

Local governments between the state and the market:

Assessing impacts of reforms in Western Europe

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Abstract

This article compares local government reforms in three European countries, France, the United Kingdom (England), and Germany addressing two types of reform. On the one hand, decentralisation reforms are referred to, that is the vertical re-organisation of tasks between state/ central government and local authorities. On the other hand, the horizontal readjustment of competencies between local authorities and market or non-profit actors are investigated, thus focussing on privatisation, corporatisation and contracting out. Drawing on findings of an ongoing research project, the focus is particularly on reform impacts and effects, making a distinction between institutional changes and performance impacts. Which effects did decentralisation and privatisation processes cause and was local governments' performance improved? The author reveals that there is a general trend of devolving public functions to lower levels of government. All three countries have moreover witnessed a shift from unitary local government to a fragmented system of local governance. These convergent developments notwithstanding, the institutional strategies pursued and performance effects obtained differ considerably across countries.

Introduction

A capable and viable as well as politically accountable local self-government is regarded a decisive precondition for the functioning of the entire national and supra-national democratic order. Against this background current reform initiatives in the OECD-world have been directed towards transferring responsibilities, resources and powers from upper to lower tiers of government, thereby further strengthening the local level. At the same time, the neo-liberal trend in many European countries tends to challenge seriously this vision of a broad functional profile and comprehensive political mandate of local governments. The paper presented here is aimed at analysing these different and partly contradicting approaches of local government reform in Western European countries from a comparative perspective. Drawing on interim findings of an ongoing research project on decentralisation effects in European local governments¹, the author attempts to scrutinise the re-distribution of public tasks and service delivery functions at the sub-national level of government. The selection of

¹ The research project is financed by the German Science Council and is jointly headed by Jörg Bogumil (University of Bochum, Germany) and the author (duration: 1/07-12/09). It examines the impacts and effects of de-/re-centralisation reforms in Germany, France and in the United Kingdom from a cross-countries perspective focusing on policy areas that are most affected by institutional de- or re-centralisation reforms (cf. Bogumil and Kuhlmann 2005).

Germany, France, and the United Kingdom (England)² is justified by the fact that these countries represent three distinct models of local government systems, which can be seen as “typical” cases of decentralised institution-building and reform in Western Europe.

The paper attempts to combine an “institution-genetic” and an “evaluative” analytical perspective. On the one hand, the author seeks to reveal the “starting conditions”, trajectories and driving forces of local government reforms in the three countries under consideration. Here, the question will be turned to as to whether the reforms mark a significant rupture with traditional administrative cultures of service provision in the respective countries or whether historically and culturally ingrained structures and traditions of local service production prevail. Is there a convergence between the three countries or do they pursue distinct trajectories of reforms suggesting more divergent institutional development? On the other hand, and most importantly in this paper, the effects and results of these changes will be examined with regard to local governments’ performance, coordination capacities and political accountability. What are the intended and unintended consequences of the reforms and to what extent can they be referred to the pursued reform policy (“*do institutions matter?*”).

We scrutinise two types of reform: the vertical/ intergovernmental re-organisation of tasks between the State/ central government and the local governments (decentralisation) on the one hand and the horizontal redistribution of competencies between local authorities and private actors (privatisation, corporatisation) on the other. Decentralisation policies may have various faces. At least three variants are to be distinguished:

- “Political decentralisation”, which entails a transfer of tasks to local governments including political decision-making competencies for local councils,
- “Administrative decentralisation” that is a devolution of state/ central government tasks to local authorities without decision-making functions being granted to the local councils,
- “Administrative de-concentration” aimed at establishing locally operating state authorities, agencies and quangos, the political control of which lies outside the elected local councils.

² Where the United Kingdom is not explicitly mentioned, reference is here to England.

In the horizontal dimension, too, we must differentiate at least three forms:

- “Functional privatisations” are directed at delegating service provision via contracts partly or entirely to the private or non profit actors whilst the ultimate responsibility for the respective tasks (sometimes also the ownership for technical equipment) remains with the local authority.
- “Organisational privatisations”, by contrast, refer to the introduction of municipal private law companies or the inclusion of private share holders into municipal corporations.
- A particular form of horizontal re-organisation is the “corporatisation” strategy, in the course of which administrative units of the municipal core administration are spun off, yet remain part of the municipal organisation, and are transformed into institutionally separate municipal “corporations” or service entities (be it as public law, be it as private law companies or as quasi-autonomous service centres).

2. Analytical Framework

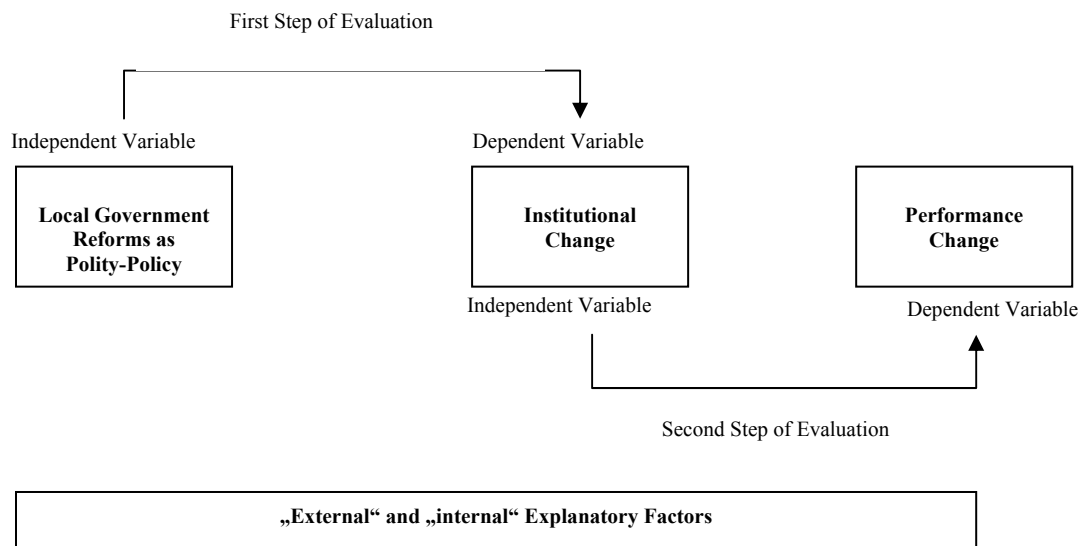
Assessing impacts of “polity-policy”

Local government reforms can be conceived as a particular form of institutional policy. Generally speaking, this type of policy is directed at redrawing the “institutional logistics” or the “polity” of public policy-making and thus can be referred to as “polity policy” (cf. Wollmann 2003: 4). It has been argued that “polity-policy” causes specific steering problems, as a result of which the impact assessment of “polity policy” is – in contrast to that of (“normal”) sectoral policies – characterised by an even more complex analytical architecture (see Pollitt and Bouckaert 2003: 12 et sqq.; Bovaird et al. 2001). First, changes within the politico-administrative system must be analysed (“institution evaluation”). Then the consequences of these institutional changes on the effectiveness and performance of public administration have to be considered (“performance evaluation”). Finally, in a third step, the more remote impacts outside the politico-administrative system (“outcome evaluation”) would have to be examined.

In the following, we use here a two-steps-approach of institutional impact assessment (cf. also Wollmann 2003, Bogumil and Kuhlmann 2006, Kuhlmann 2004). In the first step, we examine the institutional changes resulting from reforms, whereas the aim of the second step

of analysis is to find out how these institutional and instrumental changes impacted on the local governments' performance of in terms of cost savings, efficiency, policy effectiveness, quality, coordination capacities and political accountability.

Figure 1: Two-Steps-model of the NSM-evaluation



Adapted from Bogumil and Kuhlmann 2006

For empirically assessing the institutional effects of these different attempts at reform, we draw on a typology of governmental organisation well-known in administrative sciences, which makes a distinction between multi purpose territorial organisation and single purpose functional organisation (cf. Wagener 1979; Wagner and Blümel 1997; Benz 2002; Bogumil and Jann 2005; Wollmann 2004; Bogumil and Kuhlmann 2005)³. Within the ideal-type “multi purpose model”, all functions of the local level fall with the local governments acting as politically responsible all-purpose institutions. Local governments institutionally bundle all locally incurring tasks and have a territorially comprehensive mandate of decision-making and service provision. The guiding principle of governmental organisation is “territoriality” including the political accountability of the respective territorial unit. The “single purpose model”, by contrast, un-bundles political control and administrative execution. It has two dimensions, a vertical and a horizontal one. Vertically, the single purpose model is characterised by an organisation of functions going from the central to the local level and providing a separate administrative apparatus for each policy sector. The political

accountability is located outside the democratically elected local councils. Horizontally, the single purpose model de-integrates the comprehensive territorial all-purpose profile of local governments transferring their tasks to mono-function private or non-profit actors, who pursue a single purposive rather than multi functional rationality in fulfilling these tasks. The predominant template of governmental organisation is “functionality”. In the following, we ask as to whether there is a convergent trend towards a multi-function-model of local government based on “territoriality” or more to a single-purpose-model based on “functionality”.

The second, conceptually as well as empirically more demanding, step of evaluation refers to the performance impacts of observed institutional changes. Given the conceptual and methodological complexity of performance evaluation, this perspective has hitherto been strikingly absent in comparative public administration and local government studies⁴. However, in order to approach the “performance question”, three dimensions of assessment will be distinguished: coordination capacities (vertical/ horizontal); efficiency and effectiveness of service production; political accountability and democratic control. Drawing on the typology of the single purpose and the multi purpose model the following theory can be put forward.

Democratic control and horizontal coordination (cross policies and territory-based) are likely to increase in proportion to the degree to which functions and decision-making powers are vested in politically accountable local self-government (multi-purpose model). Owing to lower specialisation levels, however, policy effectiveness and the single-sector quality of service delivery are reduced. Customer orientation and the proximity to citizens are enhanced. Vice versa, it can be assumed that the single purpose model, under which political responsibility lies outside the local authority, reduces the democratic accountability and transparency of public action as well as the proximity to citizens. Although greater vertical coordination within a given policy area can help increase single-policy effectiveness and the sectoral quality of service provision, it can bring deficiencies in horizontal cross-policies coordination, which is to the detriment of a comprehensive community development and territory-based steering in the localities. In local government systems with a multi purpose organisation profile the efficiency of service production can be expected to increase and cost savings are likely to occur, because the financing responsibility and the service provision

³ The terminology of “single purpose model” and “multi-purpose model” is used here with reference to Wollmann (2004).

function are institutionally integrated and public actions are under the immediate democratic control of the local electorate. The single purpose organisation, by contrast, separates financing and service provision functions and withdraws public spending from direct democratic control. It furthers the maximisation of policy interests leading to institutional inflation of single purpose authorities to a degree far beyond what can be considered as functionally necessary and appropriate. This tendency does not only make for higher outlays, it also increases sectoral fragmentation and reduces horizontal coordination to the detriment of the overall institutional efficiency. Somewhat simplified the relation between sub-national governmental organisation and institutional performance can be summarised as follows:

Table 1: Presumed Relation between sub-national organisation and performance

Performance Criterion	Multi purpose model	Single purpose model
Efficiency of service delivery	+	-
Policy effectiveness/ quality	-	+
Horizontal coordination	+	-
Vertical coordination	-	+
Political accountability	+	-

+: high; - : low

3. “Starting Conditions” of Local Government Reforms in Western Europe

Referring to a prominent typology, the countries under consideration here represent three distinct models of Western European local government systems (cf. Hesse and Sharpe 1991). The German system belongs, along with the Scandinavian countries, Austria, Switzerland, and the Netherlands, to the “North Middle European Group” of local governments (cf. Hesse and Sharpe 1991), which is marked by high local discretion and autonomy, a high constitutional status of local self-government and a deeply routed tradition of local democracy and community identity. Accordingly, local governments of this group enjoy both a politically and functionally strong position within the entire national politico-administrative system. In Germany, local governments traditionally discharge not only their own local self-administration functions but additionally those tasks delegated to them by the Federal and *Länder* governments. Therefore, they are characterised by a “fused system”, within which state and local tasks are institutionally integrated. This double function of the German local governments is labelled as “janus-faced” (*Janusköpfigkeit*; see Wollmann 2004).

⁴ Two remarkable exceptions are Sellers 2002 and Hudalla et al. 2004.

The British local government system is assigned to a different model of local government systems, which has been referred by Hesse and Sharpe to as the “*Anglo group*” including also Ireland, Canada, Australia, the United States, and New Zealand. This model, particularly its British version, is shaped by two conflicting principles. On the one hand, local authorities have no constitutionally guaranteed status. According to the traditional “*ultra vires*”-principle, they may discharge only those functions and tasks that are explicitly assigned to them (and can also be withdrawn) by national legislation, which conspicuously reflects the supremacy of the British parliament. Hence, contrary to Continental Europe, there is no “general competence clause” in favour of the local councils, since this would constrain the “parliamentary sovereignty” and contradict the “*ultra vires*”-doctrine. Furthermore, British local authorities are relatively weak from a political point of view. A strong local political “leader”, in the sense of a German or French mayor, has been unknown until recently. Community identity is hardly developed and local actors have no significant political influence at the national level of government due to a strict separation of the central and local levels of politics. Thus, the “Anglo model” of local government is traditionally weak in constitutional and political terms. On the other hand, until well into the 1980s, British local authorities enjoyed considerable scope for action and noticeable functional strength, regardless of their weak legal and political position. Competencies and duties of central and local government were quite distinctly separated, which has been labelled as a “dual polity” (Bulpitt 1983). Within this “separational system” central government essentially dealt with legislation and “high politics” (Wollmann 1999, 188) while local governments had high discretion in “low politics” and discharged virtually all sub-national tasks in their own political responsibility. Moreover, Parliament used to prevent central government ministries from establishing their own subordinate administrative units and agencies at the sub-national level, so that policy implementation and public service delivery was predominantly discharged by local councils at county and district levels (Sharpe 1993).

The French system is – according to Hesse and Sharpe - representative of the “*Franco group*,” which includes Italy, Belgium, Spain, Portugal, and Greece. Owing chiefly to the influence that the “multiple office holding” (*cumul des mandats*) gives powerful mayors in national politics, French local authorities have traditionally tended to be politically very strong. Yet, this political strength in national politics largely contrasted (until well into the 1980s) with a weak functional position and an all but lacking administrative portfolio. Within the French executive centralism, central government – represented by the prefect – discharged

not only its own tasks through its own sub-national authorities but was also responsible for administering the self-government functions of the *départements* and the municipalities. Hence, contrary to the British “separational system” and the German local government-centred “fused system”, France was traditionally characterised by a state-centred “fused system”, where locally operating state authorities institutionally integrated local self-government and central government administrative functions (Wollmann 2004).

Regarding local service delivery, we can make a distinction between two ideal-type models of governance. On the one hand, local governments may prefer to provide services through their own institutions, in their own *régie* and with their own staffs. On the other hand, they may take the option of contracting out these services and of introducing a “purchaser-provider-split” by delegating the service provision to non-public actors, particularly to private companies, and confining themselves to an “enabling” function. In Germany and Britain, many public services have traditionally been delivered by local authorities on their own, amounting to what has been criticised by some scholars as “municipal empires” or “municipal socialism” (“*Munizipalsozialismus*”)⁵. This stands in stark contrast to the French model, where, since the 19th century, public services have been “delegated” via concessions and leasing agreements to big private firms (*gestion déléguée*; Lorrain 1995). Drawing on the analytical distinction between *governance* and *government*, the traditional German and British models of local service production can be described as unitary systems of an institutionally integrated “*local government*”. French local authorities, however, have a long experience in practicing “*local governance*”, since multiple actor constellations, non-hierarchical negotiations and contractual relations between local government and private actors, institutional fragmentation and des-integration are typical for local service provision.

4. Decentralisation and Intergovernmental Reforms

France: Two waves of political decentralisation

France experienced two waves of decentralisation: “Acte I” starting in 1982 and “Acte II” from 2003 onwards. The French initiatives of state-local re-organisation can be considered a prime example of political decentralisation rewarding local councils with new decision-

⁵ An important exception in Germany is social service delivery, which is traditionally discharged by non-profit organisations. British local authorities, in contrast have traditionally had a monopoly in social service provision, and in this have more resembled Scandinavian local authorities.

making competencies and major functional responsibilities (for details see Kuhlmann 2007; Wollmann 2007). As a result of the two rounds of decentralisation, local authorities (*collectivités territoriales/ locales*) have clearly been strengthened - also vis-à-vis locally operating state agencies and the prefects. With the constitutional amendment of March 2003, decentralisation has, moreover, gained constitutional status for the first time in the French history, and the devolution of tasks from central government to the *départements* and the regions was even intensified (*Acte II*). Their portfolio has considerably been extended, particularly in social service delivery now completely discharged, also financially, by the *départements*. However, decentralisation comes against limits since the deeply ingrained French “localism” (rooted in the “Girondist” heritage and running counter to the Jacobin centralism) prevents the creation of more efficient (large-scale) local authorities. This historical heritage is safeguarded institutionally by the aforementioned accumulation of local and national mandates and the common practise of multiple-office-holding (*cumul des mandats*). Against this background, it is hardly surprising that central government with its numerous single purpose authorities (*services extérieurs*) is still very much present at the local level and often competes with municipal, *département* and inter-municipal institutions as well as with other de-concentrated state agencies operating at the local level (Thoenig 2006). However, the trend of municipal cooperative grouping, provoked by the act of 1999 (*Loi Chevènement*) and amounting to what has been called an “inter-municipal revolution” (cf. Borraz/Le Galès 2005), is generating a new dynamic in France. Various forms of inter-municipal cooperation (*établissements publics de coopération intercommunale – EPCI*), which have their own tax revenue, are now installed almost throughout the country⁶ and increasingly offer a suitable institutional basis for the further devolution of state tasks to the local level. The functional amplitude that the *EPCI* have meanwhile gained can be seen from the fact that the inter-municipal workforce now represents almost a tenth of total local public employment, and thus has well overtaken the regions (with 0.7 per cent) and is catching up with *département* authorities (16 per cent).

England: “Agencification” and “Quangoisation” as administrative de-concentration

England offers a strong contrast to France and numerous other Western European countries, since it has not followed the international trend towards decentralisation, quite the contrary.

⁶ Meanwhile, almost 90 per cent of all French local authorities belong to some form of cooperative grouping (Kuhlmann 2006).

As far as the local government level is concerned, it is a more or less unique example in Europe of central government interventionism and an institutional defeat of local autonomy. After major local government functions had been nationalised soon after the Second World War (National Health Service, gas, electricity, social welfare), later to be partly privatised, central government intervention at the local level intensified in the course of the “Thatcherist Revolution”, which thoroughly revamped Britain’s traditionally “strong” local government model (Wollmann 2004). In contrast to France, a strategy of administrative de-concentration was pursued that resulted in central government – hitherto limited to Whitehall under the “dual-polity”-tradition – becoming institutionally more and more entrenched in local policy-making and implementation. Central government agencies and a multitude of quasi non-governmental organisations (quangos) operating at the local level displaced the politically accountable and democratically responsible local councils which were more and more “hollowed out” and disposed of their traditional functions and tasks. “Quangoisation” has meanwhile attained considerable proportions: there are now 5,000 such bodies in England, managed by 50,000 government-appointed board members. This compares with only 500 district and county councils with a total of 23,000 elected councillors (Winchester and Bach 1999, 32)⁷. Furthermore, central government severely restricted local finances by setting limits to local budgets, by withholding allocations in the case of budget overruns, and by capping rates. The arrival of New Labour in government in 1997 brought little shift in policy. Although “privatisation at any price” was no longer the watchword as under the Tories (see below), and the Local Government Act of 2000 diluted the traditional “ultra vires”-doctrine by introducing a form of the Continental European “general competence”-concept, central-government interventionism was further strengthened despite all discussion about “new localism.” “Marketisation” has been replaced by a tightly-knit system of centralist regulation, control, and sanctioning of local government activities. The comprehensive system imposed by central government on local authorities of performance measurement, monitoring and controlling (“Best Value Regime - BV”; later “Comprehensive Performance Assessment – CPA”) is also fully in line with the trend towards central government interventionism. It required a dense control and inspection network (the Central Audit Commission, inspectorates, and private auditors) to be installed (Kuhlmann and Wollmann 2006).

⁷ In the mid-1990s, local quangos financed by central government had a total budget of some £ 40 billion,

Germany: “Functional Reforms” as administrative decentralisation

In Germany, territorial re-organisations as well as the devolution of state tasks have considerably strengthened 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 decentralisation. The state of Baden-Württemberg has played a pioneering role (see Banner 2006). On 25th March 2003, the Minister President of Baden-Württemberg, *Erwin Teufel*, presented plans for a major re-organisation and a complete redistribution 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 250 special-purpose state authorities, whose functions and personnel were transferred to the 35 counties and 9 county-free cities (see Bogumil and 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 Baden-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.

Nevertheless, the German version of a primarily *administrative* decentralisation has proved limited in many respects. On the one hand, it is a “pseudo” or “false” decentralisation 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. Furthermore, the intermediate or regional level of State administration located in the four administrative districts (*Regierungspräsidien*) has been

almost as much as the total budget of local authorities (Stoker 1999, 42).

maintained and even strengthened in Baden-Württemberg. Instead of streamlining these territorial offices of State-government and thus completing the decentralisation 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 Baden-Württemberg has renounced any territorial reorganisation 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. Rothe 2005; Kuhlmann 2007). 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 Baden-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 and Kottmann 2006). Moreover, German decentralisation policies are largely counteracted by the acute financial crisis, which obliges local authorities to reduce non-mandatory services and, in extreme cases, limits them to discharging delegated State functions.

5. Privatisation and Marketisation: Local Authorities and the Market

France: Generalised “Delegation” and the “Satellite Model”

The French decentralisation policy of the 1980s along with the economic crisis of the period can be regarded as a major driving force of outsourcing, privatisation and contracting-out at the local level. “Delegation” to private firms (*gestion déléguée*), already practised since the 19th century (see section 3) became now the predominant model of delivering local services, particularly in the infrastructure and utility sector. Many municipal companies, which had meanwhile emerged in French cities, disappeared from the local scene, while private providers took over “*un rôle leader*” (Lorrain 1995, 105). A “generalisation of *délégation*” (Duval 2006) has occurred in local public utilities, where essentially three big enterprises dominate and share the French market⁸. In drinking water supply, which is an essential local government duty in France, the proportion of consumers served by private firms rose from 30

⁸ Veolia Environnement (formerly Compagnie Générale des Eaux/CGE; formerly Vivendi), Suez (formerly Suez Lyonnaise des Eaux/SLE) and Société d’aménagement urbain et rural (SAUR).

per cent in the mid-1950 to 60 per cent in 1983 and to no less than 80 per cent in 1999 (Guérin-Schneider and Lorrain 2003, 46).

Table 2: Modes of Local Service Delivery in the French Water Sector, 2000

Mode of service provision	% of the municipalities	% of the population
Water provision		
Direct service provision (local government)	48	21
Delegation (to private companies)	52	79
Sewage		
Direct service provision (local government)	62	48
Delegation (external provider)	38	53

Source: Hansen and Herbke 2004: 300

Furthermore, local authorities increasingly make use of mixed-economy enterprises (*Sociétés d'économie mixte – SEM*). In the 1980s some 100 of them were set up every year (Santini 1990, I) amounting to what has been labelled as a real “SEM reflex” (ibid.). Finally yet importantly the complete decentralisation of social service functions and financing (*action sociale*) to the *départements* has prompted local actors to draw more and more on non-profit organisations (*associations*) for the provision of labour-market re-integration and “welfare to work” measures.

England: Compulsory Competitive Tendering and Contracting Out

Under the Conservative government by Margaret Thatcher, the traditional British system of local government was conspicuously re-shaped and transformed. Through “Compulsory Competitive Tendering – CCT” local authorities were obliged to contract out many local services (refuse collection, canteens, street cleaning, maintenance, etc.) which hitherto formed essential parts of their portfolio. Although New Labour, when coming into office in 1997, abolished the highly criticised CCT-regime and replaced it by the “Best Value”-system, the local authorities are still required to compare their performance with private providers and to outsource services (Reimer 1999, 157 ff.). Competitive tendering procedures cost some 300,000 local public servants their jobs from the beginning of the 1990s, particularly affecting the manual workers (canteen catering, refuse collection, recreational and sporting facilities, industrial and office cleaning, road construction and maintenance). Increasing job cuts have also resulted from privatisation and outsourcing in local social welfare authorities, where 7 per cent of positions were lost. Market competition also “degraded” local government

employment and deteriorated working conditions, bringing lower pay and benefits (sickness benefit, holiday allowance), more temporary and short-term contracts, general job insecurity and multiple jobholding, as well as an increasing workload (Reimer 1999, 157 ff.), particularly affecting female employees. Against this background, the Local Government Pay Commission concluded that “local government (is) in danger of becoming the ‘poor relation’ of the public sector” (Local Government Pay Commission 2003).

Germany: Outsourcing, Privatisation, and Provider Pluralisation

In Germany, most far-reaching changes in the traditional model of local service delivery have occurred in the public utility sector (electricity, gas, water, waste disposal, public transport) mainly triggered by EU market liberalisation and local government privatisation policy. On the one hand, the hitherto protected “local markets” have been opened up to competition. On the other hand, and even more importantly, the budgetary crisis obliges many local authorities to outsource or privatise their services. In a 2005 survey (data base: 260 German local authorities) only one per cent of the municipalities with more than 20,000 inhabitants stated not to have outsourced or “corporatised” services, while 83 per cent reported they had outsourced between five and 13 services (cf. Breimeier et al. 2006). Interestingly, more than 80 per cent of the surveyed local authorities preferred private law corporations (Ltd. company, stock company, registered private association, co-operative; see Richter et al. 2006). It is true that in cities with more than 50,000 inhabitants purely public corporations are still predominant (see Universität Potsdam and KGSt 2003: 22 f.)⁹. Yet, private firms hold shares of nearly 40% of the cities’ companies and every tenth municipal company (11%) is, through a private majority holding, predominated by private firms. 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 holders¹⁰. In the big German cities, local governments have minority holdings in roughly 20% of the energy companies. This conspicuously mirrors the increasing role of private actors in local service provision and marks at the same time a loss in local governments’ powers and

⁹ Empirical basis: (1) survey of 190 cities with more than 50,000 inhabitants; response rate: 71% (135 cities); (2) analysis of 2391 municipal corporations of these cities (see Universität Potsdam and KGSt 2003: 47; Richter et al. 2006).

¹⁰ Empirical basis: analysis of 3034 corporations of 36 big German cities. The study revealed that in the cities under consideration, none of the energy companies were organized as public law-corporations (Libbe et al. 2004: 75). The University of Potsdam and KGSt survey which also included smaller municipalities detected public law companies at least in 2.1% of the scrutinized electricity corporations (Universität Potsdam and KGSt 2003: 51 f.).

influence. Although the time honoured “*Stadtwerke*” have not yet disappeared from the local landscape, energy supply in Germany is more and more determined by private companies, especially by four big groups acting as regional monopolies (E.ON, RWE, EnBW and Vattenfall). Furthermore, since the 1990s, the practical monopoly of non-statutory welfare associations (*freie Wohlfahrtsverbände*) in social services has been increasingly replaced by a new “welfare mix” due to federal legislation. The market has particularly been opened in the sector of care for the elderly, which can be seen from the fact that foster homes for the elderly are now predominantly provided by private, commercial firms (60 per cent in East Germany; 50 per cent in West Germany). Local authorities play hardly any role in this field of service provision (East: 0.7 per cent; West: 2 per cent; cf. Statistisches Bundesamt 2005).

6. Reform Impacts from a cross-countries comparative perspective: do institutions matter?

We now turn to the question, what impacts these institutional changes had on local governments’ performance and steering capacities. Although the empirical knowledge available so far is rather scarce, particularly concerning the cross-countries comparative dimension, some first tentative findings can be reported from the above-mentioned research project.

(1) Coordination and democratic control: Testing the theory developed further above (see section 2) against the actual findings in the countries under consideration here, the picture is quite differentiated. Although the administrative decentralisation (“functional reforms”) pursued in Germany has significantly upgraded the local authorities’ multi function profile, they were not granted more political decision-making competencies. Political accountability and democratic control could insofar not be enhanced, since local councils do not discharge the transferred tasks as politically responsible institutions. Concerning horizontal coordination, the decentralisation process in Germany was conspicuously countervailed by privatisation and corporatisation, tending to reinforce a single purpose organisation at the local level. As a consequence, the cross-policies coordination capacities of local governments have awkwardly been cut. As local governments progressively retreat to an “enabling function” and surround themselves with a multitude of quasi-autonomous single-purpose “satellites” institutional fragmentation of the local landscape and cross-sectoral coordination problems are conspicuously increasing. Although the debate on “local governance” points (from a normative point of view) to a re-integration of fragmented actor systems, local

authorities are in practice far removed from any such countervailing development. Hitherto, German local governments have neither proved capable of effectively steering their municipal holdings, nor have they elaborated concepts of strategic “corporate governance” (cf. Reichard 2006). Corporatisation and privatisation have also made decrease local governments’ political steering capacities amounting to what has been called the “local councils’ self-deprivation of political powers” and thus the “citizens’ deprivation of influence” (Bogumil and Holtkamp 2002). Instead of a better horizontal steering and a reinforcement of political accountability, the coordination problems within local governments increased and the democratic control by the local councils and citizenship was diminished¹¹.

In France, political decentralisation in conjunction with the “inter-municipal revolution” has on the one hand markedly improved the institutional basis for cross-policies coordination at the territorial level. Since, contrary to Germany, the French local councils have been granted additional powers regarding the transferred state tasks, one could assume that democratic control and political accountability have increased. Yet in practice, these possible improvements in performance have only partly occurred, because given the powerful position of the French mayors, there is hardly any room for democratic control from the part of non-executive local veto-players. Thus, it is primarily the local executive actors benefiting from the decentralisation reforms, whereas the councils, particularly their minority factions, took no significant advantages so far. Furthermore, due to the multitude of locally operating actors and institutions resulting from simultaneous processes of political decentralisation, administrative de-concentration and inter-municipal grouping without abolishing any of the already the existing institutional levels, the transparency of public action and the political accountability for policy outcomes have not been improved, yet diminished in France. Likewise, privatization and contracting out of local public services have caused additional steering problems and losses in political control, as evidenced by the election defeat of conservative mayors (for example in *Nîmes*, see Maury 1997) prompted by a number of corruption affaires in the “entrepreneurial” cities. The growing number of private, quasi-(non)-governmental and semi-public actors and mixed economy “satellites” have in the meantime amounted to an over-complex, almost unmanageable, system of governance.

¹¹ However, the introduction of local referenda in Germany countervails this loss in democratic control of the local electorate, whereas the local councils’ influence and powers were further diluted.

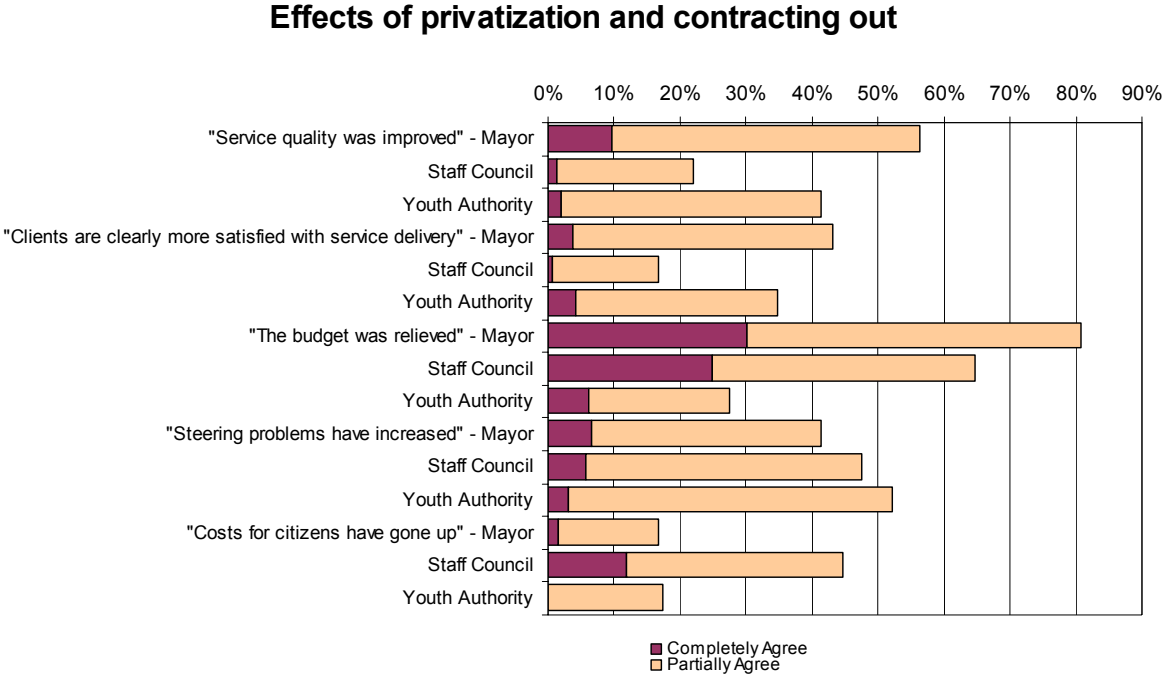
The worst scenario has however taken place in Britain, where the advance of mono-functional agencies and quangos resulted in an extraordinary fragmentation of the sub-national institutional landscape. Political decision-making by democratically elected local councillors was replaced by a centrally guided “government by appointment” thus diminishing the councillors’ and the citizens’ powers in local policies. Agencification and quangoisation have done considerable damage to inter-sectoral coordination capacities, since the central government’s attempts to shift from single purpose to “joined-up government” have failed so far. While there is some evidence that performance has improved in individual policy sectors, the transparency of decision-making processes has diminished, as have political accountability and democratic control.

(2) *Policy-effectiveness and quality*: In Germany, there is on the one hand some evidence for decreasing policy effectiveness resulting from administrative decentralisation and 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 et al. 2006). However, decentralisation reforms in Germany have increased the proximity of public service delivery to the citizens. Furthermore, local governments’ efforts to provide a “single window access” and to establish “one stop agencies” (*Bürgerämter*), which are now operating in more than 60% of the German local authorities (see Bogumil et al. 2007) have significantly contributed to improve customer satisfaction and service quality. The effects of privatisation and outsourcing, again, tend to countervail these improvements. According to the above-mentioned survey in 260 cities (with more than 10,000 inhabitants), local executives and top managers do not recognise improvements in service quality, professional steering and competitiveness which could be referred to privatisation and “corporatisation”, quite on the contrary (Bremeier et al. 2006). Another recent survey in German local governments¹² revealed that in municipalities where services have been privatised, only a minority of staff council leaders (20%) and heads of youth care boards (40%) have observed quality improvements resulting from privatisation, whereas about 80% and 60% respectively were clearly against this statement. Yet, German

¹² The survey was part of a research project (2004-2006) financed by the Hans-Böckler-Foundation, directed by Prof. Dr. Jörg Bogumil (Ruhr-University of Bochum) and conducted by Stephan Grohs, Anna Ohm and the author. The empirical basis were 1565 municipalities including all German cities with more than 20,000 inhabitants, ¾ of all cities between 10,000 and 20,000 inhabitants and 2/3 of the German counties. For a more detailed description and results see Bogumil et al. 2006; 2007; Kuhlmann 2007.

mayors are more in favour of quality improvements and at the same time state significant budgetary relief coming from privatization, which might be explained in light of their often initiating role in privatizing services in order to reduce fiscal stress (see figure 1).

Figure 2: Effects of privatisation and contracting out in German local governments



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

In France, there are some indications for output improvements due to decentralisation, for instance in urban planning and social service delivery. One indicator for a better policy effectiveness is the “urban planning density” (land use plans, development plans) that has considerably risen since the 1980s. Meanwhile more than 50% of the French territory is subject to a development plan (*plan d’occupation des sols/ plan d’urbanisme*), which corresponds to 75% of the French population and 50% of the communes. Likewise, in social services the decentralisation has brought about improvements. Due to organisational reforms and administrative modernisation in the social service departments of the general councils the customer orientation, responsiveness and the professionalism of local servants were enhanced. Against this background, the Ministry for Interior in an all but euphoric statement concluded that: “the decentralisation has already improved the daily life of the French citizens” » (www.liberteslocales.gouv.fr, 20.2.2004). While these findings seem to indicate, that the partial shift to the multi purpose model in France did not so far lead to a major performance break down in terms of single-policy effectiveness, the decentralisation has however conspicuously reinforced regional inequalities and disparities. According to official statistics,

French *départements* increasingly vary in the degree of strictness they decide upon social assistance grants and also to the extent and amount of financial aids they transfer to needy people. The policy-output variance between French regions or *départements* is thus growing and tending to challenge the principle of equality (*égalité*) entrenched in the French Jacobin state tradition. The trend of privatisation and outsourcing, too, entailed a series of negative effects regards policy effectiveness and quality. Private service providers have often not well performed and failed citizens' demands (see the example of the City of Le Havre in Kuhlmann 2007). Furthermore, prices and fares for privatised public services in some big cities increased extraordinarily to a degree, which far exceeded the financial amount invested by private suppliers into the technical equipment of these services. In general, water prices in France are about 20% higher under private than under municipal management (see Finger and Allouche 2002 : 196).

In the UK, there are indications for improved policy effectiveness in some areas, for instance in the education sector, where privatisation is quite advanced. According to a survey, 25% of the British schools have modernised their management and 58% have reformed their teaching methods (Kogan/ Maden 1999). Yet, these improvements do not result from the institutional changes of administrative de-concentration and political re-centralisation described here. On the contrary, in many sectors, where services were taken from local governments and transferred to single purpose institutions or privatised the quality of service delivery was significantly diminished. Examples are the water sector, where private companies refused to renovate technical equipments or the care for the elderly, where "creaming effects" became apparent (see Wollmann 2007). Furthermore, the "soft" re-centralisation through centrally imposed performance control, policy guiding notes and prescriptions, for instance in urban planning (see Wollmann 2004), entailed a decrease in local service quality, because „inspection can be de-motivating for staff, influencing attitudes to best value“ (Stewart 2003: 133). Resulting from centrally imposed performance measurement obligations and simultaneous staff cutbacks in local governments, the public servants' day-to-day workload expanded while at the same time their working and salary conditions deteriorated dramatically. In British schools, for instance, the number of stress-related sick certificates has soared by 24% and the number of early retirements by 20% (see Kogan/ Maden 1999).

(3) *Savings and efficiency*: Finally, we take up the question as to whether the institutional reforms analysed here have entailed cost reductions and efficiency improvements. For the German case the argument can be put forward that the decentralisation of state tasks in

conjunction with the State-imposed “efficiency yield” (*Effizienzrendite*) of no less than 20% in Baden-Württemberg produce, as it were, automatically cost savings for the German *Länder* governments who get rid of costly personnel and functions. Yet, the local governments can only achieve these savings through severe cutbacks of personnel and spending not least by privatising or outsourcing local services or diminishing service quality. However, by privatising profitable services, for instance electricity supply, German municipalities have lost important sources of local income, which had widely been used for cross-financing other less lucrative sectors of activity (for instance public transportation). Hence, selling profitable companies on the one hand produces fare increases in those services hitherto cross-financed by their surplus revenues on the other.

In France, there are many empirical indications that the input needed for public service production and policy coordination has increased significantly since the decentralisation reforms and despite privatisation efforts. Thus, cost reductions are rather unlikely. On the contrary, the simultaneous pursuit of political decentralisation, administrative de-concentration and inter-municipal cooperation impeded efficiency improvements and produced additional costs. Since the web of actors at the local level has become even more complex and coordination processes more time-consuming, the transaction costs of public decision-making and implementation have clearly risen impairing the efficiency of the French politico-administrative system. Furthermore, as consequence of privatisation and contracting-out, the French municipalities are less and less able to control and steer the numerous single purpose service providers adhering to them. The price, they have to pay are, once more, soaring transaction costs for coordination, controlling and contracting. Consequently, the efficiency impacts of the French reforms must be assessed as rather negative, so far.

Growing transaction costs can also be observed in the British case, where centrally steered performance controls and inspections have produced a higher workload for local governments and required additional resources of time and workforce necessary for reporting and evaluation activities, for preparing the inspections, dealing with inspectors and responding to their reports. It has been estimated, that „the direct cost of inspection in local government is 600 million pound per annum. This estimate takes no account of the time taken by officers and councillors, who have to prepare the inspections, deal with inspectors and respond to their reports... External inspection including external assessment plays an ever-increasing role in the work of the (local) authorities, occupying the time and attention of both councillors and

officers... It is widely felt that the inspection process adds to the burden on (local) authorities. Inspection of reviews has been a costly process in its direct costs and in time taken from other tasks“ (Stewart 2003: 209, 133 cp. also Hood et al. 1999: 101). While performance policies of the British central government require additional local resources the impact of competitive tendering has been a significant decrease in local workforce. Since the beginning of the 1990’s, local government employment was reduced by 10% that is about 300.000 employees. The municipalities felt impelled to reduce staff when they lost to the private suppliers and the staffs in that field were made redundant. Furthermore, even the staffs in the successful in-house teams were reduced in order to keep competitiveness in comparison to the private firms with regard to labour costs (Bender and Elliott 1999: 296). Between 1990 and 2000, local employment was halved in the sector of construction and reduced by 7% in social services.

Comparing these results cross-countries, it becomes apparent that the German local authorities have been able to reduce their staff despite the extension of functions and workload. In the formerly Jacobin government of France, by contrast, “strong” local authorities have meanwhile been created, reflected in major staff increases. In terms of employment, French local government is a “pole of growth” and thus largely contrasts with Britain and even more with Germany, where local government employment has been reduced significantly over the last years. On balance, Germany has now fewer local public employees per 1000 inhabitants than France. In Britain, the neo-liberal and increasingly centralist reforms undertaken by the government have reduced the local employment sector; the traditionally strong British local government model is thus losing force.

Table 3: Comparison of local government employment cross-countries and over time

Country	Local govt. staff 2000/2001 (1000)	Share of local govt. staff in total public service	Local public service staff per 1000 inhabit-ants 1990/91	Local public service staff per 1000 inhabit-ants 2000/01	Development of local govt. employment 1990/91-2000/01	
					1000	%
Germany	1 470	31.9 %	25.2	17.8	-526	-26.4
France	1 404	29.6 %	20.2	23.3	238	20.4
Britain	2 690	52.8 %	52.5	45.8	-277	-9.3

Source: based on Kuhlmann and Bogumil (2007) with further data.

7. Conclusion

We have seen that in all three countries under consideration here, major attempts at a vertical and horizontal re-organisation of public functions have been made, yet leading to quite different results. Administrative de-concentration, privatisation and contracting-out in Great Britain have conspicuously “hollowed out” local governments’ multi purpose organisation without bringing about so far the performance improvements expected by central government, quite on the contrary. In France, political decentralisation in conjunction with inter-municipal grouping has on the one hand strengthened local governments’ functional and political mandate. On the other hand, simultaneous processes of administrative de-concentration and privatisation hitherto prevented France from shifting to a viable multi purpose organisation of local governments. Improvements in policy effectiveness and citizen proximity resulting from decentralisation were countervailed by losses in efficiency and soaring transactions costs caused by “institutional overload”. Regional disparities grow to the detriment of the “egalitarianism principle”. In Germany, by contrast, the sub-national institutional landscape, at least in some *Länder*, was significantly streamlined as result of administrative decentralisation. Achieved cost savings and efficiency improvements, however, contrast with decreasing policy effectiveness, due to lower professional specialisation and local cutback management, and shrinking political powers of local councils, resulting from privatisation, outsourcing and a general up-grading of local executives.

The performance findings outlined here undoubtedly require a more precise empirical examination. Particularly, the comparative perspective cross-countries as well as over time has to be sharpened. Likewise, a more systematic scrutiny of reform impacts in different policy sectors appears necessary in order to reveal whether and how “policies matter” for the success or failure of institutional reforms. The conceptual and methodological pitfalls of this endeavour notwithstanding, a major task and challenge of future comparative public administration and local government studies is to take up and further elaborate these evaluative questions of institutional research.

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