

The continuation of early austerity measures: the special case of Germany

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Summary

The article deals with the consequences of austerity measures at municipal level in Germany. The first part describes the institutional framework, looking at the development and structure of employment, legal peculiarities, financial conditions and their more recent developments. The second part analyses employment relations, including employers' organizations and unions, the collective bargaining structure and recent changes to it as well as measures of privatization. Finally, some preliminary conclusions are listed. From a comparative perspective, Germany constitutes a special case, with austerity measures having been initiated and causing lasting job losses long before the financial and debt crisis.

Résumé

L'article traite des conséquences des mesures d'austérité au niveau municipal en Allemagne. La première partie décrit le cadre institutionnel en examinant l'évolution et la structure de l'emploi, les particularités juridiques, les conditions financières et leurs évolutions les plus récentes. La seconde partie analyse les relations du travail, en ce compris les organisations d'employeurs et les syndicats, la structure de la négociation collective et ses changements récents, ainsi que les mesures de privatisation. Enfin, certaines conclusions provisoires sont tirées. Dans une perspective comparative, l'Allemagne constitue un cas particulier, les mesures d'austérité ayant commencé et ayant causé des pertes d'emplois durables bien avant la crise financière et celle de la dette.

Zusammenfassung

Der Beitrag behandelt die Folgen von Austeritätsmaßnahmen auf kommunaler Ebene in der Bundesrepublik. Der erste Teil beschreibt die institutionellen Rahmenbedingungen, indem er Entwicklung und Struktur der Beschäftigung, rechtliche Besonderheiten, finanzielle Bedingungen sowie ihre aktuelle Entwicklung betrachtet. Der zweite Teil analysiert die Arbeitsbeziehungen unter Einbezug von Arbeitgeberverbänden und Gewerkschaften, die Strukturen der Tarifverhandlungen und ihre aktuellen Veränderungen sowie Privatisierungsmaßnahmen. Abschließend werden einige vorläufige Schlussfolgerungen aufgezeigt. In vergleichender Perspektive stellt die Bundesrepublik

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einen Sonderfall dar, da Austeritätsmaßnahmen lange vor der Finanz- und Wirtschaftskrise eingeleitet wurden und zu dauerhaften Beschäftigungsverlusten führten.

Keywords

Employment relations, public sector, municipalities, austerity measures

Introduction

The financial and sovereign debt crisis significantly impacted not only the private but also the public sector. Comparing the various austerity measures from a general perspective (Bach and Bordogna, 2013; Vaughan-Whitehead, 2013; European Commission, 2013), it becomes obvious that their consequences differ significantly across EU Member States and that clusters can be distinguished.¹ To a major extent, however, these studies make no distinction, or at least not explicitly, between the different levels of government, in Germany the federal level, the regional level (the 16 states or *Länder*), and the local/municipal level.

A more differentiated analysis needs to focus on the municipal level, as the wide-ranging comprehensive consequences of retrenchment and austerity measures can be expected to differ not only *across* but also *within* EU Member States depending on the level of government (Leisink et al., 2013). The local level will probably be hit even harder than the federal one and, furthermore, differences can be expected between municipalities, meaning that individual cases have to be analysed in greater detail. Looked at from a comparative perspective, Germany provides a relevant but exceptional case.

The institutional framework

Development and structure of employment

Germany represents not a unitary but a strictly federal state (the federal or *Bund*, the states or *Länder*, and the local/municipal level – *Gemeinden*). The German constitution (Grundgesetz or Basic Law) imposes a detailed division among the three levels, reflected by the employment breakdown (2011 figures): 0.52 million or 11.4 per cent at federal level, 2.3 million or 50.8 per cent at *Länder* level and 1.4 million or 29.7 per cent at municipal level (plus 0.37 million or 8.1 per cent in social insurance). Municipalities are thus the second largest employer and deserve special attention due to their specific problems.

To understand fully developments and the present situation one has to go back to German unification in 1990 and not, as in the majority of EU Member States, just to the beginning of the financial and debt crisis in 2008/2009. Since 1990 job losses were rather unequally distributed in several respects:

- They were more severe throughout the transitional stage of the 1990s than the 2000s.
- Due to their oversized administrations, municipalities in the new *Länder* in eastern Germany were hit harder than the old *Länder* (Bartl, 2011).

¹ One still fairly rough categorization is between Mediterranean, Scandinavian/Continental western European and eastern European countries.

- Employees without civil servant status were more frequently hit than civil servants, as the latter benefit from guaranteed lifelong employment.
- Furthermore, during the 2000s the main losses occurred at municipal level (13 per cent compared with 12.2 per cent at federal level, 2.2 per cent at *Länder* level, and 7.3 per cent in social insurance) (Bundeszentrale für politische Bildung, 2013).

Overall employment dropped from 6.7 million in 1991 to 4.5 million in 2009. The consequences of this gradual downward trend have been of a cumulative nature, contributing to the development of a lean public sector (Vesper, 2012; European Commission, 2013). Most recently however, there has been a slight numerical increase to 4.6 million, especially in specific sub-sectors such as education and child care.

Legal peculiarities: general and specific

For historical as well as legal reasons public employees are divided into two groups, (i) salaried employees (*Tarifbeschäftigte*) and (ii) civil servants (*Beamte*) whose unique public law status is enshrined in the constitution (Article 33). The overall distribution of these status groups has been relatively stable since the mid-1990s: at an aggregate level some 37 per cent are *Beamte*, with the rest being *Tarifbeschäftigte*. However, distribution across the three levels of government is skewed on account of the specific allocation of tasks: *Beamte* constitute only about 14 per cent of municipal employees, but 55 per cent of *Länder* employees (to a large extent policemen and teachers) and 34 per cent of federal employees (Altis and Koufen, 2011).

Therefore, this article deals exclusively with the situation of *Tarifbeschäftigte* in its analysis of the municipal level, with a specific focus on collective bargaining.² The fact that the German public sector is characterized by a mixed system of unilateral decision-making (working conditions for *Beamte* are set by the federal and *Länder* governments) and bilateral decision-making (conditions for the *Tarifbeschäftigte* are set by collective bargaining) (Traxler et al., 2001; Masters et al., 2008) is of less importance at municipal than at federal and *Länder* level.

The financial situation of municipalities

Approximately 12,500 municipalities constitute a third, basically independent level of government alongside the federal and *Länder* levels. They have legally guaranteed, far-reaching rights of autonomy and self-government (Article 28 Basic Law). Furthermore, the *Länder* have broad legal powers with regard to the enactment of municipal constitutions which accordingly differ considerably from one *Land* to the next. The most important tasks of municipalities include public administration, social services, health, business development, public transport, and public institutions. One part is very much predetermined, involving the delegated implementation of federal and *Länder* legal regulations; while the other tasks consist of affairs of self-administration. Certain broad areas of responsibility are mandatory, while others are of a voluntary nature (Bogumil and Jann, 2009).

The voluntary tasks allowing a certain amount of ‘strategic choice’ in municipal decision-making are more likely to be negatively affected by austerity measures (among others, closure

2 One specific trait should be shortly mentioned. In contrast to *Tarifbeschäftigte*, municipal *Beamte* are treated like civil servants at *Länder*, not federal level. At municipal level their percentage has increased since the early 1990s but remains at a comparatively low level.

or reduced opening hours of swimming pools and/or public libraries, lower public transport frequency, cuts in theatre performances, less social work, especially for youngsters and seniors). These cuts are highly unpopular with voters and negatively impact citizens' quality of life. The mandatory tasks have to be maintained at a legally prescribed minimum level. Consequently, a major slice of municipal budgets needs to be earmarked for mandatory tasks, thereby greatly limiting room for political manoeuvre.

Municipal finances are a complex affair, basically governed by Basic Law Articles 106 and 107. Tax revenues are distributed according to levels of government. In contrast to the federal government the legal opportunities of municipalities to levy taxes are strictly limited. The major exceptions are the tax on land and buildings (*Grundsteuer*) and especially the trade tax (*Gewerbesteuer*), a tax on businesses. They are set autonomously at municipal level. More recent trends towards increasing these taxes are strictly limited, given the already existing and probably even rising competition between municipalities to attract new businesses. Furthermore, the trade tax is very sensitive to business cycle fluctuations. Its increase means an additional financial burden for certain groups of citizens.

Financial transfers take place from the federal and, in quantitative terms even more importantly, from the *Länder* to the municipal level. Revenues deriving from certain taxes, of which income tax is the most prominent example, are split between levels. Transfers can, however, be reduced as the result of tax-cutting policies, as seen in the late 1990s and early 2000s, and/or with a view to reducing federal budget deficits. This further restricts political choices, autonomy and self-government at municipal level. There is a high level of dependency on political decisions taken at *Länder* and federal level, and municipalities are unable to exert much pressure in political bargaining at those levels.

Debts at municipal level

There have always been disparities in debt levels between the federal state, the *Länder* and municipalities, but we are now starting to see even widening gaps not only *between* but also *within* individual *Länder*, with municipalities divided into 'poor' or 'rich' (Lenk and Kuntze, 2012; Freier and Grass, 2013).³ The drastic situation of the 'poor' cluster has not fundamentally changed despite the fact that public revenues have increased significantly on account of the favourable overall economic development. These trends are likely to lead to far-reaching, heterogeneous repercussions at the municipal level.

Municipalities are faced with growing expenditure for their assigned tasks and responsibilities, especially for social benefits and child care – while at the same time needing not only to consolidate their deficit-ridden budgets but also to invest in their infrastructure (see Bosch et al., 2012 for case studies). The share of overall expenditure earmarked for investment has dropped significantly in the recent past, resulting in comparatively low levels. A number of supplementary programmes have tried to ease these financial pressures, though without being able to stabilize or even reverse the growing imbalance. In the future, additional (*inter alia* human) investments are therefore urgently needed in the interest of not only the public sector but also the private sector.

3 In detail: The situation is worse in some municipalities in Saarland, Rhineland-Palatinate, North Rhine-Westphalia and Hesse than in Baden-Württemberg, Bavaria, Saxony and Thuringia. The majority of 'poor' municipalities are located in west Germany due to the continuing existence of specific transfer programmes benefiting east Germany.

Table 1. Development of debts at municipal level (overall) 1991–2012.

Year	Sum of debts at municipal level (total; million euro)	Per citizen
1991	71,618	966
1992	77,404	1035
1993	86,749	1152
1994	94,174	1247
1995	98,705	1302
1996	100,632	1324
1997	101,298	1329
1998	101,356	1330
1999	101,922	1335
2000	98,011	1282
2001	98,844	1291
2002	100,534	1311
2003	107,531	1401
2004	111,796	1457
2005	115,232	1503
2006	112,243	1466
2007	110,627	1447
2008	108,864	1427
2009	113,810	1498
2010	123,569	1629
2011	129,633	1709
2012	135,178	1781

Note: The figures have been rounded. Until 2009 market and reserve bank debts, from 2010 also including security papers.
Source: Statistisches Bundesamt, Fachserie 14, Reihe 5, several volumes.

The nominal level of municipal debt has increased almost steadily since German unification, especially during the 2000s, although less than at *Länder* and federal level (Bogumil and Holtkamp, 2013; Freier and Grass, 2013). One significant factor determining the high debt levels of a number of municipalities is the recent sharp increase in short-term bridging loans – to avoid impasses and to only guarantee cash flow – in contrast to long-term debts enabling necessary infrastructure investments (Deutscher Städtetag, 2013).⁴

According to national legislation (Section 12 of the German Insolvency Act) over-indebted municipalities cannot go bankrupt. In an emergency, the *Länder* are obliged to bail them out. In cases of impending insolvency, municipalities need the explicit approval of their *Länder* supervisory authorities for their budget planning. In such cases, their consolidation or emergency budgets are strictly supervised by the *Länder* and their above-mentioned rights of autonomy and self-administration are temporarily curtailed. They receive certain injections of funds but are required to define a schedule for cutting their expenditure and balancing their budgets within an indicated time frame.

There are two opposing normative explanations for this situation (Holtkamp, 2012). While some experts argue that expenditure was simply too high in the past due to political decisions taken at municipal level, thus constituting the main reason for this disastrous state of affairs, others stress that federal and state fiscal policy in general and tax cuts in particular have created the dilemma as

4 The unsustainable situation in certain municipalities in North Rhine-Westphalia is analysed in detail by Eicker-Wolf and Truger, 2012; Holtkamp, 2012.

they resulted in lower public revenues. The latter group is calling for higher taxes to avoid accelerating downward spirals and to escape from the dangerous situation, while the former expects strict cost-cutting policies to be adopted.

Additional financial pressure is caused by the federal and *Länder* governments not directly decentralizing the provision of specific public tasks but just transferring responsibilities for the implementation of legislation decided at the *Länder* or federal level to the municipal level. This shift of burdens happens frequently without the necessary corresponding transfer of adequate funding (principle of connectivity).⁵ These necessary tasks have to be funded by the municipalities although they are of a wider societal nature. This shift basically means that federal and *Länder* governments are able to resolve their own budgetary problems, while creating difficulties for already over-burdened and cash-strapped municipal budgets (Vesper, 2012).

In the future, municipalities will definitely need more long-term financial support from the federal level to fulfil their assigned tasks of a wider societal nature (Lenk and Kuntze, 2012). Otherwise, the downward spiral already existing in a number of municipalities is likely to continue, making it impossible to balance budgets. One needs to bear in mind that almost two-thirds of all public investment takes place at municipal level (among others, for the building and maintenance of streets and sewers, school buildings, and other infrastructure elements such as libraries).

The dual system of employment relations

Staff councils

Germany is known for its 'dual' system of employment relations, characterized by an explicit legal distinction between the enterprise and the sectoral level (Keller and Kirsch, 2011). This general pattern also exists in the public sector, but traditionally on a sector-specific legal foundation in the form of Staff Representation Acts. Enacted at federal and *Länder* level, they date back to the mid-1950s and have been amended several times. They constitute institutional characteristics and are the functional equivalents of the better known Works Constitution Act (*Betriebsverfassungsgesetz*), valid for the private sector. The heterogeneous interests of both groups of employees are proportionally represented in so-called 'staff councils', though there are certain restrictions for civil servants.

Staff councils, the equivalent of works councils in private industry, are formally independent of trade unions and other interest associations. They have statutory rights ranging from pure information to participation and strict co-determination (in selected social matters) (Altwater et al., 2011). These codified, detailed rights constitute their primary power resource. Staff councils are strictly obliged to engage in 'peaceful cooperation' with management, and are, in contrast to trade unions, not allowed to call strikes. They limit to a considerable extent what have been called 'management prerogatives' in other national contexts and prevent adversarial relationships from developing. They contribute to the development of 'cooperative' employment relations and trust relationships by concluding with management establishment agreements, the equivalent of works agreements in private industry. Coverage rates of these 'collective voice' institutions are exceptionally high (more than 90 per cent) and have not declined in the last decades (Keller and Schnell, 2003, 2005). The reason is that they, in contrast to works councils, have to be established.

The impact of staff councils on austerity measures is fairly limited. They make use of their rights of participation which relate to social and personnel affairs but exclude all economic issues. If at all, any possible impact of a staff council concerns the later stages of the policy cycle, i.e. the

5 One prominent example is the integration allowance for the handicapped.

implementation of austerity measures rather than their agenda-setting. Any impact would be based on informal alliances with local politicians and members of the municipal council, as they have no formal statutory power. These processes mean that additional problems have to be solved without additional resources being made available. Conflicts over the details of consolidation measures are likely to emerge but have always to be resolved through ‘peaceful cooperation’ instead of industrial action.

Local political actors, first and foremost the city council and especially the directly elected mayor, dominate these protracted processes of interest intermediation across administrative units, having to react under external pressure to consolidate municipal budgets. Within the micro-politics of incremental decision-making a shift of power from the city council to the mayor occurs. Staff councils do not constitute important veto players whose consent is necessary to conclude political compromises.⁶ Participation of civil society groups and the democratic transparency of political decisions can also usually be excluded.

The corporate actors of collective bargaining

From a comparative perspective, one German peculiarity is how public sector employers are organized. As in most of the private sector, conventional employer associations bring together municipalities in all 16 *Länder*. Their umbrella organization is the Federation of Municipal Employer Associations (Vereinigung der kommunalen Arbeitgeberverbände), which bargains on their behalf (Keller, 2010a; Keller, 2013a). The density ratio is rather high (about 90 per cent), and it is mainly some smaller municipalities and a few (semi-)privatized companies that are not members. At *Länder* level the Bargaining Association of German Länder (Tarifgemeinschaft der deutschen Länder) exists. With the exception of Hesse (and until 2012 Berlin), it represents all *Länder* and acts as their sole bargaining agent. The interests of *Länder* governments are coordinated by their Ministers of the Interior or of Finance. At federal level the Minister of the Interior has traditionally been in charge of all employment issues including collective bargaining, with the Minister of Finance also taking part in decision-making.

The principle of industrial unionism (‘one union per company’) has constituted the dominant form of organization in the private sector whereas forms of multi-unionism have traditionally dominated in the public sector. In contrast to the private sector there are two confederations competing in the public sector: the Deutscher Gewerkschaftsbund – DGB and the Deutscher Beamtenbund und Tarifunion – DBB. The DGB has eight, the DBB about 40 member organizations. The DBB traditionally focused on representing the interests of *Beamte* but has gradually extended its organizational domain. DBB affiliates now organize also some 360,000 *employees* among their 1.2 million members. Its ‘collective bargaining wing’ participates in collective bargaining in coalition with DGB affiliates, especially ver.di (see below). The Union of Municipal Employees is (with about 90,000 members) the most important DBB member organization at municipal level.

Within this diversified organizational landscape ver.di, the second largest German union with some 2.1 million members, is the result of a mega merger of five unions in 2001 (Keller, 2005). Ver.di is an unusual multi-industry union covering both the private and the public sector, the latter at all three levels. Ver.di is the dominant corporate actor on the employee side, though other smaller, DGB-affiliated professional unions such as the Police Union (Gewerkschaft der Polizei with some 170,000 members) and the Union for Education and Science (Gewerkschaft Erziehung

6 Interestingly enough Holtkamp (2012), as well as Bogumil and Holtkamp (2013) do not even mention staff councils in their analysis of decision-making under precarious financial conditions.

und Wissenschaft with some 263,000 members) also play a role. The impact of the latter, due to policemen and teachers being for the most part employed by the *Länder* because of the already mentioned allocation of tasks and responsibilities, is greater at *Länder* than at municipal level and can, therefore, be ignored in our context. As in the vast majority of EU Member States density ratios are higher in the public sector than in the private sector (Bordogna, 2008 and European Commission, 2013), though they have declined in recent years.

Employment conditions and public service provisions

Collective bargaining

Looked at over a long period of time, overall government spending on wages and social benefits has increased. It is important to realise that its proportion of overall public budgets differs significantly between levels (federal: about 11 per cent, *Länder*: about 38 per cent, municipal: about 27 per cent) (Keller, 2011). This distribution means that the consequences of wage increases for public budgets are more significant at municipal than at federal level.

Traditionally collective bargaining was highly centralized. Between the 1960s and the mid-2000s, all employers – whether at municipal, *Länder* or federal level – maintained a bargaining coalition. This was responsible for concluding few major national agreements targeting different categories of salaried employees.⁷ The outcomes of this sector-specific multi-employer bargaining were fairly homogeneous, with unitary structures for wages and other employment conditions (among others, working time and social benefits) for all employees. This high degree of centralization contributed to an exceptionally high coverage rate and increased the level of horizontal as well as vertical integration (Keller, 1993).

In the mid-2000s the *Länder* terminated the longstanding coalition, initiating autonomous negotiations and finally concluding a separate, independent collective agreement (Tarifvertrag für den öffentlichen Dienst der Länder – TV-L). Despite differing interests federal and municipal employers maintained the remaining part of the bargaining coalition but concluded a fundamentally revised collective agreement (Tarifvertrag für den öffentlichen Dienst – TVöD). It sets, in contrast to the strictly decentralized bargaining systems in other EU Member States but in line with its predecessor, strict constraints on autonomous decisions by individual municipalities (Schmidt et al., 2011). There is only one national and hardly any other collective agreements.⁸

Both partners consider this agreement to constitute a '*Jahrhundertreform*', a major step forward towards the urgently needed modernization of the public sector with its need for greater efficiency. One important innovation was the abolition of all traditional legal differences between blue-collar workers (*Arbeiter*) and white-collar employees (*Angestellte*) and the introduction of a single employment status (Keller, 2010b).

Though from a comparative perspective not far-reaching, these changes can be seen as a certain trend towards decentralizing employment relations (but not, as in other EU Member States, the provision of services). This process has hitherto always been of an organized and not a

7 They were: Bundes-Angestelltentarifvertrag – BAT, Manteltarifverträge für Arbeiter – MTArb and Bundesmanteltarifvertrag für Arbeiter gemeindlicher Verwaltungen und Betriebe – BMT-G II.

8 In other words, there is hardly any single-employer bargaining. The Federal Labour Agency is one example. Another exception at local level is the national agreement for energy and water companies owned by municipalities but legally independent.

Table 2. Wage increases in the public sector (%).

	Public sector ^a	Federal and municipal level	State level
1998	1.9	1.9	1.9
1999	3.2	3.2	3.2
2000	1.9	1.9	1.9
2001	1.8	1.8	1.8
2002	2.0	2.0	2.0
2003	3.1	3.1	3.1
2004	1.8	1.8	1.8
2005	0.9	0.9	0.2
2006	0.4	0.4	0.4
2007	0.7	0.4	1.3
2008	4.4	4.7	3.9
2009	3.9	3.8	4.0
2010	0.8	0.4	1.6
2011	1.9	1.6	2.4
2012	2.2	2.4	1.9

^a2005: without state level.

Source: WSI-Tarifarchiv.

disorganized nature (using Traxler's typology (1998)) and does not constitute an 'erosion', 'fragmentation' or 'deinstitutionalization' as in some other EU Member States.

The timing of the changes is of relevance, with the TVöD concluded *before* and not *because of* the financial and debt crisis. From a comparative perspective, the way German municipalities acted does not support the hypothesis of substantial convergence as result of the crisis; quite the contrary, divergence and diversification are continuing. From a national point of view, the already visible substantive outcomes of this ongoing change are more heterogeneous working and, therefore, general living conditions than under the old, strictly unified bargaining structure (among others, in the length of working hours).

It remains to be seen whether this trend will continue or even accelerate. Despite these recent changes in bargaining structures, coverage rates remain above 90 per cent and have not, in contrast to major parts of the private sector, deteriorated over the last two decades (Ellguth and Kohaut, 2011). The room to manoeuvre (*inter alia* for wage cuts or further extensions of working hours) is fairly limited for municipal employers due to this still comparatively high degree of centralization.

All collective bargaining outcomes have to be implemented without any possibility for individual municipalities or their administrative units to opt out or withdraw from certain parts of these agreements. In contrast to more decentralized systems, the consequences are basically the same for all municipalities, independent of their location, size and/or financial situation.⁹

Two recent changes in wage-setting procedures

The introduction of performance-related pay (PRP) is considered a major new feature of the TVöD. PRP is supposed to replace pay strictly based on length of service and to reward individual or

⁹ Formerly existing differences in wages between east and west Germany were gradually phased out and finally equalized in 2010. Minor differences still exist in working hours (WSI-Tarifarchiv, 2013).

group-related performance. However, its implementation has created unexpected and lasting difficulties. It remains to be seen whether this relatively new approach will change considerably in the aftermath of the financial and debt crisis. There are empirically solid reasons to doubt any major or even accelerating trend towards future transformation. In the meantime the *Länder* have abolished their PRP provisions whereas municipalities have continued although at a relatively low level of just 2 per cent of overall wages (Schmidt and Müller, 2013). Neither the unions nor the employers' associations uniformly support the strict implementation of PRP, whose potential impact was vastly overestimated at the beginning. Germany thus fits well into the mixed experience of a number of countries (OECD, 1997, 2005). The high expectations, especially on the part of the municipal employers, were only partially fulfilled.

In negotiating the TVöD the Federation of Municipal Employer Associations insisted successfully on the introduction of a new low-wage grade, arguing that this would prevent further privatization and outsourcing and create additional employment opportunities for low-skilled applicants (Bosch et al., 2012). At least so far, its usage has remained rather limited, with the overall percentage of salaried employees in this new grade being at less than 1 per cent. The introduction is of relevance only to the small group of 'entrants', whereas all 'insiders' are protected from any downgrading through acquired rights clauses. It should be noted that the new low-wage grade is used more frequently (and is more important) at municipal than at federal level because of major differences in the assigned tasks and, therefore, the existing hierarchy of grades.

More recent changes in employment conditions

In Germany, in contrast to certain other EU Member States (European Commission, 2013), there is no recent trend towards more unilateral decision-making replacing established bilateral and more consensual procedures – with the major exception of how *Beamte* are handled. The status of unions has not been fundamentally challenged and their formal impact has not been marginalized for the sake of fiscal consolidation and/or ideological reasons. However, within the still existing formal regulatory framework, established 'customs and practices' have been significantly changed, and sector-specific forms of 'concession bargaining' have occurred (Keller, 2013b):

- nominal wages have not been cut or frozen, but wage increases have been lower than in major parts of the private sector, and social benefits (such as Christmas and vacation bonuses) have been considerably reduced or even completely abolished;
- formerly uniform working hours (38.5 hours per week) have been gradually extended and even made more flexible (39–42 hours dependent on the level of government);¹⁰
- the statutory retirement age will gradually be raised (until 2029 from at present 65 to 67 years), and the level of pensions has been reduced;
- as already stated, overall employment has been reduced to a considerable degree, especially throughout the 1990s.

Official figures of the Federal Statistical Office show only the employment headcount (Figure 1). For a more detailed analysis, distinguishing between full-time and part-time employees is, of course, of importance, as reflected by the fact that the percentage of part-timers has almost doubled within two decades (from about 16 per cent in the early 1990s to around 32 per cent

10 Working hours at municipal level are 39.2 hours, i.e. above both the EU-15 and the EU-28 average (Cabrita and Galli da Bino, 2013).

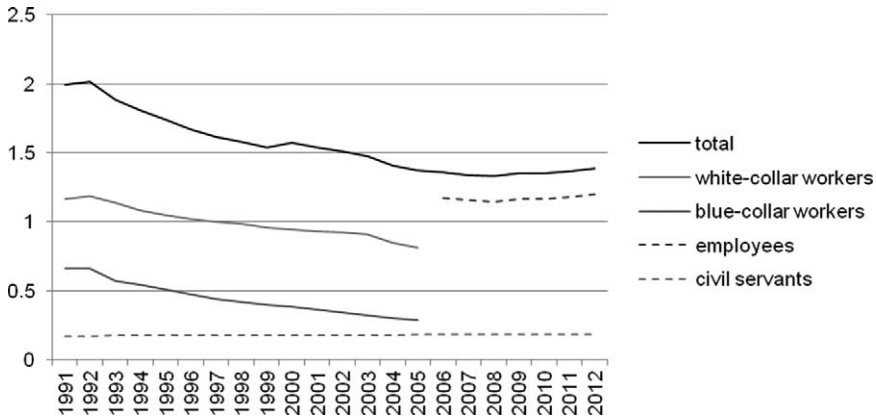


Figure 1. Development of employment at municipal level, 1991–2012 (thousands).

Figures correspond to **employees (in thousands)**. 1991–1999 without, from 2000 also including indirect public services (white-collar workers and blue-collar workers from 2000 to 2005 also without indirect public services). Figures are rounded and correspond to 30 June of each year. From 2006 blue-collar workers and white-collar workers are summarized as workers.

Source: Statistisches Bundesamt, Fachserie 14, Reihe 6, several volumes.

now). If this secular shift is taken into consideration the employment cuts have been even bigger – and have continued throughout the 2000s.

Another notable but hardly recognized fact is the ongoing shift within public sector employment, where the percentage of atypical contracts (primarily fixed-term and part-time contracts) is even higher than in the private sector. Some 15 per cent of employees are employed on a temporary basis, while 32 per cent work part-time (Keller, 2010b; Ellguth and Kohaut, 2013). These kinds of contracts are more widespread at municipal and *Länder* level than at federal level, and are to be found more frequently in the lower than the upper grades. Women are overrepresented in these groups.

In contrast to widespread public assumptions about the generally ‘privileged’ status of public sector employees, characteristics of internal labour markets including career prospects and employment protection do not exist for all employees. Public sector labour markets are less ‘rigid’ and ‘bureaucratic’ and more ‘flexible’ than frequently assumed and able to adapt to changing external conditions. Trends towards greater labour market segmentation and even dualization are becoming increasingly dominant. Segmentation exists not only between *Beamte* and *employees* but also within the latter group. Furthermore, in terms of public spending and the size of public sector employment Germany retains its position in the middle of EU Member States. The public sector is no longer the ‘model employer’ it used to be, setting a positive example for the whole economy (Bach and Kessler, 2007).

Privatization and ‘re-municipalization’

For several decades, various forms of privatization have been practised, including outsourcing and (a few) public private partnerships as hybrid forms of private sector financial involvement in the execution of public tasks. Privatization has had a major impact not only on employment and working conditions at all levels, but also on the provision of goods and services for large groups of

citizens. At federal level the railway system and the federal postal service are major examples. This trend towards ‘marketization’ also includes large slices of the municipal infrastructure (*inter alia* local public transport, energy, electricity, water, hospitals).¹¹

The sale of public property to private investors has been one frequent strategy for cutting costs. The problem is, of course, that this step can only be taken once and municipalities lose options of political control as well as future sources of revenue. Furthermore, privatization constitutes a collection of measures creating well-known, yet frequently neglected long-term problems (Keefe, 2012; Katz, 2013). Another strategy for cutting costs consists of the set of already-mentioned instruments including the gradual reduction of employment. Last but not least public private partnerships can turn out to be attractive.

From an empirical perspective the original, overtly optimistic hopes and expectations regarding the positive consequences of privatization (long-term synergies, short-term cost savings, economies of scale and greater efficiency) have not materialized. Working conditions in the privatized parts of the public sector have frequently deteriorated as they are subject to more fragmented, less favourable collective agreements (for example in transport and cleaning). Furthermore, from the citizen and consumer point of view the provision of goods and services has not always improved in quantitative and/or qualitative terms, and oligopolistic or monopolistic market structures dominate (for example in electricity).

Since the mid-2000s a trend has even emerged in the opposite direction – the ‘re-municipalization’ of privatized services (primarily energy, but also water, rubbish collection, transport and hospitals) (Matecki and Schulten, 2013). This ‘reverse privatization’ of previously outsourced public services is a recent development, though by no means a German peculiarity (Keefe, 2012). It reflects the efforts by some municipalities to invest scarce financial resources to regain financial and political control over major parts of the infrastructure. Private providers are engaged in intense lobbying activities to prevent this ‘insourcing’ (especially with regard to energy and gas) to protect their return on investment. Up to now at least this debate is only taking place at municipal level. It is impacted by the diverging interests of various stakeholders including private providers, citizens, political parties and their local politicians, unions as well as works and staff councils.

Germany’s special position: (the lack of any) consequences of the financial and debt crisis

Our explanation of more recent developments, rather exceptional from a comparative perspective, underlines two aspects: first, though the German economy was severely hit by the financial and debt crisis, with GDP dropping by more than 5 per cent in late 2008/early 2009, it managed to recover more quickly than other EU Member States. Unemployment did not increase significantly, the overall level of employment even kept growing, and public revenues increased. Secondly, the contraction of public sector employment took place well *before*, not *because* of the Great Recession (Keller, 2013b). Therefore, there is – at least for the time being and in contrast to the Mediterranean EU Member States and Ireland but in line with others such as the Scandinavian countries or Austria – no urgent need for substantial austerity programmes including wide-ranging retrenchment measures, or any immediate roll-back strategies.

11 Unfortunately there are no overall statistics on the exact extent and specific areas. Bogumil and Holtkamp (2013) provide some provisional data.

We have already mentioned that we have to distinguish explicitly between retrenchment measures taken well *before* (for example in Germany and Sweden) and *on account of* the financial and sovereign debt crisis. In the first case their impact is cumulative, but remains limited and less severe. Measures taken are the result of comparatively ‘soft’ policies, and are based on domestic political decisions and not on massive external/international interference by the troika (the International Monetary Fund, the European Central Bank and the European Commission). Therefore, such retrenchment measures seem to be easier to implement and more sustainable than ones strictly imposed by international institutions and whose long-term consequences are unknown and, at present, hardly taken into consideration.

The discussed retrenchment measures implemented in Germany have been less severe and far-reaching than their counterparts in other EU Member States. In other words, though the instruments are quite similar, their consequences differ distinctly. Nevertheless it is important to point out that working conditions have deteriorated for all employees (among others, work intensification, increased workloads due to headcount reductions, and longer weekly working hours).

In the recent past there has been a growing gap between the informal and formal side of institutions and regulation: the employment relations ‘climate’ has deteriorated. Already existing institutions have been quite ‘flexible’, adapting to the new external conditions (i.e. consolidation measures) without being fundamentally altered or politically disregarded as in some other EU Member States (European Commission, 2013). Unions have not seriously impeded the retrenchment measures initiated by employers and management.

However, not only short-term quantitative adjustments but structural changes with long-term effects will be necessary (among others, further training and enhanced career prospects for employees, improved attractiveness for young applicants due to the unfavourable age structure of present employees, demographic change in general). Sustainable reforms will have to be implemented bilaterally.

Outlook

For the time being one could – from a German perspective – ask: ‘crisis, what crisis?’ Our assessment is, by definition, only of an interim nature. The comparatively favourable economic situation could quickly change for the worse for different reasons. The consequences of the sluggish growth rates prevailing in both EU and OECD Member States could end up hitting Germany, a country whose economy is highly vulnerable due to its export dependency. At present, interest rates are at a historically low level. However, as soon as they rise again, possibly to the levels experienced in the early 2000s, their burden for municipal budgets will increase considerably. There are hardly any mechanisms in place to neutralize these risks.

Furthermore, so-called ‘debt brakes’, introduced to put a stop to rising government debt levels and strictly to limit public spending, basically prevent new debts being taken on. Institutionalized at both national (Article 109 Basic Law) and EU level, they refer to different levels of government and will have at least indirect effects at municipal level, especially as the more recent EU form also takes municipal debts into binding account (Treaty on Stability, Coordination and Governance in the Economic and Monetary Union). Their rules are stricter than the former convergence criteria of the Maastricht Treaty and its Stability and Growth Pact (budget deficits of less than 3 per cent, national debt less than 60 per cent of GDP). One has to keep in mind that reductions of already existing fiscal deficits, which are at an unacceptable level in some EU Member States (first and foremost Greece, Italy, and Portugal) and even surpass annual GDP, are not part of these recent measures.

Once these restrictive rules are implemented (2016 at federal, 2020 at *Länder* level) they will put considerably more pressure on all public budgets, also at municipal level, triggering supplementary measures intended to lead to less spending and, therefore, resulting in further retrenchment. The precise long-term consequences of lower spending or even major cuts at municipal level and their most likely unequal distribution within municipalities are difficult to predict. They depend on political decisions and a major number of actors who have at least partially divergent if not opposing interests due to the fact that they represent different groups of stakeholders (among others, city councils, citizens/consumers, trade unions, municipal administration departments, local politicians). Therefore, consequences will differ between municipalities as well as between public services; management and administrative strategies of ‘muddling through’ with uncoordinated, incremental shortages or piecemeal cuts of services will probably be the result.

The consequences will not only have an impact on the working conditions of employees – and could lead to strikes and other forms of social protest – but also large groups of consumers. Therefore, any future analysis of public sector issues should not exclusively deal with changing employment relations in a narrow sense. It should instead broaden its perspective and focus on the changing, most likely deteriorating quality and definitely reduced quantity of so far universal public goods and services. Lasting consequences of the financial and debt crisis for the needs of the most vulnerable citizens in particular and the future of the welfare state in general are to be expected. However, according to frequent, popular political statements, the public sector is supposed to constitute one of the cornerstones of the European Social Model (Busch et al., 2013).

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