Article 10

##### Local authorities' right to associate

*1. Local authorities to be entitled, in exercising their powers, to co-operate and, within the framework of the law, to form consortia with other local authorities in order to carry out tasks of common interest.*

...

In Germany inter-municipal cooperation is based on article 28 of the German Constitution and the corresponding articles of the State Constitutions.<sup>21</sup> Moreover, every State has a specific law defining the framework of inter-municipal cooperation. Article 1 of the cooperation-law in Rhineland-Palatinate states<sup>22</sup> that municipalities

- are allowed to cooperate with each other,
- can choose among different forms of cooperation as set by public law and
- have the possibility to establish private enterprises with other local authorities.

Additionally informal cooperation can take place too. The possible forms of cooperation are shown in Figure 26.1.

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20 Some countries with a strong position for the Central Government in initiating cooperation are mentioned in Council of Europe (Fn. 1), p. 12.

21 See the Declaration of the Government and the Associations of Local Authorities in Niedersachsen, signed 25th February 2008: [http://www.nlt.de/pics/medien/1\\_1204037158/Erklaerung\\_Endfassung.pdf](http://www.nlt.de/pics/medien/1_1204037158/Erklaerung_Endfassung.pdf) (Accessed 23.6.2013).

22 Landesgesetz über die kommunale Zusammenarbeit Rheinland-Pfalz vom 22. Dezember 1982.

**Fig. 26.1: Forms of Inter-Municipal Cooperation (IMC)**

	<b>Legal Basis</b>	<b>Tasks</b>	<b>Duration</b>
Working Committee	Public Law	consultation	not defined
Treaty	Public Law	single purpose	to be defined by treaty
Association	Public Law/ Statute	single purpose <sup>23</sup>	long-term
Public Law Institution	Public Law	multi-purpose	long-term
Public Enterprise	Private Law/ Statute	multi-purpose	long-term
Round Table etc.	informal	consultation	not defined

Informal cooperation has gained much attention over the last decades. As one study put it “... nowadays, in a number of Western European countries light associations, networks and contracts are often replacing previous solutions based on structured patterns of IMC ...”<sup>24</sup> “In France, ... there are inter-municipal arrangements (ententes), agreements (conventions) and conferences.”<sup>25</sup> Similar round-tables, ad hoc groups, and regularly held mayoral conferences are quite common in Germany. Their main purpose is to adjust development plans, events or investment intentions within the region; but informal cooperation can also be used to bundle and articulate common concerns to higher levels of government. Moreover, meetings of mayors and other representatives from municipalities can help to build up regional identity and/or regional responsibility.

Informal meetings are open to other stakeholders in the region too and anybody can join and leave a cooperative endeavor at any time. This leads to a low level of commitment. Generally speaking, round-tables etc. are a means for consultation and not for decision making. However sometimes, regional

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23 Rhineland-Palatinate also allows for multi-purpose associations.

24 G. Citroni/ A. Lippi/ S. Profeti, *Remapping the State: Inter-Municipal Cooperation through Corporatisation and Public-Private Governance Structures*, *Local Government Studies* Vol. 39 2013, p. 211.

25 Council of Europe (Fn. 1), p. 11.

meetings can be the core for more intensive cooperation. The formation of the city-network of Nuremberg-Erlangen-Fürth-Schwabach is a good example. A further step might be the formal institutionalization of a metropolitan region, but one which retains autonomous local authorities.<sup>26</sup>

However, the great majority of inter-municipal cooperation is done in a formal context. The choice of the suitable form depends on numerous different factors such as

- supervision by a higher level of administration,
- the flexibility to change tasks and members,
- accounting rules,
- the responsibility of actors, and/or
- the possibility to delegate mandated powers.

Of course, if private stakeholders join then the cooperation must take a form within private law. “Most countries have opted for a mixed model of inter-municipal co-operation involving both, public-law and private-law bodies, the former chosen for their democratic legitimacy and reliability of resources, the latter for their flexibility.”<sup>27</sup> But these are not the only considerations to be made. Practical questions should be solved before signing a treaty or deciding over a statute. Some cooperation fails because critical issues were not discussed comprehensively upfront. The partners should agree on

- the majority voting rules within the cooperative body,
- the management of the new organization,
- the responsibility to select the managers,
- the financing rules (per capita contributions or demand charges),  
and
- the service organization with respect to the municipal partners.

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26 See for the cooperation within the Metropolitan Region Rhine-Neckar Ch. Brockmann/S. Köstler, Shared Services in der Metropolregion Rhein-Neckar, in: G. Schütz (ed.), Shared Services (Fn. 3), p. 55ff.

27 Council of Europe (Fn. 1), p. 7. However, the same report shows that some countries in Europe have gone over completely to private-law entities (p. 23).

### III.

Even if Shared Service Centers for “back-office” services are at the center of current discussions,<sup>28</sup> inter-municipal cooperation is still most prevalent in more traditional fields. Unfortunately the official statistics in Germany include no data on inter-municipal cooperation. Only the total number of associations under public law is published by the statistical office. They amounted to 1,095 in 2009.<sup>29</sup> No official information is available about the fields of operation and equally little knowledge exists about inter-municipal cooperation through private enterprises.

Hence, other sources must be used. In 2004, a study by Kienbaum Consultants gave an overview of the main sectors of inter-municipal cooperation. These were

- regional marketing and tourism,
- water supply and sewage treatment,
- information technologies,
- promotion of economic and labour market development, and
- spatial planning and development.<sup>30</sup>

This is the latest comprehensive statistical information available.

For Italy, a new study gives some insights into inter-municipal cooperation through private companies. Even though the study covers only 6 regions, the importance of this form of cooperation is obvious: The authors report that 78% of the municipalities are involved in inter-municipal cooperation through corporatization. The average number of municipalities holding

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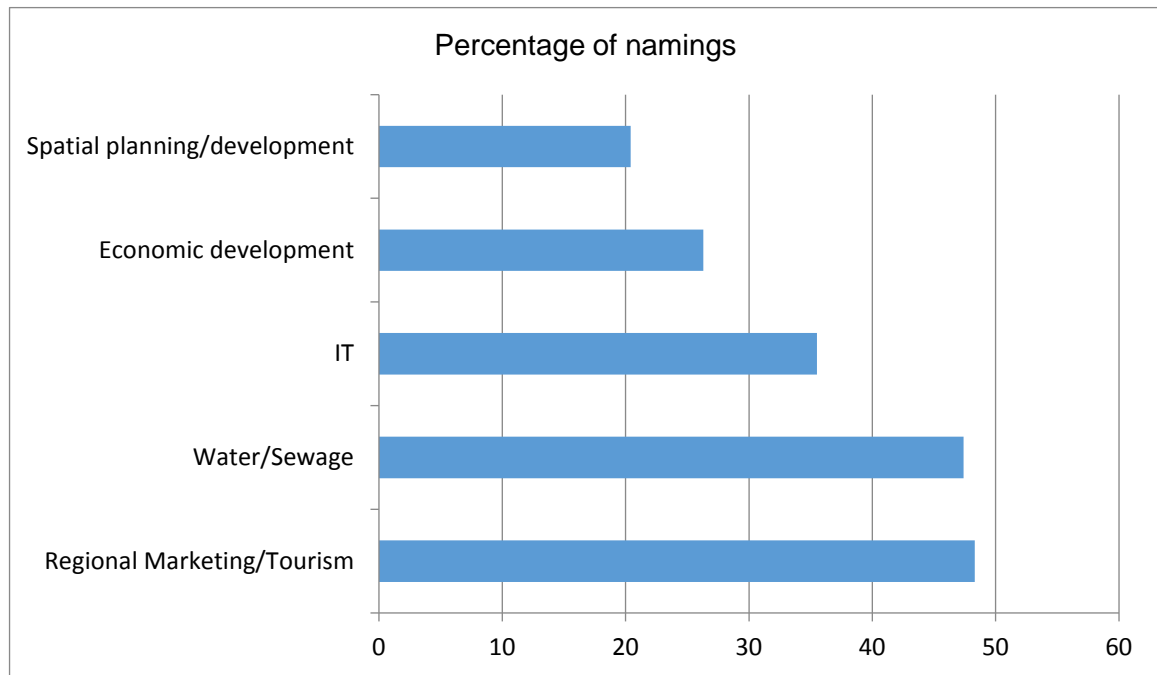
28 The pilot project in North-Rhine Westphalia had five sub-projects: Procurement, Public Real Estate, Building Yard, Bookkeeping and Outstanding Payment Requests, and Staff Management.

29 N. Heil/P. Mödinger, *Ausgewählte Struktur- und Bilanzmerkmale öffentlicher Fonds, Einrichtungen und Unternehmen*, *Wirtschaft und Statistik* 4/2012, p. 344.

30 The results are taken from Friedrich-Ebert-Stiftung, *Interkommunale Zusammenarbeit – Handreichung für die Kommunalpolitik*, Bonn November 2008, p. 27, [www.library.fes.de/pdf-files/akademie/kommunal/05825.pdf](http://www.library.fes.de/pdf-files/akademie/kommunal/05825.pdf) (Accessed 23.6.2013). The survey covered 350 local authorities with more than 10.000 inhabitants.

shares in these companies is 9.1, often with provinces and regional territories as additional shareholders.<sup>31</sup>

**Fig. 26.2: Fields of inter-municipal cooperation in Germany, 2004**



Source: see Fn 31

#### IV.

The advantages of and the requirements for inter-municipal cooperation are described by many scholars. For four towns in North-Rhine Westphalia<sup>32</sup> a financial benefit of 1.5 million Euros per year was reported.<sup>33</sup> However, the use of the instrument is still far from realizing its full potential: "... in many parts of the fulfilment of public tasks in the public administration there is a wide gap between the possible gains in efficiency by strategic direction and the actual realization."<sup>34</sup> There must be crucial factors behind the successful development of inter-municipal cooperation that go beyond mere consultation. These are shown in Figure 26.3.

31 See Table 1 and 2 in G. Citroni et al. (Fn. 24), p. 219f.

32 See Geschäftsprozessoptimierung (Fn 7).

33 Geschäftsprozessoptimierung (Fn. 7), p. 34.

34 G. Schütz/P.Pfisterer, Inhalte (Fn. 18), p. 12. Own translation.

**Fig. 26.3: Crucial Factors for the success of inter-municipal cooperation<sup>35</sup>**

<b>Needed Factors</b>	<b>Risks</b>
Benefits	Loss of identity
Goals	Pre-step to mergers
Openness	Competition between partners
Project management	Administrative culture
Resource planning	Too many partners involved
Management of conflicts	Uncertainties about the legal framework
Leadership	
Short-term results	
Evaluation	
Promoters	
Involvement of political actors	
Information of citizens/Transparency	
Change management	

Before the cooperation body is fully operational it is necessary to weigh the expected benefits against the transition costs. Naturally, the net benefit must be positive for all partners. The partners should agree on the same goals for the cooperation and they should be open to the current as well as potential partners. Openness also means the willingness to change their own processes and to accept new, innovative solutions. Therefore, detailed project management is necessary. One must keep in mind that inter-municipal cooperation is not an ad-hoc decision but a long-term project. Thus, all the well-known instruments of project management should be applied.

To develop cooperative endeavors, resources – both financial and human – are needed. Part of the staff has to plan and prepare the project by identifying the necessary changes. As the adoption of new or the merging of existing IT-programs has a cost, the transition period should be as short as possible. Also, bringing together different people from different administrations

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35 Based on Friedrich-Ebert-Stiftung (Fn. 31), p. 77ff.

all whom are accustomed to their existing work-flows can lead to misunderstandings. Hence, project management must be supplemented by conflict management, which leads to another management aspect. The transition from the old to the new situation will not happen automatically – change management is needed.

Inter-municipal cooperation is successful if it has high-ranking promoters, preferably the mayors themselves. But promotion is not everything; these individuals must also show leadership and “keep things on track”, even in difficult situations, and must help to overcome sudden obstacles. Additionally, inter-municipal cooperation is not an arrangement between administrations only. Political actors must be informed early on as in the it is they that have to decide if cooperation takes place. Of course, also citizens are affected by some – although not all – fields of cooperation. If this is the case then they should be informed too and perhaps their participation will be necessary as well.

Nothing promotes the acceptance of and support for a project like its success. Therefore, a project should have some very short-term positive effects to encourage the acceptance that the changes require to realize further and full success. However, early successes are naturally not an alternative to a full evaluation after a certain period of time. Such evaluation should also be the basis for the further improvement of the cooperation.

If this evaluation has negative results, a problem arises. The partners have given away their capacities and knowledge to the cooperation body and to get the tasks back into their own administration, further transition costs arise. Thus, the project should have answers to problems that arise in the event of its failure (“worst-case-scenario”) and how to rebuild “lost” structures.

Furthermore, some risks or obstacles have to be considered. If a local authority gives away any task, this constitutes a (albeit small) loss of responsibility and identity. The newly created inter-municipal body is another step in the principal-agent cascade, making the distance between the original principal – the citizen – and the operating organization even greater.<sup>36</sup> Moreover:

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36 See on the cascade-model, for example, G. Schwarting, Public Corporate Governance Codes: Necessary but successful too?, *Halduskultuur – Administrative Culture* 14, 2013, p. 149.

“... the members representing the municipalities are not directly elected and procedures to ensure democratic local participation are few and little used.”<sup>37</sup>

Naturally, all partners are involved in the decisions of the cooperation body. However, they do not act autonomously but in cooperation with others. One of the crucial questions in the North-Rhine Westphalian project<sup>38</sup> was the organization of the winter road services (“where will snow removal be done first?”). Another problem arises from the different administrative cultures that are supposed to now work together. Even among municipalities such differences can appear, with one administration following, for example, the traditional hierarchical model and another using the principles of New Public Management.

As territorial reforms are currently being discussed in some states, cooperation is often seen (and feared) as a kind of pre-merger.<sup>39</sup> It is necessary to convince stakeholders that cooperation is just the opposite – successful cooperation can be an alternative that helps to avoid mergers. A second observation is that promoters of cooperation often neglect potential competition between the partners. A good example is tourism. Joint marketing might be helpful to position a region in the market; but every municipality expects that it will benefit the most. The number of partners can be a problem too. If the number of partners exceeds a critical number, then the costs of getting results might rise exponentially and sometimes no consensus can be reached on taking a given action.

Lastly, there are two very European problems. First, there has been a long discussion of whether inter-municipal cooperation has to obey the rules of public procurement. If this would be the case, the forming of cooperation bodies would be more complicated and take longer. Second, it is not clear if the services provided by the joint body to the municipalities are subject to value-added taxation.

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37 Council of Europe (Fn. 1), p. 8. In Public Transport there are some examples of advisory boards formed by the customers.

38 Geschäftsprozessoptimierung (Fn 7).

39 For the policy of reducing the number of municipalities see Council of Europe (Fn. 1), pp. 15ff.

## V.

“Intermunicipal co-operation is generally based on local authorities’ wishes in all countries. This is a common fundamental principle; local authorities generally take part on terms which they themselves set in the statutes governing intermunicipal cooperation, which cover such matters as winding up or withdrawal from the entity. The municipalities are represented in the intermunicipal body ... often according to their population size and sometimes according to the size of their financial contribution. In general it is possible for municipalities or local entities to refuse co-operation, if only through non-participation, or to reject a project.”<sup>40</sup>

As this short article suggests, inter-municipal cooperation serves as an instrument to improve the efficiency and quality of public service provision. It can help to overcome inadequate municipal structures without mergers or the delegation of tasks to a higher administrative level. However, inter-municipal cooperation is not a panacea for very local problems, especially fiscal ones. “Secondly, in all European Countries IMC strategies and patterns of cooperation are not selected once and for all, rather, they change across time depending on the juncture of several factors, both endogenous and external to the domestic institutional system: shifts in the composition, scope, institutionalization and flexibility of IMC settings can be in fact the effect of national reforms of local governments, or a response to new European requirements and guidelines for the delivery of specific services, or again the result of specific local needs, or a mix of the three.”<sup>41</sup>

An example of a new paradigm in inter-municipal cooperation might be the slowly growing share of joint bodies under private law. In Italy a clear preference for the forming of inter-municipal companies can be seen: “The success of corporatization with respect to other varieties of IMC mainly rests on its bottom up/voluntary nature and on its greater flexibility as far as the composition, scope and organizational features of cooperation are concerned ... In addition corporatization looks more appealing than contracting-out and public-private partnership (PPP) pure and simple, on the one hand because it allows municipalities to maintain political control over the providers, and on the other because it guarantees a framework for cooperation which is more stable than ad hoc PPP agreements.”<sup>42</sup>

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40 Council of Europe (Fn. 1), p. 30.

41 G. Citroni et al. (Fn. 24), p. 211.

42 G. Citroni et al. (Fn. 24), p. 230.

Annex taken from “Local Governments and Public Service Reform Initiative/United Nations Development Program/Council of Europe, Toolkit Manual – Inter-Municipal Cooperation 2010”<sup>43</sup>

### **„THE CHARACTERISTICS OF IMC**

- *IMC is about two or – more typically – several municipalities working together.*
- *By cooperating, partner municipalities agree to work together at some cost to produce new benefits for each of them that would be unavailable through isolated and unilateral action.*
- *The joint effort may concern one or several domains falling within the legal competence of the municipalities. The law can specify that certain competences given to municipalities cannot be transferred to IMC (e.g. State competences delegated to the Mayor).*
- *Cooperation has a cost for each partner municipality: it needs effort, financial contributions and sharing resources (staff, land, machines, buildings, etc).*
- *IMC is the result of a deliberate decision and not just the mechanical implementation of a legal provision. Agreement is voluntary, rather than imposed by the law, although the law may sometimes strongly encourage or even oblige municipalities to look for co-operative solutions.*
- *“New gains for the partner municipalities may have different characteristics, such as: creating the capacity to provide services which cannot be delivered by a small municipality, saving on costs of service delivery, improving service quality, better coordination in development planning, more efficient and visible development policy.*
- *Cooperation is not incidental; it has a certain duration and is most often a permanent arrangement with an undefined expiry date.*
- *There is no permanent transfer of local tasks or competencies; municipalities keep indirect control over the decisions and services that result from cooperation.”*

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43 Local Governments and Public Service Reform Initiative/United Nations Development Programme/Council of Europe, Toolkit Manual – Inter-Municipal Cooperation 2010, p. 8.

## **Implementation of Citizen Participation in the planning Process of Infrastructure Projects – from Participation of concerned Citizens to participatory Governance**

Jan ZIEKOW

The question of which role the citizen should play in the decision-making process of the government and government service delivery, beyond voting in elections, is a core topic of discussion in public administration regardless of the respective political system of the specific state. The terms applied are as numerous as the contexts from which they come and the content of their substance. Among them the terms participatory governance, collaborative governance and social accountability<sup>1</sup> are presently especially pervasive, yet this list could be easily completed by many other examples.

### **1. Participatory governance as the government's task**

First of all, the question of who is responsible for the establishment and implementation of citizen participation is of major significance: Are the citizens themselves responsible for raising their voices and contributing to public development? Or does the government have the duty to at least make sure its citizens are granted the opportunity to participate?

The German model of the “Gewährleistungsstaat” (ensuring state) leads to the fundamental conclusion that the content of the common good cannot be maintained only by the unilateral actions of the government; rather it needs to be supported by the cooperation of both government and private actors.<sup>2</sup> The “Gewährleistungsstaat” is basically designed to distribute the roles for the fulfillment of public duties.<sup>3</sup> The idea of shared responsibility results from the insight that the state has a responsibility to shoulder its task in cooperation with society. Therefore in Germany we can speak of a partnership between state and citizens with common responsibilities.<sup>4</sup> Yet the model

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1 Cf. Ziekow 2011b: 1 ff.; Ziekow/Longo 2013: 3 ff.

2 Ziekow 2009a

3 Pitschas 1990: 237 f.; Saladin 1984: 161; Ziekow 1997: 386 ff.; Ziekow 2009b.

4 Pitschas 1990: 237 f.

of shared responsibility entails two aspects: on one hand a division of work between government, semi-government and private actors for the fulfillment of public interest tasks, on the other hand the organization of cooperation arenas to realize this work division.<sup>5</sup> Consequently, shared responsibility does not mean a single allocation of tasks to be completed, rather it has to be dynamically adapted to the needs of the differently-faceted rationales.<sup>6</sup>

Regarding "citizen-participation", there are two core aspects that can be derived from the concept of the "Gewährleistungsstaat": Firstly, the citizen has a fundamental responsibility for the realization of the public welfare; therefore citizen engagement is not a gratification dependent on the state's disposition (goodwill), but a fundamental right and, simultaneously, a fundamental duty of the citizen. Secondly, it is the task of the government to coordinate the contributions of government institutions and the actions of citizens. The state can only exercise its legitimatory responsibilities to ensure public goods if it constructs supplementary arenas to maintain its legitimacy. Any deficits in responsibility of state institutions must be compensated for by enlarging the frame of responsible actors. The need to maintain the prospective legitimacy of state institutions requires the inclusion of lateral legitimation patterns under the final responsibility of the state. This government task constitutes a core element of participatory governance.

## **2. The problems of citizen participation in developing infrastructure and industry projects**

One aspect out of the numerous complex tasks of participatory governance that is playing a major role in Germany lately is citizen participation in the authorization process of infrastructure and industry projects and their changing role herein. The trigger for this development comes down to one particular project. Whilst the political discussion about the enhanced involvement of citizens goes back a long time, and was discussed especially intensively in the late 70s and 80s of the last century, the current impulse was driven by the reconstruction of the Stuttgart main railway station (into a through station). The authorization of this project, known under the name of "Stuttgart 21", was already applied for by Deutsche Bahn almost 20 years ago. As with all

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5 Hoffmann-Riem 2000: 52; Trute 1999: 13.

6 Trute 1999: 13 f.

large transport projects, extensive administrative procedures, the so-called "Planstellungsverfahren" (planning proposal process), have to be carried out also for the reconstruction of a big railway station.

In such a process the responsible authority has to set forth not only the *pros* but also the *cons* of the project applied for, and then analyze and decide if, and if yes, how the project can be constructed.<sup>7</sup> In this procedure all other authorities that are responsible for the expert aspects, e.g. experts in water protection, must be consulted. Further, the local communities affected by the project as well as environmental protection associations can submit their opinions. Additionally, all documents concerning the project have to be publicly displayed for a certain amount of time and, additionally, be published on the internet. Thus, every citizen whose own interest is affected by the project can raise objections. Citizens thus can submit the argument that, for example, their interest to not be subject to the traffic noise caused by the trains is at stake and has to be considered adequately. The objections of the citizens then have to be orally discussed in a hearing ("Erörterungstermin"). Here, the citizens have the opportunity to explain again what is important to them and respond to questions by the project initiator and responsible authority concerning the citizens affected interests.<sup>8</sup>

This complex procedure for the participation of those concerned was carried out also in Stuttgart. At the end of the procedure the authority came to the conclusion that the railway station could be constructed and decreed its respective decision. There were then some appeals before the Courts against this decision, thus altogether it was quiet for a long time before the construction actually started. At that time heavy resistance broke out against the reconstruction of the railway station. This led to the nomination of a former Federal Minister as a mediator and, after the voting out of the current state (regional) government, to the holding of a plebiscite on the project financing. Eventually, the plebiscites approved the reconstruction of the railway station, which is now underway.<sup>9</sup>

Apart from the plebiscite, there was nothing special about these processes, as there have long been citizen protests against projects such as airports, railway stations, roads or power plants. Whether referred to as mediation or arbitration or something else, these procedures to solve such conflicts

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7 In detail: Ziekow 2004: 2007 ff.

8 Ziekow 2012: D 34 ff.

9 Further to the Stuttgart 21 conflict cf. Brettschneider 2013.

were often carried out.<sup>10</sup> What made the characteristics of the protests in Stuttgart significantly different was the fact that citizens were fighting only in parts for their own interests. There were other reasons for protest centered around different values and general common concerns such as historic building preservation, transport concepts, the use of public funds, and (esthetical) urban planning. Obviously these aspects were not given enough consideration during the planning proposal process.

The reasons for this failure are rooted in the (German) culture of administration. In a state governed in keeping with the rule of law, different opinions are almost in every case perceived as legal conflicts. These do not deal with preferences or different perceptions of technical-scientific issues (facts), but solely verify if the administration stuck to the legal framework.<sup>11</sup> To bridge the conflicts of interest at least for some of the cases, these conflicts are converted to legal forms of decision-making by means of “legally protected interest”.<sup>12</sup> This results from the fact that interests are often only perceived in those cases in which they are formulated as an individual law from the very beginning, even if this is not adequate. Because of this fact, it is not uncommon that the actual interests, which are not converted to “legally protected interests”, are not recognized as being such.

To an even greater extent this applies to the identification of value conflicts and the way of coping with them.<sup>13</sup> The existence of value conflicts is not reflected in administrative procedures. In so far as value decisions have to be taken, on the political level, they are taken at the moment of decreeing the applicable regulations. Even in cases where it is actually not a conflict on the value level, it often occurs that the actual interest of the respective party is estimated as not important enough or is deemed as unacceptable. In such cases, very often common interests are used as a tool to assert individual interest or the issue is even transferred to the value level to justify it as a value conflict and thereby build up political pressure and to demand a greater say.

Consequently, this way of acting leads to structural “speechlessness” between administration and citizens. Communication processes can be put in

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10 Cf. for the example of Frankfurt Airport Geis 2005; Gohl/Meister 2012. For the example of the pumped storage plant Atdorf Ewen/Gabriel/Ziekow 2013.

11 Further to the different administrative cultures cf. Jann 2000; König 2007.

12 Further to this model cf. Henke 1968.

13 Further to the importance of classifying different types of conflicts for citizen participation cf. Ewen/Gabriel/Ziekow 2013: 31 ff.

practice by the administration only as provided for by law. Obviously, an authority shall not be prevented from informing the citizen and talking to him/her and, of course, this is done in daily administrative practice. Yet in order to avoid committing procedural errors the administration has to clearly point out the limits to that communication.

In consequence, the administration's competence and will to present matters of public interest adequately and fairly is contested by citizens. Yet instead, the authorities are not uncommonly attributed the role of the "attacker", especially when major infrastructure projects are being realized. It may be that they are regarded as "sitting in the same boat" with the developer of the project or that they are deemed to have ignored matters of individual or common interests. This results in a problem for the authority when it must hold a debate between multiple parties in which it also needs to "defend" itself.

### **3. From participation of the affected to participatory governance**

From the problems described it has to be concluded that, to date, the approach of the German administrative system to hearing the affected citizens, i.e. involving those citizens who assert that their own rights are affected, does not go far enough.

Rather, it is necessary to make use of an approach that is based on the model of participation and that does not cover only the relevant actors under the criterion of their legally allocated function but on their actual roles. Perhaps in theory there might be the "typical" administration, the "typical" citizen and the typical "project developer", but the reality is much more multifaceted. Within an administrative process for the authorization of large infrastructural projects not only one authority is involved, but many different ones, and in many cases even authorities from different administrative levels (federal government, "Länder" governments, and municipalities). The same heterogeneous image is reflected by the citizens. Here you will find, on one hand, the affected citizens who are against the project because their own rights are affected. On the other hand, there are persons who try to prevent the project from being realized because of its overall aspects. But there are also advocates of the project who often have little chance to be heard and there are civil society organizations who want to emphasize only certain aspects of the project. And finally, there is a wide range of different project developers, from enterprises whose shares are held completely or predomi-

nantly by the government and large international strictly profit-oriented corporations to medium size private sector enterprises that are anchored in a certain region and therefore have to give due consideration to their actions.<sup>14</sup>

The core element of the needed approach is the personal common interest in participating that brings all these actors together in one overall system of participatory governance: The citizens who want to give their concerns a voice, the project developers who want to explain their project and get the chance to overcome any possible resistances, and the public administration who is interested in avoiding opposing fronts and administrative procedures with (larger) political dimensions.

Now, what is the objective of implementing such participatory governance? The central aim is to increase the transparency of the authorization process where large projects are concerned and simultaneously avoid conflicts. This results in the relief of the actual planning or authorization procedure by decreasing the number of disputes arising in judicial or administrative proceedings.<sup>15</sup> Another expectation linked with the policy of early involvement of the public can be described by the term “creation of acceptance”.<sup>16</sup> What participation cannot guarantee is what politicians desire most, and that is *result acceptance*. Opponents of a project will not convert into advocates simply by the means of participation. *Procedural* acceptance means that all persons and institutions involved in the project can point out their concerns which will then followed by a thorough and open discussion. Thereby the authorization procedure as a whole will be perceived as fair, even if it does not lead to the preferred outcome of the individual. The *solution of conflicts* should not be used to define success here. Sometimes such solution is possible, but not always. Therefore we should only talk about conflict *mitigation* – the conflict intensity or extensity will be kept at a lower level as it would have been at without participation. Additionally, by providing early suggestions a participatory procedure can improve the quality of the application for the future project.<sup>17</sup>

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14 Further to the heterogeneity of actors cf. Ziekow 2012: D 68 ff.

15 Draft of a law for the improvement of public participation and the standardization of planning procedures, Deutscher Bundestag – Drucksache 17/9666 S. 15.

16 Draft of a law for the improvement of public participation and the standardization of planning procedures, Deutscher Bundestag – Drucksache 17/9666 S. 15.

17 Schmitz 2012: 1458. Further to the purposes of public participation cf. Ziekow 2012: D 14 ff.

Compared to this, the disadvantages resulting from broadening participation governance are less significant. The feared increase of inefficiency in administrative procedures due to citizen participation has not manifested itself. The results of the empirical analysis of several thousands of administrative procedures that have been conducted by order of Baden-Württemberg prove that public participation has only minor significance as a factor in time delays.<sup>18</sup> It might be that it is more time and money consuming to compensate for deficiencies in communication by the continuous ad hoc implementation of communication chains during the procedure or even more when the procedure has been finalized.

To date, several factors have been identified as key elements of participatory governance, these being:

- *Enlargement of the number of participating citizens:* The limitation of these participatory procedures to only those citizens whose individual rights are affected should be given up. It should be replaced by the wide general participation of the public in which everybody - affected or not, in favor or against the project - can participate.
- *Information:* a model of citizen participation where only the project developer and the authorities know how the project shall function, while the citizens barely comprehend what it is actually about, does not make sense. Project developers and authorities therefore have the duty to provide information and answer questions.
- *The right time:* The experience with participatory procedures in Germany has shown that citizens are always disappointed and annoyed if they have the impression their participation only serves as an “alibi” and that all important decisions were actually made long ago. One example for such an important pre-decision is the location of the project: It is not uncommon that there are several possibilities for the location of an infrastructure project. The project developer then examines which location is the most favorable from their point of view and submits an application for the authorization of the project. However, it might be the case that from the citizens’ point of view another location would have been much better and that they would not have opposed the same project being constructed at another location. Very often, however, they are only actively involved after this decision has already been taken.

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18 Ziekow/Oertel/Windoffer 2005: 121 ff., 211 ff.

- *Continuation:* As the example of the Stuttgart main railway station has recently shown, in order to realize participatory governance it is not sufficient to apply citizen participation at any time (during the procedure) and to thereafter leave citizens out of it. If it takes several years between the first level of citizen involvement and the next level of participation or the decision about the application, the dialogue will come to a full stop. This should be avoided by introducing a so-called integrated participation procedure. The integrated participation procedure follows directly from the aforementioned early citizen participation and ensures the progression of the administrative procedure accompanied by simultaneous citizen participation, even during the construction phase. This does not mean that new meetings have to be held constantly; an internet forum or a round table held at certain time intervals would do very nicely.

For a legalistic system, i.e. an administration exhibiting strict adherence to the law like the German one, the typical first step would be to regulate issues by law that have not been previously regulated. In June 2013, such a regulation was implemented under Article 25 (3) of the Federal Law on Administrative Proceedings (VwVfG). Per this provision all major projects are now subject to so-called early citizen participation. This early citizen participation will be conducted even before the project developer has submitted their application. This prevents the authorities from using the, previously quite common, (legal) defense that they cannot make space for citizen participation as they are not responsible before the application has been submitted. Thus, Article 25 (3) VwVfG no longer allows the authorities to refer to a non-existing responsibility due to the non-existing submission of the application; they can no longer escape from providing for early civic participation before holding the application in their hands. This provision explicitly confers the responsibility to provide such participatory opportunities prior to the beginning of the authorization procedure.

However, the possibility of self-conducted early citizen participation by the authority is not mentioned in the provision. Therefore, it can be concluded that the legislation wants to stress mainly the responsibility of the developer to offer early citizen participation. This reflects the role perception of the authorities dealing with authorizations. According to this perception they see themselves as neutral institutions responsible for the performance of government procedures and are unwilling to be made jointly liable for the

announcement of a private project.<sup>19</sup> An early citizen participation is therefore only implemented by the authorizing authority if the aims pursued as per article 25 (3) VwVfG would be massively missed. This will particularly be the case where a remarkable conflict potential is already apparent but the project developer is unwilling or unable to offer early citizen participation that complies with the goals of the provision.

The way in which early citizen participation is conducted is in principle at the discretion of the project developer. However, Article 25(3) VwVfG sets minimum binding standards for the details of early citizen participation. According to these, the project developer has to inform the public about certain contents and to give citizens the chance to express their views on them. A central element consists of a critical discussion of the project with the affected public. The term “discussion” signals an oral discourse. Only such direct exchange of views provides the opportunity to set out the respective interests and come to a common agreement in order to avoid later disputes, thus meeting the objective foreseen by early citizen participation. Using, for example, only electronic communication will not achieve the desired result.

#### **4. Conclusion**

In conclusion I would like to take up a question which in Germany is asked again and again: Isn't it very expensive to implement such a complex participatory governance? Is this the right way forward, especially given the recent financial crisis? Certainly at the beginning these new approaches will raise implementation costs, but these will decrease significantly during and after the process of establishing the respective routines of participatory governance. Of more importance, though, is the German experience that an early resolution of disputes in the long term will be much cheaper for the administration (as well as for enterprises) than public disputes and long lasting court battles, not to mention the benefits for the political system generated through the acceptance by the citizens.

In this context I would like to counter one misconception: At least in the German case we can reject the view that the increased use of participatory governance is an expression of a systemic crisis that urgently needs to recur to extra-parliamentary patterns of legitimation in order to avoid a collapse.

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19 Further to the dangers of this role assignment see Ziekow 2012: D 71 f.

In light of the broad consensus regarding the enlargement of citizen participation during the process of project planning and its authorization, its expansion has more to do with the sovereignty of a “mature democracy” and an impulse to consider its own revitalization: “democracy is a continuum and not a binary condition of either democratic or not”.<sup>20</sup> From such a perspective the inclusion of elements of citizen participation is a tool to complement the parliamentary representative system and plays the prospective role of a system stabilizing component.

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20 Charles 2010: 157.

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## **4. LOCAL GOVERNMENTS AND REFORMS AFTER THE ECONOMIC AND FINANCIAL CRISIS**



## Consequences of the Economic and Financial Crisis for Public Administrations in Germany

Gisela FÄRBER

### 1. Introduction

The economic and financial crisis that began in 2008 and that saw the most severe economic disturbances for most industrial and newly industrializing countries since World War II was surprisingly quickly overcome in Germany. Despite the hope that the other European countries fighting against the crisis by means of Keynesian economics would recover in a similar way, this was not to be. In particular, in the South European countries and Ireland the banking crisis required billions of Euros to prevent the financial institutions from collapsing, which led in turn to the Euro debt crisis, which continues to this day.

When observing the stabilizing activities of the different levels of government in Germany and the resulting development of budgetary revenues and expenditures, the question arises as to whether the effects of the crisis on public budgets in Germany can be measured and evaluated with regard to intergovernmental relations. Of particular interest is whether the three levels were hit in different ways and whether horizontally there were varying implications that can be connected to the crisis. As the crisis caused budgets to run into deficits due to lost tax revenues and increased expenditures for programs combatting recession, the budget deficits and the interest payments that accrued onto of the existing public debt will be used as main indicators for a quantitative analysis. They give a better picture of the costs of the crisis for public administrations than the deficits themselves because they take into consideration how the Bund, the Länder, and the local authorities – the latter also compared within their level of government – differ with regard to increased tax revenues and rebalancing their budgets. Budgetary burdens counted as interest payments relative to tax revenues in 2020, when not only the Federation<sup>1</sup> but also all states must have balanced budgets, serve as the measure for the burdens of the German crisis running from 2008 to 2010.

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1 The debt of the Bund is limited to at most 0.35% of GDP from 2016.

This contribution measures the budgetary effects that the initial crisis had for German governments and tries to identify those of the Euro debt crisis as well. A further part of the paper deals with the question of whether structural reforms protect countries against hazardous speculations in the financial markets and whether Germany needs further reforms to ensure its stable economic development in the future.

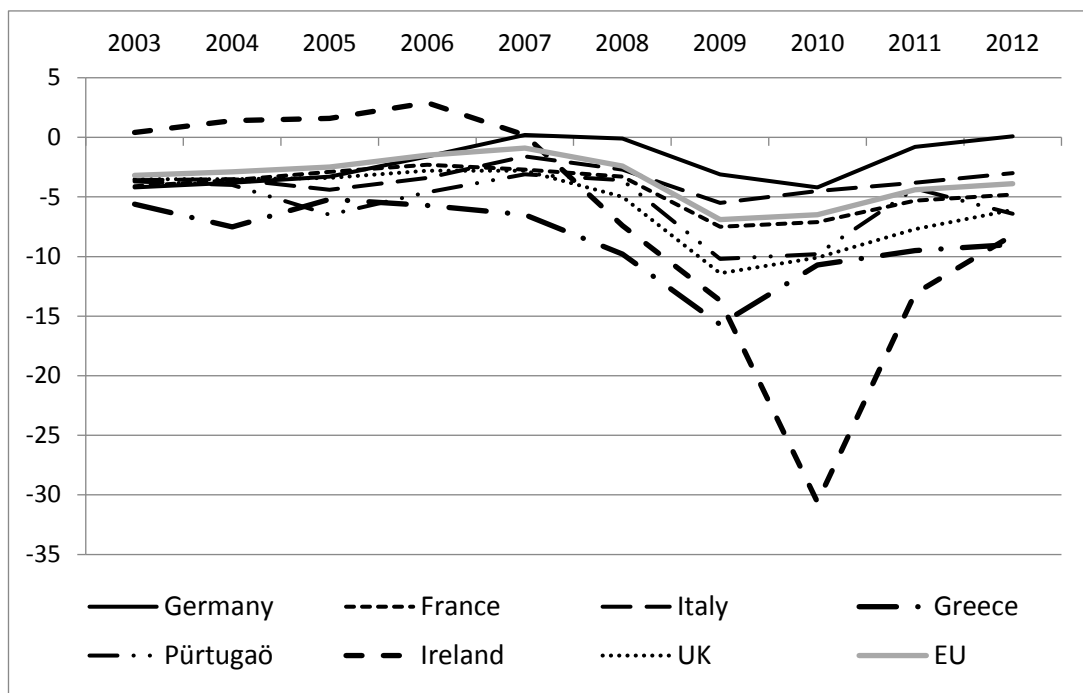
## **2. Dimensions and causes of the recent financial, economic and Euro debt crisis**

The collapse of Lehman Brothers on 15 September 2008 is considered as the formal starting point of the financial and economic crisis, even though the problems within the financial markets had been developing for some time. The so-called subprime crisis was a direct result of real asset bubbles in the USA, in UK, Spain, and other countries, but needs to be considered in the context of the deregulation of the financial markets in the 1990's and resulting development of new financial 'products at that time. The policy of extremely low interest rates of the US Federal Reserve Bank in order to promote economic growth and employment - with the side-effect of reducing the enormous deficit in the US federal budget under the Clinton presidency - helped the bubbles to grow. In addition, the dominant American rating agencies failed in their task to control the risks of financial products and institutions.

The crisis in the financial sector transformed into a strong recession after the banks were no longer able to offer credit and the enterprise sector began to cut jobs. All the governments of the affected countries helped their stumbling banks, rediscovered Keynesian policies, and undertook stabilizing programs financed by debt. As a result budget deficits and thus the public debt to GDP ratios grew worldwide (see figure 28.1 and 28.2). In 2009, only four EU countries were able to keep to the 3% debt limit agreed upon for Eurozone countries.

After years of deficits only in 2006 did Germany attain a budget surplus exceeding the 3%-limit, after which it also, reduced the total public debt-GDP ratio due to an increasing surplus in 2007. However, in 2008 the crisis reversed this trend and led to a deficit of 3.6%, while in 2009 the deficit amounted to almost 5%. Fortunately an unexpected economic recovery reduced the excess of expenditures against revenues to less than 1% of GDP in 2010. In 2012, the German public sector again had a budget surplus. However, in other European countries - particularly in Southern European Euro

**Fig. 28.1: Budgetary balances in relation to GDP, selected European Union member states 2005 to 2013**



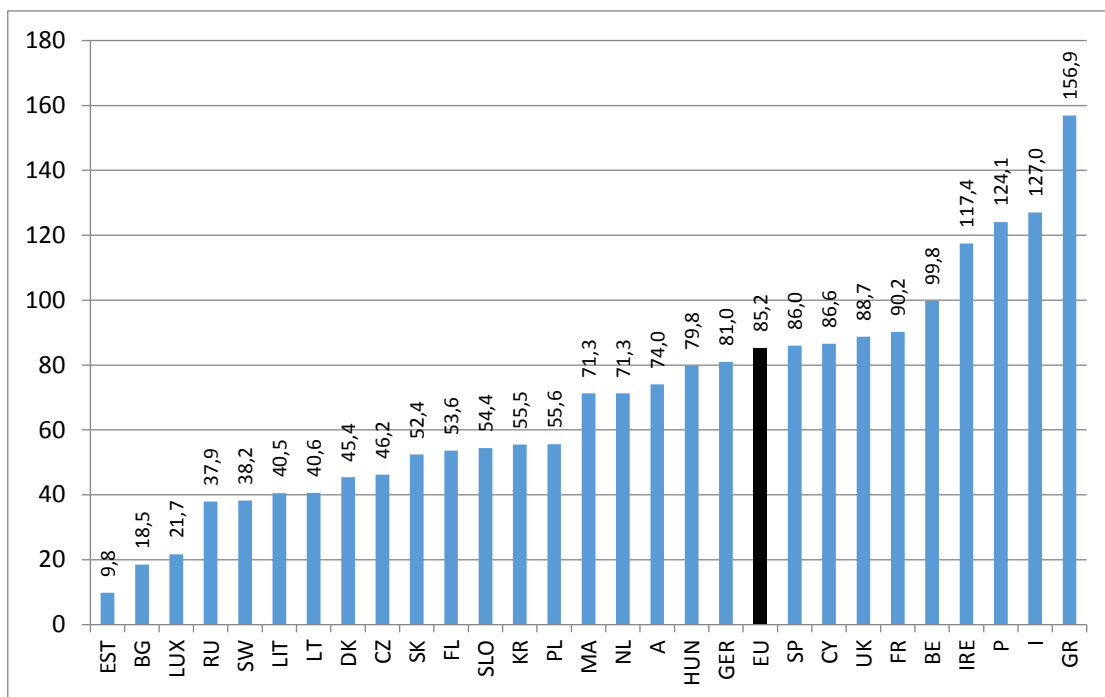
Source: European Statistical Office

countries and Ireland - the crisis continued and grew even worse when the governments could only refund their credits for old debt and fund new budget deficits at higher, even unsustainable interest rates, while the banking sector still was failing to deliver finance to the enterprise sector due to their continued existential problems.<sup>2</sup>

With regard to the total public debt to GDP ratio Germany is just below the EU average. The ratio is decreasing again while it is still growing in all countries hit by the Euro debt crisis. According to the new European fiscal compact regulations, Germany has to reduce this ratio over the next few years to below 60%; therefore, continued consolidation is still needed. Stable economic development and high growth rates will help the public debt indicator to decline, but strong fiscal discipline at all levels of governments is desirable, perhaps even necessary.

2 See Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Entwicklung: Stabile Architektur für Europa – Handlungsbedarf im Inland, Jahresgutachten 2012/13, Wiesbaden 2012, pp. 31.

**Fig. 28.2: Public debt in relation to GDP of EU member states as of the end of 2012**



Source: European Statistical Office

### 3. Financial effects of the crisis on the Bund, the Länder, and local authorities in Germany

Germany is a federal country and the budgets of the three levels of government and – in a horizontal perspective - of the regions and states were hit in different ways by the crisis. One reason for the differences is the uneven impact of the crisis due to the geographical variations in economic structure and sectoral characteristics, while a second – somewhat related – reason were diverging measures taken in response to the crisis and differing degrees of participation in the federal programs designed to stabilize regional and local demand.

#### 3.1 The financial and economic crisis of 2008-10

Table 28.1 shows the regional rates of growth from 2008 to 2011. In 2008, when the crisis started, the growth rates still remained positive but diverged strongly by region. In 2009, only Berlin registered a positive growth rate; all

other regional economies shrank on average by 4%. The biggest decline was seen in the Saarland (-9.7%) and Bremen (-8.5%), while three East German states suffered only an average decrease.

**Tab. 28.1: Regional growth rates of GDP 2008-11**

Year	2008	2009	2010	2011	total 2008-11
BW	1,1%	-7,1%	7,7%	5,2%	6,37%
By	0,8%	-2,0%	5,5%	5,2%	9,69%
He	1,2%	-5,4%	3,3%	3,6%	2,49%
Nds	2,9%	-4,2%	6,1%	4,1%	8,76%
NW	2,4%	-4,1%	4,4%	3,1%	5,78%
RPL	1,6%	-2,5%	5,5%	3,8%	8,44%
Saar	1,3%	-9,7%	5,9%	5,8%	2,44%
SH	3,3%	-2,8%	2,4%	3,9%	6,81%
HB	1,4%	-8,5%	7,1%	2,3%	1,62%
HH	3,0%	-4,1%	3,9%	1,5%	4,13%
Be	4,9%	0,7%	3,4%	2,2%	11,56%
Bb	3,3%	-2,2%	5,4%	3,3%	9,97%
MV	2,6%	-1,5%	3,2%	2,3%	6,74%
Sn	1,0%	-2,9%	4,0%	3,2%	5,22%
SAT	1,3%	-4,4%	5,4%	1,5%	3,67%
Th	0,9%	-4,0%	5,8%	3,9%	6,61%
GER	1,9%	-4,0%	5,1%	3,9%	6,76%

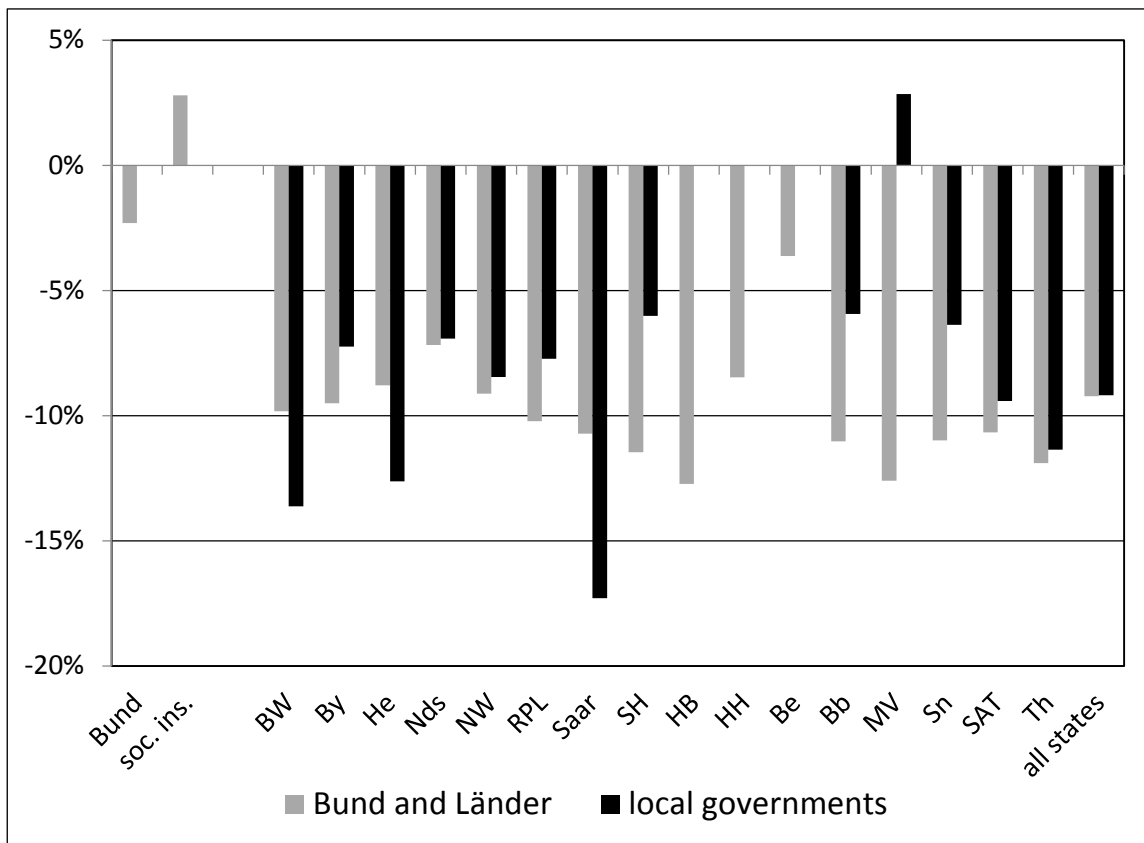
Source: National Accounts of the Länder

The recovery in 2010 and 2011 was stronger in those states that had experienced the sharpest decline in the preceding years. In total, however, the decline in 2009 was so sharp for some states that the accumulated growth rate for 2008-11 are close to zero. Bremen and Saarland – both former steel producing locations that have been undergoing structural change for decades – as well as the banking center of Hessen, and Saxony-Anhalt in Eastern Germany have the lowest growth rates across the entire crisis and recovery period, while Berlin, Brandenburg, and Bavaria experienced economic growth of about 10%.

The negative growth rates contributed directly to shrinking tax revenues in 2009 and again in 2010. Although the fiscal equalization scheme, which

mainly is an equalization of tax capacities, adjusted the growth differences among the states, the disparities in the losses are still remarkable (fig. 28.3). In several states which saw strong economic effects from the crisis (BW, He, Saar) the decline of local tax revenues was even stronger than those of the central state.

**Fig. 28.3: Change of tax revenues after fiscal equalization 2009 and 2010**

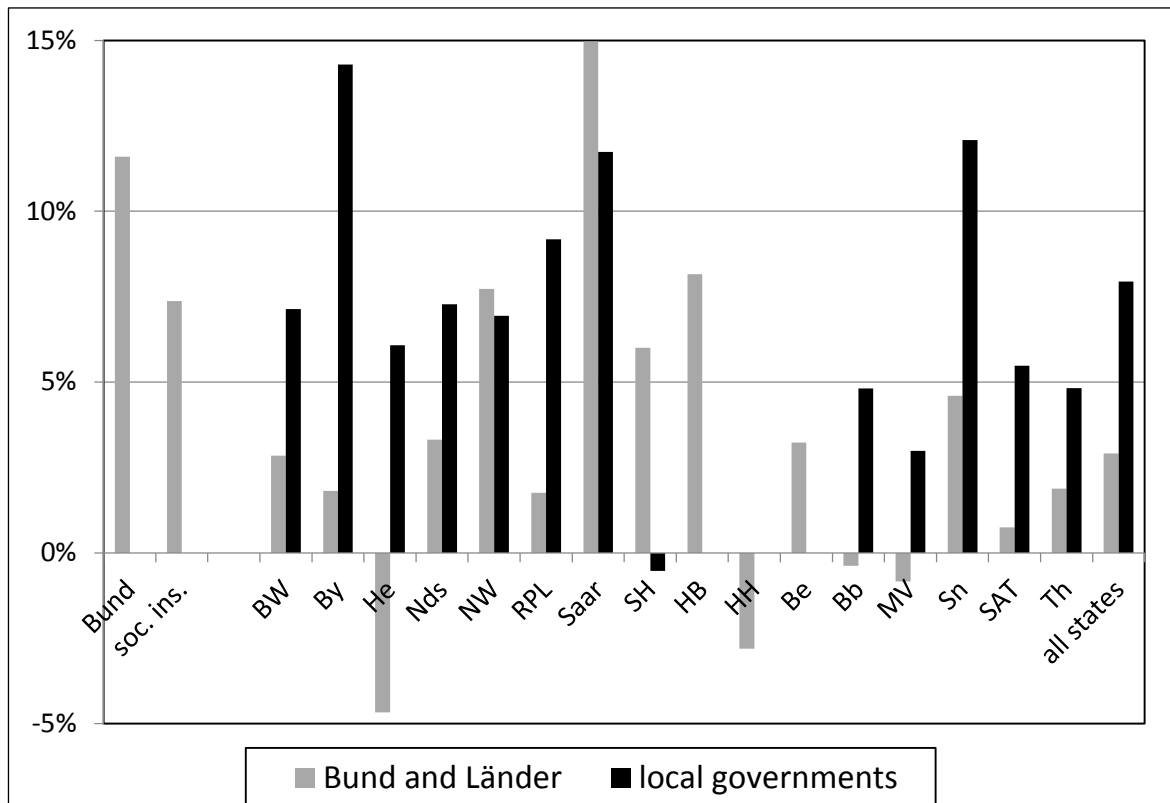


Source: Federal Statistical Office, own calculations

Much more diverging was participation of the jurisdictions in expenditure programs (see figure 28.4). While the Federation used, on the one hand, expenditure programs to combat the crisis, including among them many matched grants, and the social security insurances for the stabilization of demand and the labor market (the reduced hours compensation in particular was very successful), several states actually reduced their expenditures during the crisis in order to continue their consolidation policies. Some other states (By, BW, NW, Sn) had to spend high amounts of money in order to rescue their state-owned banks. However, local governments, which were the

addressees of several federal programs establishing additional measures for maintaining local infrastructure, increased their expenditures more than their states.

**Fig. 28.4: Change of total expenditures, 2009 and 2010**



Source: Federal Statistical Office, own calculations

Shrinking tax revenues and increasing expenditure led to sharply growing deficits for the majority of the German jurisdictions (see table 28.2). The highest deficits of all levels of government was seen in the federal budget, with a value of about 860 Euros per inhabitant. At the state level, only Saxony and Mecklenburg-Western Pomerania attained surpluses in 2009, with minor deficits in 2010, and did not follow anti-cyclical budgetary policies. The East German municipalities – except Brandenburg – also realized budgetary surpluses in both these years when the crisis severely influenced all public sector budgets. Those states that – together with their local communities - had severely unbalanced budgets before the crisis experienced the highest deficits of all jurisdictions, 1,927 Euros per inhabitant in Bremen and almost 1,164 Euros in Saarland.

**Tab. 28.2: Budget balances 2008 -10**

	Land			Local governments			Land + local governments		
	2008	2009	2010	2008	2009	2010	2008	2009	2010
BW	104.7	-125.1	-79.0	163.9	-237.0	-64.0	268.6	-362.1	-143.0
By	-2.7	-645.8	-105.8	144.7	-12.8	-27.2	141.9	-658.6	-133.1
He	-275.0	-444.4	-316.5	-65.1	-138.5	-437.0	-340.1	-582.9	-753.5
Nds	-88.9	-184.5	-237.1	79.4	-108.4	-75.1	-9.5	-292.9	-312.3
NW	-69.5	-271.8	-360.9	35.6	-103.6	-133.4	-34.0	-375.5	-494.3
RP	-353.2	-403.6	-480.2	-62.5	-212.5	-172.7	-415.8	-616.1	-652.9
Saar	-548.9	-969.3	-944.3	1.9	-184.3	-219.7	-547.0	<b>-1153.6</b>	<b>-1163.9</b>
SH	-173.4	-357.9	-469.7	-135.7	-166.8	-113.7	-309.1	-524.7	-583.5
HB	-859.6	-1383.2	-1927.0				-859.6	<b>-1383.2</b>	<b>-1927.0</b>
HH	-176.8	-564.1	-69.9				-176.8	-564.1	-469.9
Be	208.4	-426.3	-411.1				208.4	-426.3	-411.1
Bb	58.4	-203.8	-196.6	203.9	44.9	-43.1	262.3	-158.9	-239.7
MV	185.8	253.4	-106.9	133.4	49.5	23.7	319.1	<b>302.9</b>	-83.2
Sn	289.6	46.0	-42.6	220.6	66.1	50.8	510.2	<b>112.0</b>	<b>8.2</b>
SAT	2.9	-109.4	-305.0	145.1	51.1	23.9	148.0	-58.3	-281.1
Th	110.1	-94.4	-262.8	121.4	7.5	-8.9	231.5	-86.8	-271.7
Länder	-39.6	-315.4	-272.9	74.4	-87.6	-94.4	34.7	-402.9	-367.3
Bund							-214.9	-682.5	-613.0
Social in- surances							+79.0	-179.3	+35.2

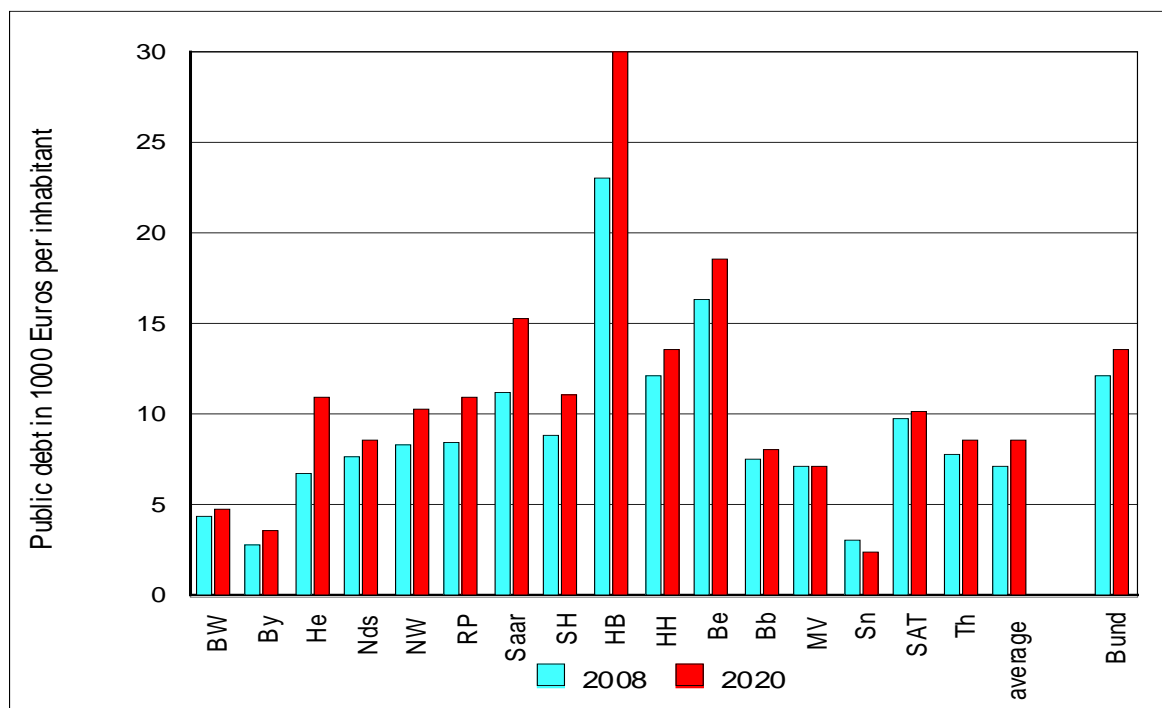
Source: Federal Statistical Office, own calculations

The budgetary consequences of the deficits arising from the crisis can be calculated by taking the subsequent resulting increased interest payments into account. While the Federation increased taxes in 2010 in order to reduce its deficit, states and aggregated local governments operate under the assumption that they only can attain balanced budgets by reducing expenditures or increasing them by less than the revenues grow. The model calculated<sup>3</sup> assumes a long-term growth rate of 3% for GDP and tax revenues, with expend-

3 See in detail Färber, Gisela: Impacts of the Global Financial Crisis in a Federation: Evidence from Germany; FÖV Discussion Paper No. 69, Speyer 2012.

itures increasing by only 1% annually until the budget is balanced and an interest rate of 4% from 2014 onward. As a baseline for the calculations the data of the 2010 budgets were used. The total public debt in 2020 and the increase of total debt from 2008 (the year before the crisis) are then used to judge the budgetary effects of the crisis (see figure 28.5).

**Fig. 28.5: Total public debt of the Federation (Bund) and States and municipalities aggregated, 2008 and 2020**



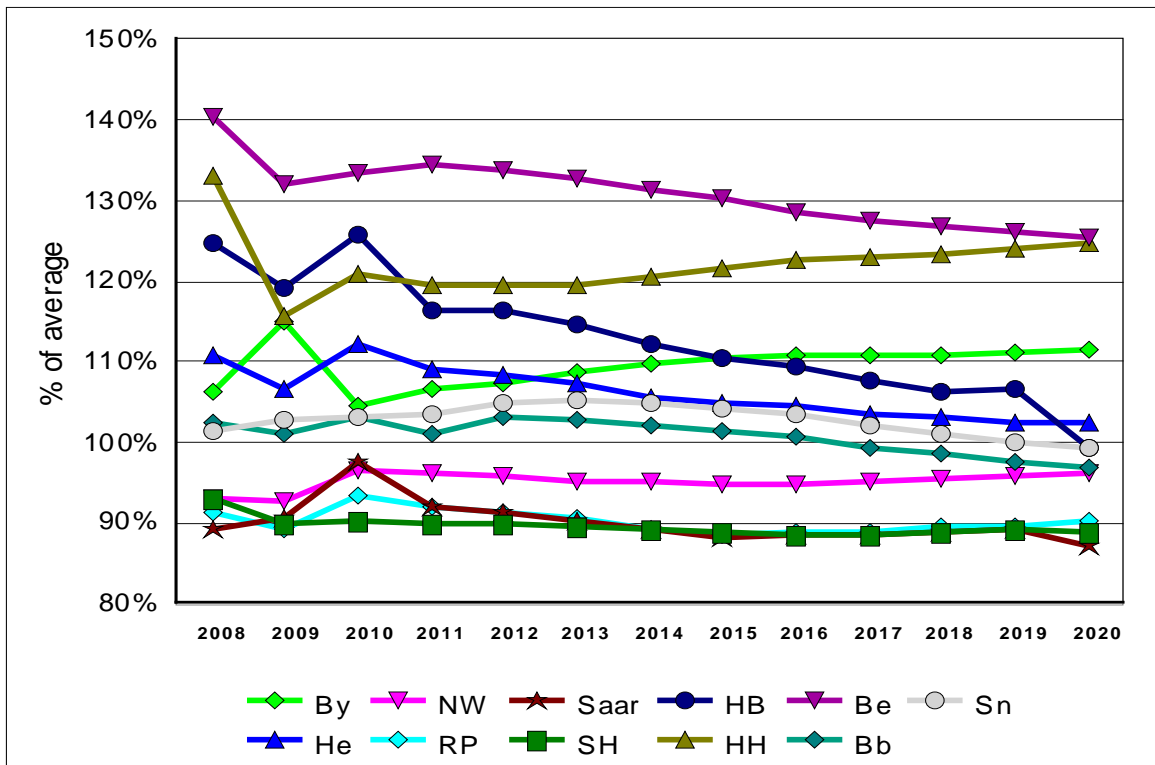
Source: Federal Statistical Office, own calculations

Another indicator of the effects of the crisis is the “affordable” expenditures without interest payments of state and local governments in 2020, by which time the budgets must be balanced.<sup>4</sup> Figure 28.6 demonstrates that the highly indebted states will see a sharply loss in their ability to finance above average expenditures for their citizens as a result of the new debt taken on during the crisis, while the states with lower debt and interest burdens

4 For more on this concept see Blanchard, O.J. et al.: The Sustainability of Fiscal Policy: New Answers to an Old Question; in: OECD Economic Studies 15/1990 und Wissenschaftlicher Beirat beim Bundesministerium der Finanzen: Nachhaltigkeit in der Finanzpolitik – Konzepte für eine langfristige Orientierung öffentliche Haushalte, Schriftenreihe des Bundesministeriums der Finanzen, Heft 71, Bonn 2001.

quickly will - or have already - come back to a normal path of expenditure growth.

**Fig. 28.6: Primary expenditures (without interest payments) of state and local governments per inhabitant coverable by total public revenues until 2020 – measured as per cent of average**



Source: Federal Statistical Office, own calculations

The model demonstrates that the long-term budgetary effects of the crisis clearly diverge among the German governments and depend on the size of the deficits during the crisis. However, the accumulated deficit before the crisis has a stronger effect on the total costs of the crisis than the additional debt taken on during the crisis, which is quite plausible if one considers that the displacement effect of the interest payments is much bigger then and the scope for an anti-cyclical fiscal policy is, therefore, much smaller. The states with the highest deficits could not afford the budget deficits they ran during the crisis, neither will they be able to afford the resulting interest payments in future. Their citizens will pay for the deficits by experiencing the highest

losses of public services, mostly at the lowest level of all governments<sup>5</sup> (see figure 28.6).

Another important insight of the model is that the costs of the crisis do not change the weight of the three federal tiers in relative debt. Although the Federation experienced the highest financial burdens, these were compensated for by increased taxes rates and the introduction of new taxes (e.g., on nuclear plants and on flights).

### *3.2 The crisis of public debt in the Eurozone*

While the German economy experienced a quick recovery in 2010, many other countries were hit by speculations in the capital markets against their high public debt in a way that had never happened before. Instead of a return to positive growth rates the public deficits increased even further because the interest rates were driven to level not seen since before World War II. The budgetary burden from the interest payments prevented these countries from reducing their public debt and led, in turn, to sharply increasing debt-to-GDP ratios. The Euro itself was under pressure in the capital markets and was threatened with the total loss of its credibility.

Those Euro countries with a more healthy economy experienced shrinking interest rates for their public debt. The Euro countries therefore split the capital market and thus asked for measures to reestablish stable expectations that all countries would be able to service their debt. The European Financial Stability Facility (EFSF) was established by the Euro countries, later to be replaced by the European Stability Mechanism (ESM). Both sought to provide low interest loans to countries experiencing turbulence and to ensure that they would be able to pay back the credits coming due for payment. Meanwhile the European Central Bank started to intervene as well and established programs to acquire the debt of the countries in crisis and to flood the European capital markets with liquidity to ensure low interest rates.

In order to stabilize the capital markets the countries that receive monetary assistance from these special funds are required to undertake structural reforms of their labor markets and their social policies as well as to cut back their budget deficits. The European Fiscal Compact was introduced in 2012, establishing stricter rules for public budgets by adopting the German 'debt

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5 For the city state of Bremen it should be kept in mind that the city states are allowed 135% of financial needs per inhabitant.

brake', which requires balanced budgets except in periods of recession or natural disaster. For Germany the consequence was that the overall public sector needs to deliver the balanced budget not only from 2020, but from 2012/13. All governments are under strict European supervision regarding their budgetary planning and also reporting about the development of revenues and expenditures during the fiscal year.

For the German government sector, these measures led to divergent budgetary effects: The Federation had and still has to cover the contributions for the capital of the EFSF and ESM. The Federation had to negotiate with the Länder for the balancing of the state and local budgets earlier than 2020 and now has to take over certain expenditures, mainly from the local level, as well as to guarantee that any eventual monetary sanctions in case of irregular deficits are covered from the federal budget.<sup>6</sup>

**Tab. 28.3: Public debt (including liquidity credits) and interest payments of the German government tiers, 2008 -2012**

	Federation		Länder		Local governments*	
	public debt	interest payments	public debt	interest payment	public debt	interest payments
2008	985,750	40,760	483,268	21,057	108,864	5,005
2009	1,053,814	38,848	526,745	20,295	113,810	4,250
2010	1,287,460	38,390	600,110	21,533	123,569	4,013
2011	1,279,583	50,115	615,399	21,231	129,643	4,532
2012	1,287,517	42,542	644,929	22,086	135,178	4,253

Source: Federal Statistical Office

The asymmetric reactions of the capital markets with regard to interest rates for public debt of Euro countries has had a paradoxical effect for German budgets: As investors were willing to abandon profitable rates in favor of the security of loans, Germany was able to refinance public loans under the conditions of shrinking interest rates and in doing so reduced the average

6 See Stefan Pilz: Ein fiskalpolitischer Pakt als Brücke in die Stabilitätsunion? In: Wirtschaftsdienst 7/2012, pp. 457.

interest rates for all types of public debt. Due to the solidarity concept of the German financial constitution this development held also for states and municipalities, with all levels of government seeing decreasing interest payments despite the still increasing public debt in 2011 and 2012. For 2013, a further reduction of interest expenditures is expected. Based on the volume of debt, the Federation will profit most from this development and thereby will have a certain amount of compensation for the additional expenditures it has taken on.

The crisis contains, however, also a risk for the future public budgets in Germany: The Federation's finances will be threatened in the event that a country cannot pay back the ESM loans. Will Germany then suffer the loss of its financial credibility too? What happens in the event that the European Central Bank is not able to recollect the enormous liquidity it is now spreading across Europe and inflation rates therefore start to increase? How will increasing inflation influence the prices the public sector has to pay for public service production? Are the German jurisdictions prepared to again pay increasing interest rates for their debt without falling back into budget deficits? Certain, and too numerous, states and municipalities are not using the advantageous situation of low interest rates and are instead again increasing tax revenues to restructure their budgets.

#### **4. Capability of reform to protect against risks from public debt?**

The experience of the European debt crisis - with numerous countries coming under tremendous pressure from the capital markets (Greece, Ireland, Spain, Portugal, and Italy) while other countries like Germany conserved its AAA rating despite high public debt ratios - leads to the question of whether a highly performing, (comparably) efficiently working public administration can protect a state from dangerous financial speculations against it. Furthermore, the capability of the public sector to adapt and reform is obviously a key location-variant factor that during the crisis gave some states better chances to 'survive' disturbances and external shocks and regain a stable economic growth path.

A special challenge facing governments during and following from the financial and Euro crisis is directly related to setting limits on the risks of 'greedy' capitalism, such as those that contributed to the subprime crisis and the manipulations of interest and exchange rates by big banking houses. Here governments have the duty to establish and execute the principles of "good regulation" in markets which tend to fail. Governments and administrations

also need to supervise compliance with the regulations and to set effective sanctions for their violation.

A second perspective on crisis prevention considers the importance of politically painful so-called “structural reforms”, particularly of the labor and service markets, of the pension and social security systems, and of tax administrations. These regulations determine international economic competitiveness and seem to be crucial for the trust of the financial markets and thereby for the stable development and credit-worthiness of a national economy. In this area all countries that were severely affected by the Euro crisis have a below international average performance, while the more stable countries had undertaken reforms in the years preceding the crisis.

A third factor for stability could result from intergovernmental financial relations that guarantee stable public sector financing in vertically across the tiers of governments and horizontally among the jurisdictions of a certain level of government. Given that public debt is not homogeneously distributed across the whole government sector in any country but instead shows high divergences, particularly at the decentralized tiers, the credible solidarity of upper tiers and the other jurisdictions of the same tier in case of a debt overload of one or a few governments might signal to the financial markets that the overall credit standing of the public sector in total remains good. The long-term legal stability of the established rules in this field might therefore be a precondition for the national stability of the financial markets and for the whole economy, which not only protects the overindebted governments but also the borrowing conditions for the others.

It should, however, not be neglected that Germany still has many fields in which reforms are necessary if it is to secure its international competitiveness and financial stability. Among these are solutions for the rapidly growing, largely un-covered pension system and the aging of the civil service. Intergovernmental relations are currently under renegotiations and need to solve the ‘vertical’ problems of the underfunded state and local levels. Electronic government projects are suffering from a lack of technical and economic inter-departmental and intergovernmental coordination, which not only is inefficient in itself, but also leads to inefficient and underperforming administration which burdens citizens and enterprises.

Finally, the German national governance structures are under pressure from the proposals, and even some decisions already taken, for the further centralization of competences to the European level. The crisis has given more powers to Europe without clear evidence that the EU will find better

solutions than the hypothetical sum of the national solutions. The further centralization of social insurances jeopardizes not only additional transfers from the rich member states to the poorer ones, but also creates incentives for the misuse of social transfer payments and inefficient migration. A shift of competences to the European level is mistrusted and it is widely believed that it would bring about more bureaucracies and administrative burdens. Therefore, a further centralization should always be connected with a re-decentralization of other competences – like the economically uneven regulation of the agricultural markets - which no longer are appropriately addressed at the supranational level.

## **5. Summary and conclusion**

The presented calculation of the costs of the 2008-2010 crisis demonstrates that burdens for all levels of government in Germany exist and will persist. Although the expenditures and losses of tax revenues related to the crisis itself and the fight against the crisis are unevenly spread among the tiers, a shift of burdens that could lead to a transfer of revenues was not and will not be considered. However, in a horizontal perspective, the decentralized public budgets have seen sharply divergent outcomes from the crisis. Particularly those states and municipalities that entered the crisis with an overload of debt have come out of the crisis with more debt than ever and will have real problems to conform with the new 'debt brake' requiring balanced budgets as of 2020.

The burden of from the Euro debt crisis has fallen mainly on the budget of the Federation. All jurisdictions, however, profited from the secularly low interest rates for the 'stable' Euro countries. Yet not all of them have used these favourable conditions to rehabilitate their budgets. As long as the financial markets are not definitively appeased, and until the Euro crisis countries return to stable growth, considerable budgetary risks remain for all German governments, as does the risk of inflation (for purchase prices, nominal interest rates, and civil service wages). In this case, diverging capital market ratings could lead to increasing risk surcharges and higher interest rates for all governments without balanced public budgets. Therefore, the financial planning systems needs to be developed further into a system of financial risk management.

The biggest risk, however, is the general economic development. As long as the economies of the countries in crisis are still shrinking sharply Germany cannot be sure it will not suffer from falling demand for its exports. Moreover,

the stability of the other countries in the world market is influenced by the amount of export-led German economic growth as well. Yet many countries outside of Europe also lack the structural reforms that were identified in this contribution as being crucial for stable economic development. Given these facts, all countries should consider the past crisis and future ones as opportunities for structural administrative reforms.

## **China's urban-rural integration Strategies under the Financial Crisis and Optimization of administrative Hierarchy**

WANG Yukai

China's urban-rural economic and social integration is a major strategic goal of its modernization process. This goal will not be changed even if the financial crisis occurs, and the year 2020 is anticipated to witness the basic realization of it. Thus, there is a list of questions to be discussed. Firstly, how to establish this goal? Secondly, what is the inherent link between China's strategy for economic development in the future? Thirdly, what is the biggest obstacle to China in implementing urban-rural integration in the next decade? Fourthly, what kind of administrative hierarchy is needed for China to ensure the realization of this goal?

### **1. The basic requirement of urban-rural integration: establishment of the goal**

According to the author's understanding, urban-rural integration cannot be interpreted as the urbanization of a rural area, nor as the general sense of urbanization. Actually, it means the process of integration of urban and rural areas in a state and society at a certain stage of economic and social development. This process will last long and the integration will not happen at once. There is a view that the best period for urban-rural integration is when the urbanization rate is about 50%. As we know, the rate of China in 2010 has achieved 47.5%, an indication of the best time for the integration.

If this were the case, this paper believes that urban-rural integration should include three basic elements from the perspective of system. Firstly, it should systematically ensure that various elements of urban and rural areas flow free and are not limited. Secondly, as the policy goal of the government, it should be a unified policy for both areas rather than two policies- one for urban area and the other for rural area. Thirdly, under the same policy goal, a unified institutional arrangement and design should be adopted in both areas.

Based on the above understanding, urban-rural integration should include three goals. Firstly, in terms of politics, we should make traditional farmers and citizens have equal social status and common political rights. Secondly,

in terms of economy, we should make productivity developed at the same level through promoting urban-rural integration, especially rural productivity. Thirdly, in terms of public service, we should make both urban and rural resident enjoy almost the same living standard and quality.

In general, there are three trends for realizing urban-rural integration. Firstly, we should break the system and policy restrictions on separated administration of urban and rural areas. Secondly, we should unify the planning, construction and management of urban and rural areas. Thirdly, we should achieve the harmonious, coordinated and sustainable development of urban and rural economy and society. The above is the framework of the analysis on urban-rural integration, including the meaning, goals, and ways to achieve it.

## **2. Economic development at country-level of urban-rural integration: an important growth pole**

As the world's largest emerging economy, China will undoubtedly witness its booming economic development in the future. But after the financial crisis, China may show a significant shift in strategy patterns of its economic development.

When China implemented its reform and opening up policy, world economy began to show a trend of integration. Attracted by China's low-price resources and the inexhaustible supply of cheap labor force, the tide of international capital flew into China, injecting great vitality to local economy. But in fact, this tide is a result of the strategic adjustment of economic structure of Western countries. An important aspect of this adjustment is to shift factories with large consumption of resources and serious environmental pollution to developing countries. Thus, China has to accept those outdated production facilities from western countries while it obtains international capital. This is because China has almost no choice but to accelerate the pace of development with the help of international capital and solve a series of problems, including food and clothing. In this sense, China passively makes its way to economic development guided by the low-cost export strategy. Implementing this strategy step by step with southeast coast regions leading the opening up is an inevitable choice for China to develop into an export-oriented economy. On the one hand, economic globalization and large amount of cheap labor have brought China huge development dividends so that its processing industry performs noticeably well in the world. On the other hand, this dividend has also cost China a lot in resource and environment and in over 200 million migrant workers without social security. High investment,

consumption and pollution, the three problems China has experienced during its 30 years of economic development, lead to the growth rate of 9.7% in exchange. The problem that China's economic development is not sustainable is exposed in the financial crisis.

Firstly, from the perspective of international community, China, as an economic power, will not develop its manufacturing at a fairly low added level in the future. Instead, China must find its place in the high-end industrial chain, which is an inevitable choice for it to grow stronger. Secondly, changes in consumer behavior in developed countries and trade frictions have also forced China to adjust its low-cost export strategy. Based on the above analysis, this paper believes that China should transform the strategy it has long insisted on, that is, to develop its inland with the leading role of southeast coast areas. The goal of this transformation is to implement a strategy called “combining point and plane”, which aims to develop economy in an all-round way from a certain place to the whole region.

The so-called “point” refers to the regional economic circles made up by several big and medium-sized cities during 30 years of reform and opening up. These circle is the first growth pole in China’s future economic development. Their dominant position will lead the future direction of China's economic development and establish China's position in the world economy. They include the Yangtze River Delta economic circle, the Pearl River Delta economic circle, the Bohai Rim economic circle covering Beijing and Tianjin, Haixi Economic circle, the Beibu Gulf economic circle, Chengdu-Chongqing Economic circle, Wuhan-Changsha Economic circle in central region, Guanzhong economic zone, the northeast economic zone, etc.. The so-called “plane” refers to the economies consisting of more than 2,300 counties and county-level cities in China, which can become a new economic growth pole in the future by empowering developed counties and strengthening their economy. It can be envisaged that once the important role of counties in China’s economic and social development is established in the future, with the support of construction and investment of infrastructure, high-quality educational and medical resources, and the establishment and improvement of social security system so as to lay a solid foundation for urbanization, county economy will definitely boost China’s economic growth.

The “combining point and plane” strategy for China’s future economic growth will probably restructure the industrialization, urbanization and integration of urban and rural areas in China, by which we can realize three main goals.

Firstly, we should fundamentally transform the export-oriented economic development model passively established at the beginning of reform and opening up into a domestic demand-driven model with active expansion of export.

Secondly, we should achieve industrial upgrading, and find a place in the high-end of world chain.

Thirdly, we should crack the dual social structure by a fundamental change in the economic growth pattern so as to achieve sustainable development.

The three main goals are in line with the one regarding a reform of economic growth pattern recently put forward by the central government, that is, to transform China's future economic growth from driven by investment and exports to by consumption, investment and exports, and from led mainly by secondary industry to jointly by primary, secondary and tertiary industries. This goal is also consistent with policies of adjustment in income distribution structure, urban and rural structure (to speed up urbanization), regional structure and spatial structure of land development and industrial structure (to accelerate strategic emerging industries and services). The strategic transformation of China's economy will certainly have profound impact on its future modernization.

### **3. The biggest obstacle to achieve urban-rural integration strategy: system**

Based on the above ideas and analysis, we should find out the major obstacle for us to achieve urban-rural integration after three decades of reform and development. Before analyzing the obstacle, this paper will provide three judgments. Firstly, China has made enormous achievements in three decades of reform and opening up and witnessed the rapid industrialization and urbanization, but it is unable to and does not achieve urban-rural integration. Basically, It has separate development in two aspects- one is industrialization, the other is urbanization. Secondly, three decades of reform and opening up has greatly improved living standards of Chinese people, including that of farmers, and brought the number of impoverished people down from 250 million to 17 million. But it does not narrow the gap between urban and rural areas which even continues to expand with figures showing that the urban-rural income gap has changed from 2.22:1 in 1978 to 3.33:1 in 2008. Thirdly, significant changes that urban and rural areas have undergone and great achievements China has made in urbanization and other aspects have not

shaken the foundation of separated administration of urban and rural areas and even brought out abnormal urbanization, that is, excessive metropolitanization. Take Beijing for example, currently its permanent resident population is 19.61 million, if coupled with floating population, the figure shoots up to 22 million people. Some experts, however, believe that resources and environment in Beijing is only able to support 18 million people.

There are many reasons for why the reform has brought great achievements, but does not realize urban-rural integration, three of which can explain this issue from the perspective of system. Firstly, public policies formulated by the government has always been subject to separated administration of urban and rural areas. Thus, there is not a unified policy goal and arrangement. Yesterday at a panel discussion, I said that almost every year after the reform and opening up, documents related agriculture were issued against the background of separated administration of urban and rural areas, which does not help to solve current problems. Secondly, China implemented the policy of “putting county under the control of municipal government” in 1982, which has strengthened separated administration of urban and rural areas in a sense. This policy originally aimed at giving play to the leading role of central cities in regional economic development. This paper believes that it is good at first, but in fact it is perhaps deviated from the goal in the future. Readers may have different views. Based on the statistics, 275 out of 330 prefectures implemented the aforementioned policy in 2002, covering one billion people, and more prefectures have carried out this policy in recent years. However, some municipal governments block capital projects, contain economic development and occupy resources of counties. Thirdly, township governance structure does not adapt to and to some extent have adversely affected the development process of urban-rural integration.

#### **4. To accelerate adjustment of vertical power structure of prefecture: the establishment of institutional framework of urban-rural integration**

Problems related to systems have arose during the process of urban-rural integration, like a single strategic planning of urban and rural areas, and unified systems covering planning, household registration, employment and public services. Thus, how to adjust the administrative hierarchy has become a very important issue.

According to the central government, the adjustment of administrative hierarchy should be coupled with the strategy of empowering developed

counties and strengthening their economy so as to reduce management levels and empower local governments. Accelerating the reform of putting counties directly under the control of provincial governments is a significant step in implementing vertical management. There are two main models of this reform in China, Hainan Model and Zhejiang Model. Hainan provincial government has never implemented the policy of “putting county under the control of municipal government” from 1988, when Hainan province was just built. In 2008, it continued to streamline administration and delegate power, empowering municipal and county governments to deal with 100-plus matters. In Zhejiang Province, financial power is held by the provincial government while administrative power by municipal governments. Reforms like Zhejiang Model mainly aim to expand the power of county governments in economic management, which is different from the situation in social management and public services. This paper believes that Zhejiang Model is still the best choice for other regions. But with the deepening of reform, it can be projected that more regions would choose Hainan Model during the Twelfth Five-year Plan period, not only financial power but also administrative power of county governments are directly under the control of provincial government. Besides, the rapidly developing modernization, highway and E-government have provided guarantees for implementing the policy of putting county under the control of municipal government, increasing the number of entities directly governed by provincial government, and expanding management range.

According to this paper, the administrative hierarchy should be based on local conditions and can coexist with other management structure. For instance, after implementing the policy of putting counties directly under the control of provincial government, economically developed regions in the east can consider to cancel and integrate some township governments into agencies so as to flatten management structure. In middle and western regions, township governments can be maintained with financial affairs of towns handled by counties so as to avoid increasing burden on people because of their existence and to assume public services within their financial capacity. We can make effort to move forward this reform from six aspects.

*Firstly, we should strive to develop county economy and make counties become the leading force in implementing urban-rural integration strategy.* Currently there are almost 2200 counties and county-level cities in China, and 2800 in total if coupled with prefectures. As a whole, counties assume most public services and social management, but their economic strength is still relatively weak as a result of lacking investment in public infrastructure and of unreasonable distribution of medical and educational resources. From the

perspective of development, only when county economy enjoys considerable growth and become an important growth pole of national economy in the future can it lay a solid foundation for modernization and accelerate the process of China's urban-rural integration. Conversely, if the great economic development of thousands of counties and tens of thousands of towns cannot be achieved, it will not lead to the realization of modernization or urban-rural integration. Thus, we should put county economic development in a prominent position.

*Secondly, we should promote the transfer of power from provincial and municipal governments to county governments.* Counties are important carriers for industrialization and urbanization, but much power is held by provincial and municipal governments so that county governments do not have enough financial power to handle administrative affairs, social and public management. We should promote provincial governments to empower county governments by the reform of governing counties by provincial governments so as to balance financial power and authority.

*Thirdly, we should further separate duties and powers of central, provincial, municipal and county governments.* We should define responsibilities in social management and basic public services that governments at different levels shall take, and set up transfer payment systems respectively at central and provincial level. It is of vital importance to establish a standard provincial transfer payment system after county finance is included into provincial finance since each province has almost 100 counties with uneven development. By doing so can we implement the policy of empowering developed counties and strengthening their economy which is fair to all counties rather than making developed one stronger while developing one weaker.

*Fourthly, we should make a bit of adjustment in the provincial and county administrative divisions, increasing the number of municipalities.* We can make a bit of adjustment in large provinces or some unreasonable administrative divisions. But such adjustment may not lead to the increase of organizational system at the provincial level. Instead, only by setting cities like Dalian, Qingdao, Xiamen, Ningbo and Shenzhen as municipalities can we increase the number of provincial units. According to area and population of each region in China, this paper believes that we should at least have 40 provinces and municipalities in total in the future.

When adjusting the provincial administrative divisions, it is also necessary for us to upgrade administration of key counties on the basis of strict demon-

stration and scientific calculations, or to promote Party secretaries and governors at county level to prefecture level or sub-prefecture level, and heads at township level to department level. By doing so can we stabilize grass-roots management teams and mobilize the initiatives of cadres.

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## **Promoting Equivalence of Public Services with Fiscal Equity - Practice of Germany and Its Inspiration to China**

ZHANG Yonghui

After the unification of East and West Germany in 1990s, the country was facing huge differences between two places in ideology, standard of living, development mode etc. However, after hard work for nearly two decades, Germany now has become one of the federal countries with the highest equalization level: the index of fiscal equity of West and East Germany decreased from 50 points of difference to 6 points<sup>1</sup>, which successfully narrowed down the difference of regional financial disparity and achieved balanced economic development among regions, effectively promoted public service level in underdeveloped areas, and thus strongly maintained national unity and social harmony and stability. Among all, the fiscal equity mechanism that requires the achievement of fiscal balance for equivalence of public service ability is a significant factor. Today under the circumstances that our country made great efforts in achieving basic equivalence of public services, the practice of Germany undoubtedly will provide beneficial inspiration for us, and will give us reference for further completion of reform.

### **I. Public fiscal system of Germany that aims at equivalence of public service ability**

Germany is a federal country. Politically, it is a country with combination of decentralization and moderate centralization; administratively, three levels of government - federation, states and local (cities, counties, villages) take their own responsibilities. Government at any level has independent budget, and is responsible for congress at its level; economically, it is in the system of social market economy.

Basic Law of Germany clearly presented the requirement of "consistency of principal of civil rights to subsistence". The country should provide general equivalent living conditions nationwide, and all states should provide residents with public services at basically identical level. In order to achieve the goal, the country must make sure that the financial strength of each state is

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1 Fan Jida: Distinctive German Fiscal Decentralization, *Study Times*, 13 September 2010.

similar, i.e. basic equivalence of financial resources. In this case, it can be assured that the difference of ability of providing public service in each state is not too wide. However, due to the differences of natural conditions, geographical locations and historical origins among states, there are actually huge gaps of financial resources among them, and in different areas, the gap of tax payment per capita can reach to more than 10 times. Thus, in order to achieve the goal of equivalence of public services, Germany established a series of effective and special measures and systems<sup>2</sup> concentrating on transfer payment system of fiscal balance.

Germany adopts the tax sharing system of "fiscal centralization and tax sharing". Fiscal equity system is a fiscal system with the function of administrative decentralization management and fiscal and taxation regulation that formed under the background of social market economy -- a compound mode of latitudinal transfer payment and longitudinal transfer payment combination: on the basis of dividing governance and expenditure range of all levels clearly and giving certain tax jurisdiction to government of all levels, it achieves balanced combination of latitudinal and longitudinal capital source and longitudinal and latitudinal balance of financial resources layout by latitudinal and longitudinal fiscal equity, in order to ensure providing basically balanced public service nationwide.

*i. Fiscal system of unification of financial control and governance*

Constitution of Germany, i.e. Basic Law for the Federal Republic of Germany has regulations for the division of governance of governments at all levels in principal. Meanwhile, it clarifies expenditure liability and tax allocation system of governments at all levels, which forms the three-level (federation, state and local) the revenue-sharing system.

Governance division aspect. In principal, if national interest is involved, affairs that can only be achieved with nationwide unified action belong to central government; local government shall be responsible for affairs that are closely related to development of local economy and society; as to special affairs, governments above Level-2 shall take shared responsibility. To be more specific, the governance scope of federal government mainly include national defense, foreign affairs, customs and frontier defense, federal transportation and mails as well as civil affairs and financial management etc. of

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2 See also Ma Haitao and others: Problem Studies of Basic Equivalence of Public Services in China; in: Economic Science Press. 2011 Edition.

federal level. The governance scope of state government mainly include civil affairs and tax management, police, education affairs, culture affairs, medical treatment and health, social security etc. of state level. The governance scope of local government is mainly providing public products and services with strong regional features, including public affairs, construction and maintenance of public infrastructure service facilities in the district etc.

Financial control division aspect. Tax is the main source of fiscal revenue of all levels in Germany, which takes about 3/4. It is that foundation of income distribution in the 3-level fiscal system of Federal Republic of Germany. Basic Law for the Federal Republic of Germany sets tax division of governments at all levels. According to the requirement of tax sharing system, taxes with large amount and stable resource are divided into shared tax, and the rest are exclusive tax. Germany carries out the mode of coexistence of shared tax and exclusive tax with shared tax being the dominant type. Basic Law clearly specifies the tax allocation of governments at all levels. It allows federal law to make small adjustment, while great adjustment can only be made via the amendments of Basic Law. Thus, the tax allocation ratio is relatively fixed.

Accordingly, federal, state and local governments shall take responsibilities of fiscal expenditure to fulfil their own duties in principal, i.e. expenditure for federal governance duties shall be arranged by federal government, expenditure for state or local governance duties shall be arranged by state or local governments. This reflects the unification between government duties (governance) and fiscal expenditure (financial control) of governments of different levels.

#### *ii. Fiscal Balance Transfer Payment Mechanism*

Basic Law claims that the allocation of financial resources shall ensure federal government and state governments can exercise all duties that they are responsible for independently. For this purpose, states with lower revenue per capita acquire balance from VAT income of all states.

Fiscal Equity Law specifies the concrete measures: using longitudinal (upper and lower governments) and latitudinal (inter-states and cities in the same states) equity these two methods to adjust re-allocation of revenue. This is the special, wholesome and effective fiscal equity mechanism of Germany.

Longitudinal fiscal balance includes two levels: fiscal balance of the Federal to the States and fiscal balance of the States to local governments within their jurisdiction.

1. Financial transfer payment from federal to state governments. The followings are a few major methods: one is adjustment of shared ratio of VAT. In Germany, shared tax is the main resource of revenue, which is allocated to federal, state and local governments according to different types of tax and certain proportion. Thus, central finance can take the VAT part as special balanced fund and return a part of it to states by per capita. Basic Law specifies that federal should take certain proportion from its own VAT share to support financially weak and payment imbalanced states, which aims to help financially weak states reaching 92% of national average standard. Another is special appropriation. As to important investment projects that within the scope of state and local governance, federal government shall give certain complement to improve regional economic structure, or local urban construction; providing appropriation and complement for some heavy payments for states and assignments relegated from federal to states can help balancing the difference among regions.
2. Financial transfer payment from states to local governments in their governance. In order to bring fiscal revenue and expenditure level of all local governments closely, all states have built up fiscal equity mechanism for local governments in their governance as well, but federal has not set unified rules for concrete practice. Generally, it includes two types: general fiscal appropriation, which takes 70% of state to local fiscal appropriation. Local governments are the main undertakers of social public affairs of federal and state governments and local social public affairs, thus state governments shall ensure the expenditure for public affairs of local governments financially. This part of appropriation has no restriction of concrete usage, which means it is at local governments' disposal. There are several forms: appropriation calculated by local taxation capacity index and demand index; subsidy appropriation for administrative expenditure; special appropriation for especially difficult places. Another type is special appropriation from province to local and the amount is usually 30% of state to local fiscal transfer payment. The appropriation is specialized in state governments appointed public service projects, mainly includes kindergartens, elementary, middle schools and higher education, road construction, public transportation, culture and entertainment, sports facilities, water resource and "Three Waste" treatment, pension, social relief, etc.

Latitudinal balance is mainly carrying out interstate\* financial transfer payment. Rich (financially strong) states transfer parts of fiscal revenue to poor (financially weak) states, so that financial revenue and expenditure of all states can be approximately balanced. Interstate financial transfer needs the approval of federal senators. After federal calculates taxation capacity and standard tax demand of all states with rigorous and complex formulated approach, the strength of financial resources and level of transfer payment of all states can be confirmed. At last, it will be confirmed whether the state has balance obligation or qualification.

States with balance obligation will "support" states with balance qualification with fiscal revenue according to calculated proportion. Thus, even the financial resources of poor states can increase to 95% of average national financial capacity. By means of "borrowing from the rich", public services ability of all states is generally equivalent, which is useful for the equivalence to some extent. At last, federal government carries out transfer payment by supplement appropriation for some especially difficult states to keep balance; there are all sorts of preferential policies for underdeveloped areas<sup>3</sup>.

By means of crisscross transfer payment mechanism, Germany achieves latitudinal and longitudinal balance of financial resources distributions, promotes comparatively equivalence of financial capability of all states, and basically achieves equivalence of public services nationwide.

## **II. Analysis of fiscal equity problems that influence basic equivalence of public services of our country**

Basic equivalence of public services has been generally achieved in developed countries. In contrast, basic equivalence of public services has only started in China. Since basic equivalence of public services has fundamental security of subsistence and development of citizens, it became the obligated duty of a country (government). Therefore, it goes without saying that how important the role of government finance plays. From the practice of Germany, we can see that fiscal equity is very crucial to equivalence of public services capacity. As to reality, fiscal disequilibrium is extremely obvious in our country: the huge gap in public services among regions, urban and rural

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3 *Experience and Inspiration of Supply and Supervision of German Public Services*. Information Network of Economic System Reform [www.sdpc.gov.cn](http://www.sdpc.gov.cn)

\* No further explanation because interstate financial transfer payment takes small proportion in the whole system and only few states implement. – Author's note.

areas and people presents huge difference of financial resources acquisition among them.

There are historical as well as realistic reasons for the difference. One is long existed urban-rural dual structure. The existence of dual structure not only generally led to huge difference in resources access and welfare distribution between urban and rural areas in decades after the establishment of New China, but also became the main reason that floating population (migrant workers) is difficult to fit in the city where they work due to the household registration system after the reform and opening-up.

Judging from the requirements of public fiscal system, there are at least two severe problems for now:

One is mismatching and disunion of central and local governance and financial control in the fiscal system. Reform of tax sharing system in 1994 corrected the malpractice of prevalence of local protectionism under "all-round responsibility" fiscal system and the capacity of the central macro-regulation being strongly challenged, which greatly increase the proportion of central government in financial allocation. Under the tax sharing system, central-local relationship showed the feature of co-existence of "political oneness" and "economic federalism"<sup>4</sup>. Though local acquired certain independence in this arrangement, generally speaking, in the central-local relationship, the weight of central rights is strengthened, while the burden of local obligation is increased. In other words, reform of tax sharing system enhanced the fiscal extractive capacity of central government while delegated public service responsibility of central government, which means the center of finance moved upwards and the center of governance moved downwards. In conditions with limited resource, local governments have to take measures to dig up more fiscal revenue in order to fulfill regulated responsible governance. While in China, there are five levels of administrative units: central, province, prefecture-level city, county and village. According to the logic of chain transferred responsibilities, it is necessary that the further it goes down, the heavier the responsibilities are, but the less the resource (fiscal revenue) is. As such, the disunion of financial control and governance is more obvious, which has been confirmed by numerous researches.

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4 Yang Guangbin: Decentralization reform of China – Analysis of Following the Main Line of Central-Local Relationship. *Ideas and Interests in the Political Reform of China*. Yang Guangbin, Kou Jianwen/chief editor, China Renmin University Press, Jan 2012 Edition.

Another is that the rebalance function of finance is not obvious in the arrangement of financial transfer payment mechanism. Financial transfer payment of our country was established on the basis of tax sharing system in 1994, which is still a nonstandard and transitional arrangement of system mechanism. Its content mainly includes three methods: tax return, financial transfer payment and special transfer payment. From the result, tax return adopts radix method, which is beneficial for arousing the enthusiasm of high fiscal revenue areas, but solidifies the problem of financial disparity formed under the financial contract system. It can easily lead to the Matthew Effect that "the rich get richer and the poor get poorer". According to this return standard, developed areas get more tax return, while underdeveloped areas get less. As a result, it enlarges regional allocation difference of financial resources, and the balance function of transfer payment is weakened. However, transfer payment of financial resources is targeted to supplement financial transfer for poorer provinces. Without mature and scientific calculation and assessment of fiscal revenue and expenditure, the transfer can hardly balance financial capacity in different regions and achieve equivalence of public services. According to international experience, special transfer payment has clear direction of usage, takes effect fast and is easy to supervise in terms of implementing given policies and goals of central government, playing central finance's role in macroeconomic regulation and control, leading reasonable adjustment of resources of locals, promoting development of local economy, etc. However, due to unclear governance division of governments at all levels and insufficiency of reasonable and normative calculation standard, "running around for funds" has become an important job duty for many local governments in China. It severely affects the function of financial transfer payment in promoting the capacity of basic public services standard in relatively less developed areas and hinders the achievement of basic equivalence of public services.

### **III. Promoting basic equivalence of public services of our country by means of fiscal equity**

General Secretary Hu Jintao pointed out in the Report of the 17th National Congress of CPC: we need to strengthen the matching system of central and local financial resources and governance, improve fiscal system under province, enhance public services ability of basic-level governments, which pointed out the direction of our further endeavors. As mentioned above, by means of fiscal equity, Germany achieved basic balance of offering ability of

public services standard among places with different locations and economic development standard via financial transfer payment with longitudinal and latitudinal adjustment, which provides good foundation for the sustainable development of the harmonious and stable Germany. This should be a beneficial reference for a country that is carrying out basic equivalence of public services project like us.

Considering the huge difference of development phase, fundamental realities, system and mechanism of Germany, whereas our country is going through the process of economic and social transfer, and governmental function is in the transition of transformation and reconstruction, the fiscal equity-oriented promotion of basic equivalence of public services can only be a gradually process that completes in development and appears its own features. However, during the process, at least the followings need continuous exploration and improvement:

First is exploring the reform of current binary household registration system and gradually weakening and eventually annulling the function of household registration factor in terms of basic public services. Without reform of binary system, the allocation of financial resources can never be balanced. As historical existence, binary household registration system has played an important role. However, it has become a kind of discriminative institutional factor that affects numerous groups of enjoying their deserved public financial services provide by the country nowadays, and it further hinders the development of urbanization progress and the merging process of national economy and society.

Second is the exploration of division of duty and authority of governments at all levels. Unclear division of duties not only affects the implementation of duties, but also has huge influence on the establishment of reasonable systems of financial resources distribution of duty implementation. From the practice of Germany, the constitution of Germany and laws has clear definition in terms of governance scope and duties among federal, state and local governments. Moreover, there are laws to abide by with regard to the level of governance and duties, and even methods of implementation. Government at each level has clear division of work and perspicuous rights and liabilities, thus providing solid foundation for the establishment and effective running of graded tax for different levels financial system. While the reality of our country is the co-existence of unreasonable division of duties of central and overall local governments and mismatching of allocation of financial resources and responsibilities, and the allocation of responsibilities

and equipment of financial resources of governments at all levels under provincial seem to share the same problems. As a matter of fact, it is a generally problem in terms of the establishment of public fiscal system of our country.

Third is the exploration of scientific and reasonable financial transfer mechanism led by central finance. Leading by central finance is the development trend and common feature of modern public finance. It helps to develop and strengthen central's innate advantage in macroeconomic regulation and control and coordinate the increasingly complicated and heavy duty of economic and social affairs. In the meantime, it enables central government to cover coordination and development fees for re-allocation (i.e. financial transfer payment) in different regions, thus to narrow the developmental gap among regions. Overall, current financial transfer payment obviously has transitional feature. Led by fiscal balance, we need to work out all sorts of financial transfer payment method by scientific research and reasonable design. Considering current interest of all local governments, the fact that local governments will still be a significant driving force of economic development and the trend of governmental function transformation in a long time, we need to make moderate adjustment of current financial transfer method. To be more specific, we need to: cut down the proportion of tax return moderately; confirm relatively accurate amount of financial transfer payment on the basis of relatively accurate measurement of providing standard requirements of basic public services of all regions and local financial revenue and expenditure; establish and design relatively complete mechanism of previous confirmation, fund payment and subsequent supervision for special transfer payment, in order to avoid malpractice such as "running around for funds".

Fourth is to gradually establish relatively comprehensive financial supervision system. Germany has comprehensive supervision system for the use of fiscal funds, which includes legislative and judicial supervision, financial sector supervision, social public supervision and social intermediary agency supervision, accounting firm for instance. As users of financial funds, the execution must follow the approved budget. Drawing up and implementation of financial budget must be clear and explicit, including time, projects and methods. On the contrary, the current fiscal system of our country is extensive. No matter in financial budget, financial performance or fiscal audit, we have the transitional features of non-transparency and lack of standardization. As to the practice, financial budget and other information that governments at all levels started to publish in recent years generally has the problems of being too extensive, lacking of declaration and detail items remaining private, which lead to weak supervision from the public. We should complete

the operation of government finance, regulate the establishment, execution, audit, publicity and other procedures of government finance budget by means of systematism, and establish and perfect comprehensive financial supervision system including NPC, CPPCC, audit, social public etc.

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## **Situation and Thoughts in Province-County Direct Governance**

LIU Yong

Between May 15 to 22 2012, along with a research group of the Administrative Divisions and Geographical Names Department of the Ministry of Civil Affairs Division, I went to Taizhou, Yangzhou (Jiangdu), and Zhenjiang of the Jiangsu Province; and the City of Yiwu of Jinhua, Zhejiang, and the town of Xucun of Haining, Jiaxing, Zhejiang, and other areas, to learn about the pilots of “counties directly governed by provinces” on the “direct control of the county”. During the one week field research, study and discussion, I got a lot of first-hand materials, heard many valuable comments and suggestions, and was greatly inspired. Now I will report the information relevant to the research.

### **I. The implementation of the system of “counties directly governed by provinces” has effectively promoted the development of county economy**

The counties visited by the research generally reflected that the implementation of the “counties directly governed by provinces” system has reduced administrative levels and costs, advanced the construction and development of the urban system within counties, and effectively promoted the rapid, healthy and stable development of county economy and society.

1. The promotion of the rapid growth of county economy. The pilot in the Jiangdu city showed that since the beginning of the pilot of “counties directly governed by provinces” in 2002, along with the implementation of the policy of “expanding power and strengthening counties”, the financial settlement, project approval etc had been directly governed by the province, which had greatly improved the independent development of the county’s economy, increased the opportunities of obtaining projects and the success rate of applications, and accelerated the economic development of Jiangdu. From 2002 to 2008, the annual growth rate of the economy of Jiangdu averaged about 15%, well above the growth rate before the pilot. By 2008, its GDP reached 33.5 billion RMB. Even under the influence of the world financial crisis, in the first four month of 2009, the growth rate of the economy of Jiangdu still reached 13.4%. Since 1993, a fiscal system of “county governed by province”

has been implemented in the Yiwu city. In addition, since 2002, the provincial and prefectural government has delegated the authority related to 697 economic and social events to Yiwu, significantly enhancing the ability of Yiwu to accelerate economic and social development. Since the expansion of its power, the growth rate of the economy of Yiwu had remained above 15 percent, and the growth rate of its government revenue remained above 30%. In 2008, its GDP and government revenue reached 49.3 billion RMB and 6.9 billion RMB respectively.

2. The advancing of the construction and development of the urban system within counties. The conclusion of the Yiwu city was that since the expansion of its power, the capability of urban construction of Yiwu had been significantly enhanced, and the construction of the urban system continued to accelerate, promoting the development of urbanization and the rapid expansion of the urban area. By 2008, the built-up area of downtown Yiwu had reached 78 square kilometers, the size of a metropolis, which was almost double what it was in 2002 (38 square kilometers) and quadruple what it was in 1997(15 square kilometers); its urbanization rate had reached 78%, entering the stage of high degree urbanization development. The built-up areas of various townships had expanded to different degrees, and population and industry continued to concentrate in urban areas and administrative towns, accelerating the formation and development of the urban system; urban infrastructure continued to be extended to the countryside, and central treatment of the rural and urban waste and sewage had been fully implemented, promoting the integration of urban and rural development.

3. The improving of administrative efficiency. According to the experience of the Yiwu city, the reform of expanding the power had reduced administrative levels, strengthened the sense of responsibility of the county-level government, simplified the approval procedures, reduced administrative costs, and improved government efficiency. Compared with the situation before the expansion of power, the average time spent on applying for projects has been reduced by 4 to 5 working days; the delegation of the authority to hold civil service exams and exams related to professional titles by the prefecture-level city had saved more than 1.5 million RMB in costs within two years; the delegation of the authority for the registration of changes related to vehicles down from the prefecture-level traffic police department could save 5 million RMB in a single year.

## **II. The implementation of the system of “counties directly governed by provinces” is still problematic and faced with obstacles**

At the beginning of reform and opening up, in order to give full play of the central and leading role of cities in the promotion of regional economic development, and reduce the number of local governments within the same area, China began the full implementation of the merge of prefectures and cities, the merge of cities and counties, and the administrative division system of “cities governing the counties”, gradually forming the pattern of changing a prefecture to a city and setting up a city covering a county as a whole. Years of practice has proved that this division system has both pros and cons, but the drawbacks are more prominent, namely: under our national conditions of a large population and a serious shortage of resources, the existing prefecture-level cities simply cannot meet the requirements for a high degree of industrialization and urbanization; the lack of a proper level of connections between the rural and urban area hinders the formation of a complete architecture of the urban system, and the formation of the reasonable spatial distribution pattern of regional economy---“big dispersion and small concentration”; the development gap between regions and the gap between urban and rural areas in particular, continues to widen, hindering the coordination of regional economy and the harmonious development of society; etc. However, since the system of “cities governing the counties” has been established and a pattern certain vested interests has been formed, compelling reasons, considerable commitment, and considerable time and effort are required to break this pattern. Generally speaking, the full implementation of the system of “counties directly governed by provinces” across China is still problematic and faced with obstacles, including mainly the following aspects.

1. There are obvious differences between the views of prefecture-level cities and counties (cities) on the system of “counties directly governed by provinces”. During the research, we found that the attitudes and understanding of the system of “counties directly governed by provinces” of the governments of prefecture-level cities and counties (cities) were completely different. In general, most prefecture-level city governments held a negative attitude about the system. They did not think that they had been grabbing the interests of counties (cities); instead, they had been working hard to promote the development of counties (cities). For example, the Taizhou City was of the opinion that the system of “Counties directly governed by provinces” was theoretically possible, which would help to reduce the administrative levels,

reduce administrative costs, and improve administrative efficiency, but practice proved that the current pilot of the system of “counties directly governed by provinces” did not work, because actually administration levels had not been reduced (the authority of governing important and lucrative issues has been delegated to the counties, while the authority of governing difficult and unprofitable issues remains at the prefecture-level cities). This actually increased the administrative costs, complicated administrative procedures, and increased the difficulty of administration. The Taizhou City also believed that they did not concentrate the fiscal resources of counties (cities) in the city; instead they had spent a lot of fiscal resources for the development of counties (cities).

However, counties (cities) governments generally actively supported the implementation of the system of “counties directly governed by provinces”, but due to the different levels of economic development of various counties (cities), there were slight differences between their specific reasons for supporting the system or their specific attitude toward the system. Economically developed counties (cities) were very supportive the adoption of the system of “counties directly governed by provinces”, so they can get a lot of opportunities and space for development; economically backward counties (cities) also want the direct governing of the province, in order to have direct access to greater provincial support; as for economically moderately developed counties (cities), the situation was more complicated. If the economic strength of the prefecture-level city was moderate, or even no better than that of their own, such counties (cities) certainly hoped that they became independent and were directly governed by the province. However, if the economy of the prefecture-level city they were from was relative strong and the economy of the province was relatively weak, in order to get more support from the prefecture-level city, they would be willing to temporarily remain in the system of “cities governing the counties”. There are only a few such counties (cities), like the Zengcheng City in Guangzhou.

2. The full implementation of the system of “counties directly governed by provinces” will result in excessive administrative workloads for the provincial government, hindering the effective administration of the region by the provincial government. Take the Jiangsu Province as an example. The province is currently composed of a total of 13 prefecture-level cities, and 52 counties (cities). If all those components are directly governed by the province, the Jiangsu Province would have to directly govern “13+52” lower-level administrative divisions. The practice of various countries shows that number of directly governed subordinate administrative divisions should not exceed 40 to

50, otherwise the effects of direct governance would be affected. There are even more subordinate administrative divisions of prefecture-level cities and counties (cities) in other province, generally between 80 to 100 ones. Therefore, the full implementation of the system of “counties directly governed by provinces” would require the adjustment of the size of the provincial-level administrative regions accordingly.

3. The delegation of authority is not enough, impeding the full realization of the potentials of the system of “counties directly governed by provinces”. Currently, the pilot of the system of “counties directly governed by provinces” is still in its infancy and the delegation of authority is still relatively limited, making it difficult to give full play to the potentials of the system. According to the information provided by several pilot counties (cities), the current inadequacy of the delegation of authority is mainly reflected in the following aspects: First, some administrative authority involving critical resources for the economic and social development of counties (cities) has not been delegated, such as urban planning and the size of land use, so that the development of counties (cities) is still under considerable administrative constraints. Second, there are still too many intermediate links in the process of project approval. For example, every year, more than 10 billion RMB is invested on infrastructure development in the Yiwu city, but the effects of those investments are impeded because the county-level authority of Yiwu for administrative approval is limited. Projects exceeding a certain amount of money and a certain size of land use have to be submitted to the higher level for approval, leading to more intermediate links and long cycles. Third, the delegation of authority related to many issues is insufficient and the expansion of power to some more fundamental areas has not begun. Due to such factors as economic interests, hierarchy etc, it is difficult to actually implement the expansion of power in some areas. For example, the Yiwu city has managed to obtain the administrative authority for some foreign affairs to develop export-oriented economy, but failed to truly exercise the authority for various reasons. In terms of the expansion of power to more fundamental areas, the progress is limited. At present, the pilots for the expansion of power are mainly related to some of the authority of economic and social management, and the authority in more fundamental areas, such as administrative reform, organization and personnel, and institutional management basically has not been delegated. However, the delegation of such fundamental authority is increasingly important for the economic and social development of counties. For example, in terms of institutional management, since the counties (cities) do not have the authority to setting up institutions, the

government of Yiwu could only be organized in accordance with the local registered population of 700 thousand and the county-level administrative division. However, the current resident population of Yiwu has reached two million people, which puts tremendous pressure on the normal administration of many agencies of the government.

### **III. A few ideas for perfect relevant policies to further promote the system of “counties directly governed by provinces”**

1. Taking different measures step by step in different circumstances. The system of “counties directly governed by provinces” is directly related to the interests of prefecture-level cities and counties (cities) under its jurisdiction, so it should be promoted by taking into full consideration of the wishes of those governments and taking different measures step by step in different circumstances according to the levels of economic development of various regions and the specific relations between prefecture-level cities and counties(cities) based on the principle of promoting the industrialization and urbanization process in China, promoting the integration of urban and rural development, promoting the coordinated development of large, medium and small cities and small towns. Specifically, in economically developed regions, the direct governing of the counties should be encouraged to strive for greater opportunities and space for development, but not forced upon those counties (cities) that are willing to stay within the jurisdiction of the prefecture-level city; in economically backward regions, i.e. regions of the so-called “a heavy carts drawn by a small horse”, the direct governing of the counties should be strongly encouraged to obtain more assistance; as for economically moderately developed regions, the counties(cities) should be allowed to make free choice according to their own situation.

2. Establishing an administrative division system in which cities and counties are equal entities, improve regional cooperation organizations, and rationalize the relationship between prefecture-level cities and counties. An administrative division system of an appropriate degree of separate governance for urban and rural areas should be established according to international practice. The administrative levels of various kinds of cities should be phasing out and instead categorizing those cities into large, medium, and small ones according to their population. The staffing of the administrative agencies should be determined according to the population of the city, but the administrative levels of administrative personnel in all cities should be equivalent. Except for direct-controlled municipalities, all other cities of various types

should implement the equivalent system of administrative division as that of counties (including the future the “Town becoming City”). Accordingly, various regional cooperation organizations of a relatively loose structure should be established, such as city circles among a city and surrounding counties that allow the surrounding counties to have freedom of participation and the city to determine the scope of its hinterland according to its own level of economic development and influence; regional cooperation organizations of urban clusters can be established between various cities according to their relative proximity, connections and division of industries to realize the coordinated development of regional economy; Of course, stretches of urban clusters with a larger range can be formed by combining the urban clusters.

3. Further promoting the delegation of authority and the expansion of power, striving to invigorate the regional economy at all levels, and promoting the coordinated development of urban and rural economy. The fundamental aim of “counties directly governed by provinces” and the delegation of authority are to increase the number of players in the market economy, meet the requirement of China’s industrialization and urbanization for geographical locations and reasonable space layout, so as to achieve comprehensive, coordinated and sustainable development of China’s regional economies. The system of “counties directly governed by provinces” let counties (cities) become new independent player in the market economy, and the delegation of authority created the space for the new players of county (city) economy to display their capabilities. In the future, in order to further promote the rapid development of county economy, the delegation of authority should be further enhanced, with the focus on the following areas: First, in places where the level of cities and counties is equivalent, the same authority should accordingly be given to all cities and counties, such as the authority of urban planning and land use planning etc; as for those cities that still retain a number of counties (cities) within their jurisdiction, some more powers can be properly given to them. Second, the authority of the county-level governments in terms of personnel, fiscal resources and administration should be aligned. Accordance with the principle of “full delegation of all the powers that can be delegated”, it is proposed that the provincial governments delegate the powers of their various departments as much as possible to the cities and counties. And it is also proposed that the ministries and commissions of the central government delegate some powers based on local needs as possible or delegate some powers through the delegation of provincial governments. Third, the reform of the county-level institutions and the strength of personnel should be deepened. Without raising the administrative levels, efforts

should be made to realize the determination of the institutional structure and the strength of personnel of the county-level government according to the resident population of a county, in order to ensure that the institutional structure and the strength of personnel of the government continue to meet the requirements of local economic and social development.

Finally, it should be noted that, when dealing with the relations between various levels of government, the relations between the rights and responsibilities of local governments and agencies under direct leadership. The local governments should not inappropriately demand the return of the powers of the agencies under direct leadership for their own interests. The correct approach is to clearly require that the agencies under direct leadership should not unreasonably push their responsibilities to a local government without such functions following the principle of the unity of administrative powers and fiscal powers, and the unity of responsibility and rights, in order to form a good system of division of functions among various levels of government and promote the further reform of the administrative institutions in China.

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## I. SPEYERER FORSCHUNGSBERICHTE

(institutseigene Reihe, über das Institut zu beziehen)

- Nr. 263 *Klaus König/Sabine Kropp* (Hrsg.), Theoretische Aspekte einer zivilgesellschaftlichen Verwaltungskultur, Dezember 2009.
- Nr. 264 *Dennis Kutting*, „Neues Bauen für Neue Menschen?“ Planungen städtischer Verwaltungen und Aneignung durch die Bewohner im sozialen Wohnungsbau der 1920er Jahre, Oktober 2010.
- Nr. 265 *Helmut Klages/Kai Masser*, Die Stadt im Blickfeld des Bürgers - Das Speyerer Bürgerpanel als Element beteiligungsbasierter Stadtentwicklung, Dezember 2010.
- Nr. 266 *Bernd W. Wirtz/Sebastian Ullrich/Linda Mory*, E-Health – Akzeptanz der elektronischen Gesundheitskarte, Januar 2011.
- Nr. 267 *Christian Jock* (Hrsg.) im Auftrag des Unterausschusses Allgemeine Verwaltungsorganisation des Arbeitskreises VI der Innenministerkonferenz, Aktivitäten auf dem Gebiet der Staats- und Verwaltungsmodernisierung in den Ländern und beim Bund 2008-2010, November 2011.
- Nr. 268 *Kai Masser*, Zwei Bürgerpanelbefragungen mit der Universität Tübingen: 1. „Wie finanzieren wir die Zukunft?“ 2010, 2. „Kulturkonzeption der Universitätsstadt Tübingen“ 2011. Analyse der Präferenzstruktur der Daseinsvorsorge unter Hinzuziehung von Ergebnissen der Städte Leipzig und Ludwigshafen, Juli 2011.
- Nr. 269 *Gisela Färber* (Hrsg.), Governing from the Center: The Influence of the Federal/ Central Government on Subnational Governments. Papers Presented at the Conference of the IACFS September 29 – October 1, 2011 in Speyer, September 2012.
- Nr. 270 *Sabine Kuhlmann/Philipp Richter/Christian Schwab/Dirk Zeitz*: Kommunal- und Verwaltungsreform: Optionen zur Neugestaltung der Gemeindeebene in Brandenburg, September 2012.
- Nr. 271 *Gisela Färber/Joachim Wieland/Marco Salm/Johanna Wolff/Dirk Zeitz*, Reform des kommunalen Finanzausgleichs in Thüringen. Gutachten im Auftrag des Finanzministeriums des Freistaats Thüringen, November 2012.
- Nr. 272 *Jan Ziekow/Corinna Sicko/Axel Piesker*, Abschied vom Arkanprinzip? Evaluation des Landesinformationsfreiheitsgesetzes Rheinland-Pfalz, Februar 2013.

- Nr. 273 *Kai Masser*, Zwei Bürgerpanelbefragungen mit der Universitätsstadt Tübingen: 1. „Wie finanzieren wir die Zukunft?“ 2010. 2. „Kulturkonzeption der Universitätsstadt Tübingen“ 2011. Teil 2: Kulturkonzeption der Universitätsstadt Tübingen, Februar 2013.
- Nr. 274 *Gisela Färber* unter Mitarbeit von *Marco Salm*, Gesetzesfolgenabschätzung unter der Genderperspektive – am Beispiel des Faktorverfahrens nach § 39f EStG, Gutachten im Auftrag des Bundesministeriums für Familie, Senioren, Frauen und Jugend (BMFSFJ), Juni 2013.
- Nr. 275 *Kai Masser/Tobias Ritter/Jan Ziekow*, Erweiterte Bürgerbeteiligung bei Großprojekten in Baden-Württemberg – Abschätzung der Auswirkungen der Verwaltungsvorschrift „Bürgerdialog“ und des „Leitfadens für eine neue Planungskultur“ der Landesregierung, Mai 2014.
- Nr. 276 *Gisela Färber/Marco Salm/Christian Schwab*, Evaluation des Verwaltungsmodernisierungsprozesses „CHANGE<sup>2</sup>“ der Stadt Mannheim, Mai 2014.
- Nr. 277 *Steffen Walther*, Reformen der Beamtenversorgung aus ökonomischer Perspektive, Juni 2014.
- Nr. 278 *Stefan Preller*, Nachhaltige Finanzierung der Zusatzversorgung im öffentlichen Dienst, September 2014.
- Nr. 279 *Joachim Wieland/Johanna Wolff*, Kommunales Vermögen – Kommunale Finanz- und Vermögensverwaltung unter Knappheitsbedingungen, Oktober 2014.
- Nr. 280 *Mario Martini/Georg Thiel/Astrid Röttgen* (Hrsg.), Geodaten und Open Government – Perspektiven digitaler Staatlichkeit, November 2014.
- Nr. 281 *María Jesús Montoro Chiner/Karl-Peter Sommermann* (Hrsg.), Gute Rechtsetzung – La Buena Legislación, März 2015.
- Nr. 282 *Alexandra Lessau/Sarah Schmitt* (Hrsg.) im Auftrag Unterausschusses Allgemeine Verwaltungsorganisation des Arbeitskreises VI der Innenministerkonferenz, Aktivitäten auf dem Gebiet der Staats- und Verwaltungsmodernisierung in den Ländern und beim Bund 2011-2013, Juni 2015.
- Nr. 283 *Jan Ziekow* (Hrsg.), Grenzgänge zwischen Wissenschaft und Praxis – Walking the Border between Theory and Practice, Forschungssymposium am 7. November 2014 zu Ehren von Eberhard Bohne zum 70. Geburtstag, November 2015.
- Nr. 284 *Kai Masser/Franziska Fischer/Tobias Ritter*, Evaluation des Kommentieren-Bereichs des Beteiligungsportals des Landes Baden-Württemberg, November 2015.
- Nr. 285 *Yukai WANG/Gisela FÄRBER* (ed.), Comparative Studies on Vertical Administrative Reforms in China and Germany, Juli 2016.

## II. SELBSTÄNDIGE VERLAGSPUBLIKATIONEN

*(nur im Buchhandel erhältlich)*

238. *Eberhard Bohne*, The World Trade Organization – Institutional Development and Reform, Hampshire/New York 2010.
239. *Bernd W. Wirtz* (Hrsg.), E-Government. Grundlagen, Instrumente, Strategien, Wiesbaden 2010.
240. *Dorothea Jansen* (Hrsg.), Governance and Performance in the German Public Research Sector - Disciplinary Differences, Dordrecht 2010.
241. *Margrit Seckelmann/Stefan Lange/Thomas Horstmann* (Hrsg.), Die Gemeinschaftsaufgaben von Bund und Ländern in der Wissenschafts- und Bildungspolitik – Analysen und Erfahrungen, Interdisziplinäre Schriften zur Wissenschaftsforschung, Bd. 11, Baden-Baden 2010.
242. *Jan Ziekow* (Hrsg.), Wandel der Staatlichkeit und wieder zurück? Die Einbeziehung Privater in die Erfüllung öffentlicher Aufgaben (Public Private Partnership) in/nach der Weltwirtschaftskrise, Baden-Baden 2011.
243. *Richard Heidler*, Evolution und Struktur von Wissenschaftsnetzwerken am Beispiel der Astrophysik, Interdisziplinäre Schriften zur Wissenschaftsforschung, Bd. 12, Baden-Baden 2011.
244. *Dorothea Jansen/Katrin Ostertag/Rainer Walz* (Hrsg.), Sustainability Innovations in the Electricity Sector, Berlin/Heidelberg 2012.
245. *Alexander Windoffer*, Verfahren der Folgenabschätzung als Instrument zur rechtlichen Sicherung von Nachhaltigkeit, Jus Publicum 209, Tübingen 2011.
246. *Dorothea Jansen*, Towards a European Research Area. Proceedings of a Research Conference at the German Research Institute for Public Administration Speyer, Interdisziplinäre Schriften zur Wissenschaftsforschung, Bd. 13, Baden-Baden 2012.
247. *Ulrich Stelkens/Wolfgang Weiß/Michael Mirschberger* (Hrsg.), The Implementation of the EU Services Directive. Transposition, Problems and Strategies, The Hague 2012.
248. *Christian Jock*, Das Instrument der Fachaufsicht. Rechtliche und verwaltungswissenschaftliche Probleme und potenzielle Weiterentwicklungen, Göttingen 2011.

249. *Margrit Seckelmann*, Informationen durch Performance Measurement - Die Leistungsvergleiche nach Art. 91d GG, *Karlsruher Dialog zum Informationsrecht*, Bd. 2, Karlsruhe 2012.
250. *Jan Ziekow/Alfred G. Debus/Elisabeth Musch*, Bewährung und Fortentwicklung des Informationsfreiheitsrechts. Evaluierung des Informationsfreiheitsgesetzes des Bundes im Auftrag des Deutschen Bundestages, *Schriften zur Evaluationsforschung*, Bd. 1, Baden-Baden 2013.
251. *Jan Ziekow/Alfred G. Debus/Axel Piesker*, Die Planung und Durchführung von Gesetzesevaluationen. Ein Leitfaden unter besonderer Berücksichtigung datenschutzrechtlicher Eingriffe, *Schriften zur Evaluationsforschung*, Bd. 2, Baden-Baden 2013.
252. *Christoph Ewen/Oscar W. Gabriel/Jan Ziekow*, Bürgerdialog bei der Infrastrukturplanung: Erwartungen und Wirklichkeit. Was man aus dem Runden Tisch Pumpspeicherwerk Atdorf lernen kann, *Schriften zur Evaluationsforschung*, Bd. 3, Baden-Baden 2013.
253. *Jan Ziekow/Axel Piesker/Marco Salm/Corinna Sicko*, Neue Serviceangebote für Dienstleister. Erfahrungen mit den Einheitlichen Ansprechpartnern in Baden-Württemberg, *Schriften zur Evaluationsforschung*, Bd. 4, Baden-Baden 2014.
254. *Klaus König/Sabine Kropp/Sabine Kuhlmann/Christoph Reichard/Karl-Peter Sommermann/Jan Ziekow* (Hrsg.), Grundmuster der Verwaltungskultur. Interdisziplinäre Diskurse über kulturelle Grundformen der öffentlichen Verwaltung, Baden-Baden 2014.
255. *Christian Bauer*, Die Energieversorgung zwischen Regulierungs- und Gewährleistungsstaat. Die Gasnetzzugangs- und Gasnetzentgeltregulierung durch Bundesnetzagentur und Landesregulierungsbehörden, *Schriftenreihe der Deutschen Universität für Verwaltungswissenschaften Speyer*, Bd. 225, Berlin 2014.
256. *Insa Pruisken*, Fusionen im institutionellen Feld „Hochschule und Wissenschaft“, *Interdisziplinäre Schriften zur Wissenschaftsforschung* Bd. 15, Baden-Baden 2014.
257. *Klaus König*, *Operative Regierung*, Tübingen 2015.
258. *Corinna Sicko/Dirk Zeitz/Jan Ziekow*, Neubau der sozialen Wohnraumförderung. Evaluierung des Landeswohnraumförderungsgesetzes Baden-Württemberg und Entwicklung von Regelungsperspektiven, *Schriften zur Evaluationsforschung*, Bd. 5, Baden-Baden 2015.
259. *Cristina Fraenkel-Haeberle/Sabine Kropp/Francesco Palermo/Karl-Peter Sommermann* (Hrsg.), *Citizen Participation in Multi-Level Democracies*, Leiden/Boston 2015.

### III. FÖV DISCUSSION PAPERS

(institutseigene Reihe, über das Institut zu beziehen)

- Nr. 55 *Holger Mühlenkamp*, Ökonomische Analyse von Public Private Partnerships (PPP) – PPP als Instrument zur Steigerung der Effizienz der Wahrnehmung öffentlicher Aufgaben oder als Weg zur Umgehung von Budgetbeschränkungen? –, Januar 2010.
- Nr. 56 *Christian Bauer*, „Collaborative Governance“ – ein neues Konzept für die Regulierung der europäischen Strom- und Gasmärkte?, Januar 2010.
- Nr. 57 *Andrei Kiraly*, Whistleblower in der öffentlichen Verwaltung. Ihre Rechtsstellung bei der Korruptionsbekämpfung, Speyer, März 2010.
- Nr. 58 *Kathrin Przybilla*, The "WTOisation" of the customs administration: Uniformity of the administration of law according to Article X:3 (a) GATT 1994 and its implications for EU customs law, Speyer, März 2010.
- Nr. 59 *Eberhard Bohne*, Clash of Regulatory Cultures in the EU: The Liberalization of Energy Markets, Speyer, Juni 2010.
- Nr. 60 *Andreas Knorr/Jörg Bellmann/Rahel Schomaker*, International Trade Rules and Aircraft Manufacturing: Will the World Trade Organization Resolve the Airbus-Boeing Dispute?, Speyer, September 2010.
- Nr. 61 *Albrecht Blümel/Katharina Kloke/Georg Krücken*, Hochschulkanzler in Deutschland: Ergebnisse einer hochschulübergreifenden Befragung, Speyer, September 2010.
- Nr. 62 *Jonas Buche*, Die Europäisierung von Parteien und Parteiensystemen - Eine Analyse am Beispiel Schwedens vom Beitritt zur EU 1995 bis zur Reichstagswahl 2006, Speyer, September 2010.
- Nr. 63 *Andreas Knorr/Andreas Lueg-Arndt/Barbara Lueg*, Airport Noise Abatement as an International Coordination Problem – The Case of Zurich Airport, Februar 2011.
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- Nr. 70 *Ulrich Stelkens/Hanna Schröder*, EU Public Contracts – Contracts passed by EU Institutions in Administrative Matters, März 2012.
- Nr. 71 *Hans Herbert von Arnim*, Der Bundespräsident – Kritik des Wahlverfahrens und des finanziellen Status, März 2012.
- Nr. 72 *Andreas Knorr*, Emissionshandel und Luftverkehr – Eine kritische Analyse am Beispiel des Europäischen Emissionshandelssystems (EU ETS) –, September 2012.
- Nr. 73 *Gisela Färber/Julia Einsiedler*, Bürokratiekostenabbau im Steuerrecht: Ein Ansatz zur Vereinfachung des Steuerrechts? September 2012.
- Nr. 74 *Tim Jäkel*, Wer vergleicht seine Leistung, wenn er hohe Schulden hat? Empirische Evidenz aus den deutschen kreisfreien Städten, Mai 2013.
- Nr. 75 *Holger Mühlenkamp*, From State to Market Revisited: More Empirical Evidence on the Efficiency of Public (and Privately-owned) Enterprises, Juli 2013.
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- Nr. 81 *Marco Salm/Christian Schwab*, HRM and Change Management: Comparative Results from Three European Cities of Excellence, November 2015.
- Nr. 82 *Marius Herr*, Das E-Government-Gesetz des Bundes – Ein verwaltungswissenschaftlicher Literaturbericht –, November 2015.

#### **IV. Vorträge aus dem Deutschen Forschungsinstitut für öffentliche Verwaltung Speyer**

(institutseigene Reihe, über das Institut zu beziehen)

Nr. 1 *Hans Peter Bull*, Vom Auf- und Abbau der Bürokratie, Januar 2006.

Nr. 2 *Janbernd Oebbecke*, Rechtswissenschaftliche Forschung und Verwaltung, Januar 2006.