

Hidden constrictions of local autonomy: The case of standards and norms in Germany

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Introduction

Fiscal autonomy of subnational governments is typically evaluated in terms of their revenue and spending sovereignty. The larger the budget share of own revenues, unconditional tax sharing and grants, of which local governments can make unrestricted use, the larger their revenue autonomy – a tautology. Fiscal discretion is enhanced by policy autonomy, e.g. the opportunity to set the rates of own taxes or levy surcharges on shared revenues. This policy autonomy could be restricted (e.g. through lower or upper bands) but it is usually considered desirable.¹ However the crux lies in those grants with strings attached. It is important to evaluate to which extent these conditions are binding. The result is not obvious because it depends on the recipient government's preference function. For instance a special-purpose grant for a *pure local function* may fully match the recipient's inclinations, in which case the grant frees unconditional resources for other uses and is tantamount to an unconditional grant; or it could run counter such preferences, in which case the spending of the grant will be a waste of money. This consequence may be mitigated for non-pure local functions that exhibit "vertical externalities" where the grant also reflects preferences of the donor authority that are successfully transmitted through conditional grants.

On the expenditure side of the budget it is conventional to distinguish between spending for own local responsibilities and for delegated functions where local governments act on behalf of a senior government. The former should usually be restricted only by the size of the local budget; the latter reflect a principal-agent relationship with varying degrees of autonomy as to their local implementation, albeit not to their policy. When exercising spending functions local governments often face standards to be respected, which may be costly and may prevent them from exercising their full autonomy.² To which extent this is observed is often debatable. Time and again national standard setting limits the exercise of local autonomy to some extent if only through a higher burden on the budget.

¹ See European Charter of Local-Self Government, Article 9 (3): "Part at least of the financial resources of local authorities shall derive from local taxes and charges of which, within the limits of statute, they have the power to determine the rate."

² In this vein the European Charter for Local Self-Government stipulates that "local authorities shall, insofar as possible, be allowed discretion in adapting their exercise to local conditions" even for delegated functions (Article 4 (5)).

Whether genuine or delegated functions of local governments: the European Charter insists on the adequacy of resources to perform local duties (Article 9 (1) and (2)³). However the delineation of own and delegated responsibilities is often blurred for the funding of delegated functions, whether intended or not. There are indeed inefficiencies for allowing local authorities to tap directly into the principal's budget through full cost recovery, so co-funding is the preferred option to alleviate this problem. But this will of course inflict also upon the financing of genuine local responsibilities and could become a "Trojan horse" if those delegated functions inflate over time – as in social protection for instance.

This sketch of problems relating to the definition of fiscal self-rule indicates that, given the multiplicity of intergovernmental arrangements for sharing power and for financing it, it is extremely difficult to define revenue and spending autonomy of local government purely on the basis of budgetary flows and their classification – in particular where fiscal autonomy depends on the recipient's preference function. To render the problem even more complex, fiscal transfers and spending are in fact subject to national (and international) standards and norms that could impose costs on local decision-making and hence restrict local fiscal autonomy unnoticed. Some of such restrictions relating to standards and norms are discussed in this paper with regard to German municipal finance where a Federal Commission has recently looked into the matter and issued proposals for reform to widen local autonomy by eliminating unwarranted barriers resulting from such norms.

While standards and norms usually impinge on the administration and implementation of policies, some restrictions imposed by central legislation may directly affect local policy making. Such policy restrictions may also go unobserved because of acquiescence and submission to traditions or fashionable general policy trends. Some examples of such hidden policy constraints are discussed at the end of this paper.

Objectives of reviewing norms in Germany and their categorization

In 2010 the Federal government has set up a commission for reforming local finances with the intention to strengthening their command over public resources and fiscal self-rule (*Gemeindefinanzkommission*). In the context of this endeavor, a "Working Group on Standards" was set up to

- Look into standards imposed by federal legislation that would have financial implications for local budgets;
- Estimate the volume of the financial implications and propose measures to reduce them through more flexible standards;
- Evaluate the proposed measures from a technical point of view and sketch appropriate legislation for implementation.

In the Working Group's definition a standard is "a uniform or unified applicable or desirable way, fixed by federal regulations, how a political goal or task is to be fulfilled or

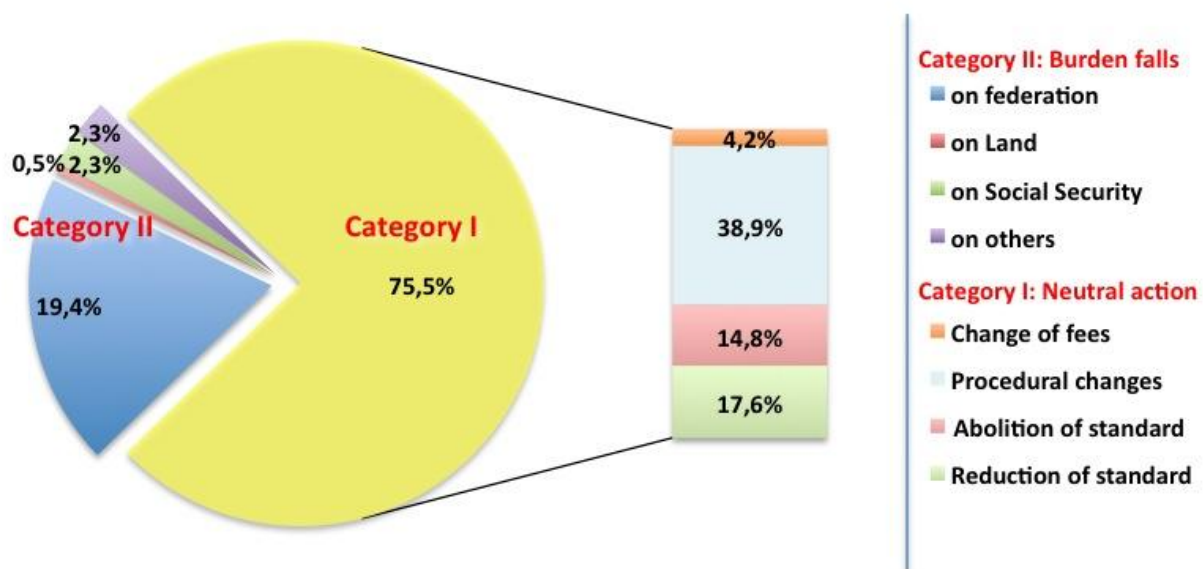
³ This paragraph reads: "Local authorities' financial resources shall be commensurate with the responsibilities provided for by the constitution and the law".

performed“.⁴ These rules can be imposed by federal law, decree or interagency agreement.

In order to bear witness, the federal Ministry of Finance, the States, and the associations of municipalities organized comprehensive guided surveys and collected multiple complaints on federal regulatory restrictions that affect local administrations and local budgets. All in all more than 300 norms were identified, of which some 80 were eliminated either because they were ill specified or because they could be resolved via State legislation. The rest was retained for further examination. The norms touch upon all areas of policy-making, but the focus was on labor and social policy, interior matters, environment as well as family, seniors, women and youth.

The retained notices were then broken down into two groups according to whether a potential shifting of financial burden between layers of government was expected or not. For the latter group the measures were classified according to the following criteria: changes in fees; procedural changes; abolition of the standard; and mitigation or reduction of the standard. The total of retained norms and their breakdown by category is depicted in Chart 1.

Chart 1: The breakdown of examined norms by categories



Source: *Zwischenbericht Gemeindefinanzreformkommission*; own calculations.

It is interesting to note that three quarters of the complaints about norms did *not* entail financial implication for other tiers at all (category I measures). Among the revenue-neutral measures, municipalities expected significant savings through procedural changes, the reduction of standards and – to a smaller extent – changes in the fee

⁴ “...eine einheitliche oder vereinheitlichte durch Bundesregelungen fixierte anzuwendende oder anzustrebende Art und Weise, wie ein politisches Ziel oder eine Aufgabe erfüllt bzw. durchgeführt werden soll.“

structure. A full abolition of the standard was proposed only for 14,8% of category I measures, or 11,1% of the total.

The remaining quarter of the proposed measures entailed a shifting of financial burdens onto other layers of government, in particular to the Federation (category II measures). However these proposals, if implemented, would potentially have had significant bearings on local budgets at the margin, which is why much of the discussions concentrated on category II propositions – mainly in the sphere of social spending.

In addition there were a number of proposals concerning standard setting through ongoing legislation (category III). The Working Group considered these as awareness raising indicators and a hint for the federal legislator to consider the costs of standards during the process of legislation as a routine for future legislation more generally.

The different proposals for reform in the area of federal standards were then subject to scrutiny by the various ministries concerned as well as municipalities and their associations themselves.

The main concern: costs of social protection

As it turned out the main concern of local governments was, and is, the high and increasing costs of social expenditures. These costs of municipalities - except the three city-states Berlin, Bremen and Hamburg - represent roughly 1,7 percent of GDP or 29,2 percent of total municipal spending (2010). These figures include only direct transfers to households without their corresponding administrative costs. In all instances the transfers are based on federal legislation (with the consent of the *Länder*), which determines the social entitlements by eligibility and amounts to be paid. True, the legislation also foresees the cofinancing of local social spending by the Federation and the States, but the total of these contributions amounts to only 11 percent of local social spending overall.

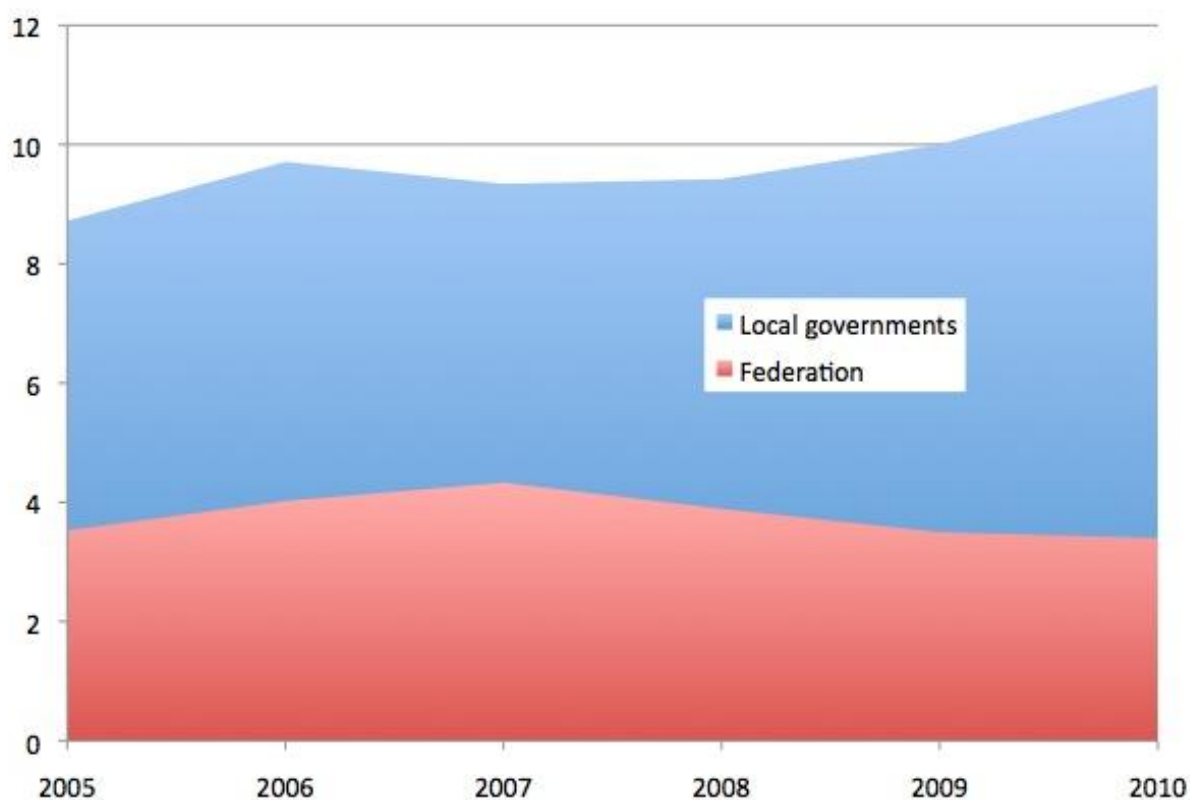
About a quarter of local social spending falls onto housing and heating support for the socially weak. For this item the Federation is committed to make a financial contributions based on a formula, but this has worked against the municipal sector over the last years. The Federation's contribution has declined remarkably from about 28,8 percent in 2005 to 23,6 percent in 2010. So this spending item exhibits all characteristics of a partially funded mandate (see Chart 2) with an increasing financial burden on municipal budgets over time.

Similar trends are observed in other areas of social spending. The second largest social spending item, care for children, has expanded by roughly 45 percent over the last ten years (compared to 16 percent for nominal GDP). The main driving force was not so much eligibility, but legislation that forced municipalities to apply higher quality standards in nurseries and to comply with certain statutory requirements. For the future this area of local responsibility is expected to grow with the number of eligible children. A federal law on child care establishes that municipalities are to provide day care for 35 percent of all children less than three years old until 2013, and from then on there will be a legal entitlement for all children from their first year on. This will further deteriorate local finances although the Federation has agreed to support local spending for this budget item by a fixed amount that currently represents about 5 percent of the costs.

The picture is not much different for other municipal responsibilities in social spending such as support for adolescents, aid to families, institutional care and other supervised forms of living. These spending items are driven by socio-structural elements such as the exposure of young people to family conflicts, lack of parenting skills, the disintegration of family structures due to separation and divorce, unemployment, indebtedness, and so on.

Social spending is also increasing for integration assistance given to disabled persons, where the rate of increase over the last decade was 55 percent. The rise in the number of persons entitled to these benefits results from increased life expectancy, better medical care and increasing mental illnesses. This type of social aid is auxiliary in nature after all other funds of social support have been exhausted, including own contributions by beneficiaries. The latter have however been significantly reduced by federal legislation leading to the rapid increase in spending as indicated.

Chart 2: The spending for housing and heating support according to tiers



Source: Federal Ministry of Finance; own calculations.

A further area of concern in social spending is the basic support for the elderly, which has become a new responsibility of German local governments. Again, the Federation assures cofinancing of this particular budget item (16 percent of net spending of the pre-previous year), but this responsibility is expected to grow significantly in the future due to demographic developments, disruptions in working careers and the increasing

importance of the low-wage sector which will shrink the formation of wage-related pension benefits.

It is obvious that municipalities and their associations put the focus of attention onto category II proposals, in particular social spending, because most policies to mitigate the impact of federal legislation in this area would entail a revision of existing burden sharing arrangements. Given the nature of these spending items as pure transfers, a complete takeover of programs by the federal government was also considered in some instances.

As was to be expected the federal government was reluctant to consider category II measures with large repercussions on its own budget and it rejected stipulations that would have allowed municipalities to reduce their spending at the expense of the federation. The typical response of the federal government was that these problems could only be addressed as part of an overall package that also included a reform of local revenues. And the municipalities were reluctant to consider the measures proposed to strengthen their own revenue sources (see below). So the further discussion of most of these issues was relegated to the “authorities concerned” with little concrete results on how to mitigate the impact of federal norms on municipal budgets in the area of social spending.

However some proposals on reforming social protection were retained for further examination. These were, for instance, the social assistance for asylum seekers, the better targeting of aid for housing and heating and stricter rules regarding the beneficiaries’ own contributions for determining eligibility. Moreover the complete takeover of nursing services by statutory care insurance providers with compensatory contributions of the municipalities, the cofinancing by the Federation of the costs for integrating disabled persons, financial contribution from the federal to the cost of child protection may still be considered in a political follow-up. It was also requested that the Job Centers might become responsible for child benefit for members of the public service, which could attract political support.

Overall it was perhaps a mistake that municipalities and their associations focused too much on category II measures expecting an immediate budget relief from shifting financial burdens onto others tiers of government and social insurance institutions. This attitude must meet political resistance especially under present financial circumstances. By insisting on shifting burdens local governments missed the chance to engage in addressing more fundamental aspects of reforming social security that could have provided budget relief over time. Nevertheless some aspects of rationalizing social security were discussed in the vein of category I measures, for instance better targeting, the harmonization of eligibility criteria, the bundling of competencies, procedural modifications, and the like. Some of these aspects are discussed in the next section.

Other areas of concern to municipalities

Apart from social protection there were a number of other policy areas where municipalities attempted to shift the financial burden off budget. Again this was rejected although some spending items would clearly fall into the responsibility of higher tiers of government, for instance expenditures relating to personal status law such as the

certification of personal standing, the costs of creating electronic registers (foreseen for 2014), or expenses for holding federal elections. In the wake of greater mobility through the abolition of border controls and of combating international terrorism, the municipal costs of cooperation with state and constitutional protection authorities to sustain internal security have remarkably increased. In all those instances the federal government took the position that this had to be addressed by State legislation.

Other matters discussed fall into category I in principle, but nevertheless municipalities launched an attempt to combine it with financial compensations for alleged additional costs. For instance through the ELENA Procedure Act of 28 March 2009⁵ the federal legislature has decided to facilitate and speed up the procedures for claiming social benefits in the future. This is effected through centralized clearing of information, electronically transmitted by employers to the *Zentrale Speicherstelle (ZSS)*, information on which social protection agencies then can draw. This is expected to produce significant savings not only for public institutions, but also for employers who are set free from issuing documentation for the various agencies. However the municipalities considered that this would entail higher costs for themselves asking the federal government for support, which was of course declined. This example demonstrated that the exercise to diminish the costs of standards and norms was not always free of self-interested lobbying.

This is not the place to enter into a full discussion of the different category I measures proposed as they would require familiarity with German legal, institutional and procedural arrangements. The following should therefore be considered an incomplete set of examples by subcategory of the various proposals considered.

Change of fee structures, targeting, and pricing issues

In Germany municipalities are not fully free to set their fees, user charges and standard for the provision of services, but require authorization from their respective *Land* authorities and even the federation. So there were various proposals to achieve greater autonomy for setting the level of fees, for instance for regulating road traffic or for issuing parking permits for residents. Other proposals concern important changes in the fee structure for issuing personal documents, including passports, and the elimination of cost-intensive checks in the case of exemptions from fees.

In other instances municipalities are not allowed to charge fees for services provided, so there are a number of proposals to relax this constraint, for example to collect cost recovery fees for information sought on food law breaches. Finally, there are restrictions within the fee structures that render their administration onerous and costly, so municipalities have asked for procedural simplifications in collecting fees and for greater discretion in applying relevant tariff criteria (e.g. pollutant parameters in the case of environmental charges).

On the expenditure side, municipalities aim for greater influence on the design of the echelon for providing services (e.g. for welfare services). Simplification of support schemes may also alleviate financial stress on municipalities, for instance the use of flat-

⁵ Gesetz über das Verfahren des elektronischen Entgeltnachweises (ELENA Verfahrensgesetz) or Law on the Procedure for Electronic Payments Proof.

rate housing allowances or a standard level of services for the fostering of child development, youths and families. Some measures proposed might reduce the direct costs of a program, but they entail higher administrative and monitoring costs, for instance the better targeting in the case of transporting disabled persons.

Other requests concern the free access of municipalities to services provided by other agencies, for instance the free provision of data from other federal agencies such as the Federal Motor Vehicle Office or the free provision of standardized computer models for air pollution control plans. This author has argued that “contractual forms of federalism can significantly improve the quality of service delivery in the public sector”⁶, which makes a case for interagency transfers on a quid-pro-quo basis (“microtransfers”) to compensate for interagency service deliveries. This concept would run counter the free access to interagency services. It is recognized however that the German model of federalism is more “corporatist” than “contractual”, so the political instinct is typically biased toward interagency assistance at no cost, not toward efficiency-enhancing microtransfers between agents to compensate for service spillovers.

Procedural changes and administrative simplification

A number of proposals to improve existing procedures relate to the better integration of information flows between agencies (in particular between municipalities and social insurance institutions via e-government) and the centralization of certain functions such as payments and direct debits. Similarly it is expected that budget savings would be achieved by harmonizing the varying eligibility criteria for different social assistance programs and by centralizing such criteria for such programs (e.g. for disadvantaged students).

Savings are also expected from the waiver of administrative acts involving excessive case-by-case examination and for repetitive acts such as annual follow-up applications for, and approval of, certain benefits for persons over 65 years and/or with permanently reduced earning capacity. Further measures include the simplification of procedures such as the reimbursement schemes for child protection or educational aid, or the simplification of testing methods (e.g. in compliance with the Vocational Education Act).

Furthermore there are cost benefits resulting from the consolidation of procedural requirements involving several public agencies or cost carriers, for instance through the creation of a comprehensive one-stop responsibility for integrating youth welfare services, or the reduction of the number of interested parties involved in determining certain transfers such as family benefits.

There are also some restrictions on staffing. For instance federal legislation may prescribe that certain task are to be performed only by civil servants. More flexible and needs-based staffing might be achieved by allowing municipalities to hire salaried employees (e.g. veterinarians) or to contract out some services to the private sector. And, as everywhere, procurement rules were found to be excessively restrictive.

⁶ Spahn, Paul Bernd (2006), „Contract Federalism“, *Handbook on Fiscal Federalism* edited by Ehtisham Ahmad und Giorgio Brosio, E. Elgar, Cheltenham, pp. 182-197.

Increased thresholds procurement requirements and negotiated procedures would reduce their costing and contribute to alleviate municipal administrative budgets.⁷

Other procedural changes proposed concern the transfer of responsibilities away from municipal authorities. An example is the responsibility for the preparation of noise action plans from municipalities to the appropriate level of the noise source.

There are also examples of complaints about federal legislation affecting municipal budgets that had to be rejected because of international treaties, i.e. supranational directives and interstate agreements can also bear on local finances. For instance the demand to remove restrictions on opting-in rules of social assistance programs might run into conflict with the UN Convention on the Rights of Persons with Disabilities. Or the request to eliminate the Strategic Environmental Assessment in environmental planning or the elimination of external emergency plans for potentially hazardous businesses clearly conflicts with EU directives and such proposals had to be rejected by the federal government.

Other cost-reducing measures

There are two important areas of federal policies where municipalities complain about significant cost increases without compensatory flows of fund. One concerns the Energy Conservation Ordinance (*Energieeinsparverordnung EnEV*); the other federal legislation to curb illegal activities in the construction industry.

As to the former municipalities are compelled to renovate the existing municipal housing stock and office buildings to comply with the high energy conservation standards set by legislation, which has already led to significant setbacks under the current EnEV. These standards will be stepped up in the 5th revision of the act foreseen for 2012. Again this legislation is based on a EU directive (of 2010), which is considered a "common European denominator" for energy efficient buildings throughout Europe, so it has a much wider bearing than just for Germany. Nevertheless the implied burden on German municipal budgets is massive. Therefore representatives of German municipalities have requested that, at least, residential buildings owned by municipalities be excluded from the rehabilitation obligation because it would overstrain their municipal housing associations financially.

As to the latter concern – curbing illegal construction activities -, the law has indeed transferred a number of cost-intensive responsibilities for surveillance and monitoring onto municipal governments without compensation, including even the collection of a tax on invoices issued by construction firms (*Bauabzugssteuer*, an installment for income taxes to be paid by the firm).⁸ It was to be expected that the federal government rejected these complaints for political reasons given the sensitivity of the issue.

Restrictions on municipal policies

Constraints by political norms

⁷ The Council of Europe has recently discussed potential benefits stemming from procurement through the internet, which do not appear to have been discussed by the Working Group.

⁸ The *Bauabzugssteuer* can be credited against personal and corporate income taxes.

German municipalities are guaranteed local self-rule by Constitution and they generally comply with the standards set by the European Charter of Local Self-Government. Their budgets are financed through own revenue and State grants that are usually unconditioned, except for some capital grants in support of specific investment programs. And they enjoy policy discretion in varying the tax leverage for two of their important taxes: the taxes on businesses (*Gewerbesteuer*) and on real property. On the expenditure side of the budget municipalities can set their policy priorities freely within the ambit of their competencies and standards, and they have the right to borrow on the market without restrictions, albeit under surveillance by their respective State governments. So one may consider municipal policy to be basically free of restrictions.

This picture fades in the light of normative thinking firmly entrenched in political behavior. There are a number of political “norms” that are not even questioned or, if challenged, rejected because of alleged political “risks”. For instance the pay schedule for municipal civil servants and employees is uniform throughout the nation and the idea that it could be differentiated according to local circumstances is not even discussed for fear of inter-jurisdictional competition. Or the base of the property tax has not changed for almost half of a century (values were fixed in 1964, respectively 1974), and municipalities are usually reluctant to increase the leverage ratio of this tax for fear of political costs. Over the last decade the annual rate of increase of the average leverage ratio for the property tax was 0.7 percent⁹ compared with 4,8 percent for municipal spending in the area of social protection – the largest budget item. So property tax collections have consistently declined as a share of municipal budgets.

Another example of collectively self-imposed political restrictions was revealed when the federal government had proposed, to the Working Group “Municipal taxes” of the Commission, a financing model that would have replaced the local business tax with a surcharge on personal and corporate income taxes, including the right to vary the rate, as well as a higher municipal share of VAT. The municipalities and their associations rejected the proposal to tax their citizens on arguments of inter-jurisdictional tax competition and regional inequities. Conversely the federal government refused the model of municipalities to strengthen the local business tax because it considered it detrimental to the substance of business enterprises operating in Germany. This created a policy deadlock, which persists. So the German model of local self-government is still far from the Swiss philosophy of competitive federalism.

Constraints by institutional norms

There were a number of institutional norms that affect municipal policy making, but these were not at the forefront of the discussions in the Working Group. Municipalities did not ask for greater policy autonomy, except for greater influence of their social welfare institutions on the design of services, some leeway in setting fees, and greater margins for their own activities in the field of energy saving and climate protection (requesting financial incentives from the senior governments). On the contrary: the general mood was to give up policy responsibilities, especially where tied to important underfunded spending programs. However an important limitation of municipal policy making was not

⁹ An exception is the post-crisis year 2010 where the average rate of increase of the national leverage ratio for property taxes was 2,6 percent.

discussed by the Commission. It resulted from the work of a previous commission on fiscal federalism.¹⁰

The quest for fiscal discipline and budget coordination in order to reach international norms, for instance the Maastricht criteria for comprehensive public borrowing and debt, as well as concerns about the unbridled expansion of government debt and short-term municipal borrowing in particular¹¹ had led to a national debate on the intergovernmental coordination of public debt, which resulted in a self-imposed new constitutional norm (which has since influenced State constitutional law in Schleswig Holstein and Hessen, for instance): the "debt brake" (*Schuldenbremse*). It amounts to a full injunction to incur new debt for the *Länder*, including their municipalities, from 2020 on. Article 109 (2) of the Constitution (*Grundgesetz*) establishes the principle of structurally balanced budgets for all levels of government. Consequently deficits can no longer be financed through borrowing, except for the federal budget where a margin of 0,35 percent of nominal GDP is tolerated.¹²

True, this is not a total ban on municipal debt, which would conflict with the European Charter¹³, but it will be a constraint over the longer run. It allows municipalities to borrow only when retiring older debentures. In other words: Borrowing is allowed only for the replacement of the existing capital stock, not for its expansion. Even preserving the level of replacement investments will be difficult in the light of escalating federal standards as discussed, e.g. in the area of energy conservation. This will become a severe restriction for a sector that is responsible for about two thirds of all public investments within a – hopefully – further growing economy. Even if there were no growth, the real value of replacement investment allowed via borrowing will decline with inflation over time.

If applied strictly, this norm will strongly interfere with local budget autonomy, which is why some lawyers challenge the Constitution with the Constitution. From an economic point of view it is to be expected that municipalities will engage in all sorts of evasion strategies. These can best be studied by looking at countries that have imposed even stricter bans on municipal borrowing, for instance China.¹⁴ Municipalities will simply disguise debt in local investment companies and other off-budget agencies, of which they are the owners, or through clever accounting that masks the true size of the debt. This hidden debt is much more difficult to control than on budget, it entails new risks, and dis-empowers local councils. Moreover, since the debt brake will only work from 2020 on, there is the temptation to anticipate a higher debt level to acquire sufficient *masse de manoeuvre* for later, which is inefficient hoarding.

¹⁰ The Federalism II Commission (Kommission zur Modernisierung der Bund-Länder-Finanzbeziehungen) was set up in 2007 and concluded its work in 2009.

¹¹ The cash credits of municipalities have increased dramatically over the last decade, from €6,9 billion in 2000 to €40,5 billion in 2010 – which is an annual rate of increase of 19,4 percent.

¹² There are other exceptions that apply to all levels of government however: (i) borrowing to cope with natural catastrophes and other emergencies; and (ii) anti-cyclical borrowing to mitigate the business cycle, whereby incurring and retiring of debt must be symmetrical and balance over the cycle.

¹³ The European Charter stipulates in Article 9 (8): "For the purpose of borrowing for capital investment, local authorities shall have access to the national capital market within the limits of the law."

¹⁴ See, for instance, "Auditor Warns of Risks From Local Debt in China", *New York Times, Global Business*, June 27, 2011.

It remains to be seen what the constitutional norm of the debt brake will mean in practice – look at the destiny of the Maastricht constraints. Of course it could be a device to mobilize local taxation and relax the self-imposed constraint on revenue policies that were mentioned before. But it clearly interferes with the principle of budget separation between tiers of government and the autonomy of their budgets.

Conclusions

Germany has a vibrant municipal sector whose budget autonomy and local self-rule are guaranteed by the Constitution. Municipalities also enjoy discretion in setting the rates of important taxes and benefit from unconditional intergovernmental transfers. And they are free to borrow on capital markets. Nevertheless their radius of action is constraint by international and federal standards and norms that bear on costs, hence on municipal budgets, which restricts their political options and choices.

Most of the restricting standards and norms were identified to lie in the area of social policy and other local responsibilities that are underfunded. Relaxing the constraints set by norms is hence tantamount to shifting burdens to other tiers of government or to social security institutions. This proved to be politically difficult and did not produce tangible results. However in areas where revisions of standards and norms are possible without affecting other budgets, there are a number of measures that, if implemented, do reduce costs and enhance the budget autonomy of municipalities. In this area significant political progress was possible.¹⁵

Restrictions on municipal policy making are more difficult to identify because they often result from self-imposed political “norms” that are firmly entrenched in the political “culture” and are not even questioned. They also reflect shyness of political leaders and officials to incur risks through greater accountability, for instance when asked to tax their citizens. A striking example came from the work of the Commission when the federal government proposed a widening of local autonomy in the area of income tax, which was rejected by the municipalities and their associations.

One important long-term constraint on municipal policy making will be felt when activating the “debt brake”, the interdiction to incur new net debt from 2020 on. This clearly interferes with the principle of budget separation between tiers of government and the autonomy of their budgets.

¹⁵ The Federal Ministry of Finance reports that, by June 2011, already 20 percent of all proposals were implemented or are in the process of being implemented, and 45 percent of the proposals were relegated to existing Federal-Länder Working Groups or are being treated in the context of ongoing legislation. (“Gemeindefinanzkommission - Ausgangslage und Ergebnisse“, *Monatsbericht*, August 2011.