

**The public sector of selected European capitals: The situation in Berlin, London, Paris, Vienna and Rome compared**

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## **The public sector of selected European capitals compared: Taking stock in Vienna, Paris and London, Rome and Berlin**

### **I- Introduction**

Vienna, Paris and London are very different with respect to their population, their economic and political position, their history and their intellectual-cultural profile. Their positions in the national and international city networks also differ strongly. Paris and London are, in the sense of the definition of Saskia Sassen's "Global Cities", meaning decision centres of international economic and financial life.<sup>1</sup> Vienna, at least at the national level, occupies a dominant economic position and pursues the ambition of being a centre of economic relations with the East European countries. Rome, from the spiritual-cultural point of view, has been a global city through the ages and the centuries. At the same time, the Italian city system, just like that in Germany, remains poly-centric. And while Rome may be of great weight economically, it is not dominant. Berlin, on the other hand, raises the claim to be a metropolis that meets with international acceptance especially at the cultural level. Its economic and financial power, however, lies chronically under the federal average.

A consistent characteristic of the chosen capitals, however, is that they are ruled by representatives of the European left. In London, Paris, and Berlin, in the persons of Ken Livingstone, Bertrand Delanoë, and Klaus Wowereit, three social-democrats came to power as a result of changes in government. Vienna by contrast stands for a decade-long continuity of social-democratic governmental practice. In Rome, Walter Veltroni (DS – Italian Left Democrats) replaced Francesco Rutelli (Margarita – liberal), and this way at the same time protected the Roman mayor's post against a party alliance of the Italian right.

Although the general economic conditions in a globalised economy are subject less and less to the disposition by local actors and the budgetary scopes of manoeuvre depend mainly on the position within the overall state financial constitution, there remains the important question for the original political scopes for action of the city governments.

The public sector has special significance in the answer to this question, because the local state (region) in its function as employer and/or entrepreneur is subject to direct political influence. What decisions the Left participating in the local government takes with respect to the public sector and what governmental goals it pursues, shall be investigated and presented here in the following. Pushing back the role of the state as employer and/or entrepreneur, as producer of public goods, was and is the declared goal of neoliberal policy, whose keywords are privatisation, liberalisation, and deregulation. Where can policy intervene at a shifting border between state and private, between the community and the market and to the benefit of the public sector? The examples that are listed of this in the following reach from the re-centralisation of London waste management to the "Vienna Water Charta" which dealt the privatisation of the communal water economy a decisive refusal.

If the retreat of the state were the general form of movement into the future, the large communal holdings in Vienna (Vienna City Works) and Rome (Gruppo Comune di Roma) would be only anachronisms. On the contrary, large communal enterprises,

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<sup>1</sup> Sassen, Saskia, „Ausgrabungen in der Global City“ (Excavations in the Global City), in: "Berlin: Global City or liquidation mass" (Berlin: Global City or liquidation mass), Dietz Publishers, Berlin 2000, p. 17.

that may for instance have the legal form of a stock-holding, can be an important instrument of political design. The Vienna or respectively Rome policy linked the foundation of these enterprise groups to the strengthening of the city's role as owner under the general conditions of the European competition law. In London, the "public-private partnerships" were successfully used to attract billion-heavy investments to communal infrastructures. At the same time, the London city management that is struggling at this very time for the reestablishment of a unified waste management will most certainly not follow the neoliberal de-regulation advice.

The Rosa-Luxemburg Foundation has devoted a number of publications to the topics of public property, the public sector and privatisation. For instance, Barbara Dickhaus and Kristina Dietz in the year 2004 have provided a comprehensive analysis of privatisation processes in core areas of public services in the European comparison. Their case studies relate mainly to the service sectors water and energy supply, transport (PPSDT and railway transport) as well as education and culture in a number of selected countries of the EU (Great Britain, Germany, France, a number of Scandinavian countries, Austria and Italy).<sup>2</sup> The present study wants to link up to that study.

Referring to Dickhaus and Dietz<sup>3</sup>, the *privatisation of wealth*, meaning the transfer of property rights from the state to private agents, must be distinguished from *organisational privatisation*, meaning change in the legal form of the agent charged with a public task, for instance, from city ownership to a limited partnership or a stock-holding. *Functional privatisation*, finally, means the contracting out of public tasks to private businesses for the purposes of service rendering to the state or respectively the local community. Klaus Lederer, whose investigation of privatisation in the communal water sector has been seminal in many respects, analyses privatisation in the context of a permanent conflict between politics and market: "Privatisation means [...] various forms of shifting the relationship between state and the private sector as the carrier of responsibility for public tasks or as the owner of values, while liberalisation [...] means the 'liberation' of tasks up to now carried out in public license for non-state actors. Linked to that is [...] the reduction of influences alien to the market [...], in other words, the subjection [...] under the conditions of the unregulated market, the rolling back of state interventions into cartel and economic law."<sup>4</sup>

Since electricity, transport, water, and waste disposal are objects of EU directives which as a rule prescribe the opening of those markets, regulated up to then as state or public-legal monopolies in the member states, the rules of the game for the municipal economy are less and less subject to the influence of local actors. The EU in the meantime has passed a number of directives for services "of an economic nature". These are to be subjected to EU competition law. This concerns mainly the energy, transport, and telecommunications sector.<sup>5</sup> It prescribes the opening of the national or respectively regional service markets, the opening of the right to manage transport and supply networks to private agents and the separation of infrastructure and business.

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<sup>2</sup> Dickhaus, Barbara and Kristina Dietz: "Public services under privatisation pressure", ed.: Rosa Luxemburg Foundation and WEED, 2004.

<sup>3</sup> Opus cit., pp. 3 ff.

<sup>4</sup> Lederer, Klaus, "Structural change in the case of communal water services", Doctoral dissertation, Berlin Scientific Publishers, 2004, pp. 33-34.

<sup>5</sup> EU Commission, "Green Book on Services of General Interest", Brussels 2003.

The consequences of these conditions created by European law thus immediately concern the legal form of the communal firms and their organisational structure. Rome, for instance, has distributed the infrastructure and the current management of its transport and waste disposal sector up to then largely in public ownership among several private companies, in which it as a rule holds the majority of assets. Referring to changes in EU competition law, Vienna has reorganised parts of its stock of communal firms in the City Works Holding, however, especially the housing and the health sectors remain city-owned and public legal companies. Berlin finds itself under considerable privatisation pressure, both due to the financial situation of its public enterprises, as well as due to the budgetary calamity that is taken as a pretext to demand of the Berlin regional government to separate itself from additional public shares.<sup>6</sup>

From the competition policy of the EU and its inherent tendency of de-regulation and liberalisation, there does not necessarily follow the privatisation of public property in the sense of a retreat of the state from the role of owner. The privatisation of public infrastructure and supply enterprises remains a political decision that is taken by politics on the premises and that always concerns concrete firms. It is also always determined in a major way by the financial scopes of action of a city and the economic situation of companies.

The observation of the budgetary situation in the cities is supposed to allow an insight into the financial scopes of manoeuvre and material constraints that determine the politics in these cities. In there belongs among others the analysis of the personnel situation and the spectrum of tasks of the public service of the cities.

Public service and public sector, precisely in the context of the large European cities, are rather ambiguous notions. The EU member states define the public sector according to its different legal forms and the distinction between public and private inherent in these. Correspondingly more or less clear are the de-limitations between public service and other agents of services of existential provision. Thus France defines the notion of public sector (*fonction publique*) very broadly, while the Civil Service in Great Britain only comprises the employees of the ministries and of the numerous *agencies* entrusted with central tasks.<sup>7</sup> By public service, we want to understand here mainly the immediate local state/region or respectively municipal administration and its members (the city as employer). Public sector, as a general term, refers to all sectors where the city is employer and owner; by this token, it encompasses also the sector of firms in public and in private legal forms (the city as owner).

Finally, we observe the political structures and the development and the political relationship of forces in the city itself. The different local constitutions constitute political structures that distinguish themselves mainly with respect to the power balance between executive and legislative and in that respect mainly with regard to the political influence of the parties. Where the executive is strong, the parties as a rule are weak.

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<sup>6</sup> Thus the opponents to Berlin's suit in the first audition in the trial of the Berlin budgetary calamity before the Federal Constitutional Court in Karlsruhe on April 26, 2006, see "Berliner Zeitung" of June 27, 2004.

<sup>7</sup> Auer, Astrid; Demmke, Christoph; Polet, Robert, eds. „The public sector in the Europe of the 15“, European Institute of Public Administration, Maastricht 1997, p. 15.

In summary, that means: What tasks does the local government fulfil in the cities investigated and what financial scopes of action are available for the political priorities of the urban governments? How are the cities governed?

The taking stock for every city includes discussing

- 1) Origin and development of the political systems of the cities
- 2) Political relationship of forces and governmental goals
- 3) General social and economic conditions
- 4) Principal budgetary data
- 5) Public services or respectively public sector

The present study also places itself in the sequence of investigations and discussions that were initiated by the Rosa Luxemburg Foundation with respect to the governmental participations of the PDS in Mecklenburg Western Pomerania, especially also in Berlin. Rolf Reißig in this context regards governmental participation as a “project of strategic learning”<sup>8</sup>, and in this sense, the work presented here is also supposed to contribute experiences and specifics of other European cities to this process.

The comparison between life conditions, the political-administrative structures and finally the public sectors of large city and Metropolitan spaces itself is the subject of comprehensive scientific works that are being done in other urban administrations but also at the level of the EU:

We should refer here to the comprehensive, comparative investigation of the city administration of Rome concerning the public sector in selected European big cities (“Città visibili, città vivibili – I servizi nelle metropoli Europee”)<sup>9</sup>

The European Commission since 2000 runs the project “Urban Audit”, which includes 58 large cities. Here it is mainly a matter of making general social data, offering a certain possibility to compare quality of life, accessible to continued comparison.<sup>10</sup>

The Association of London Government (ALG) has presented an “EU Capital Cities Study 2003”. This remarkable analysis is being continued since the year 1998.<sup>11</sup>

## **II – City dossiers: Overview of the general conditions and points of emphasis of the investigation**

For a better understanding of the following city-chapters, a few general conditions, to which the cities investigated are subject, should be looked at ahead of time.

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<sup>8</sup> Rolf Reißig, „Building Bridges: The PDS in the Berlin Red-Red Coalition – Experiences and strategic conclusions”, Berlin, rls, p. 2.

<sup>9</sup> „Città visibili, città vivibili – I servizi nelle metropoli europee”, Ricerca realizzata da ENPowering, Confervizi Lazio per conto del Comune di Roma, November 2003, online under the address: [http://www.romaeconomia.it/index.php?id\\_voce\\_selez=292](http://www.romaeconomia.it/index.php?id_voce_selez=292).

<sup>10</sup> „Urban Audit 2004: Key indicators on living conditions in European Cities”, European Communities, 2004.

<sup>11</sup> The ALG European Service, ed.: „EU Capital Study 2003”, London 2004.

Since the public tasks, the financial sources as well as the possibilities, the size and the structure of the public service of cities are ascribed to them respectively in the framework of the constitution, the constitutional type of the cities investigated enjoys a determining role. Investigated were both cities located in federal states as well as central states.

### European federal states

- Vienna
- Berlin

### European central states

- Paris (France, presidential republic)
- London (Great Britain, parliamentary monarchy)
- Rome (Italy, parliamentary republic)

Four of the five cities investigated correspond to the type of the unitary community, while London's administrative levels are separated from the administrative-political point of view (districts have budgetary authority). The table that follows gives an overview of the political system of the cities.

	<b>Berlin</b>	<b>Vienna</b>	<b>London</b>	<b>Paris</b>	<b>Rome</b>
State and constitutional type of the mother state	Federal Republic	Federal Republic	Central state, constitutional monarchy	Central state	Central state
Number of administrative levels	3 levels: federal level, federal region, local community	3 levels: federal level, federal region, local community	4 partial states with local parliaments, regional agencies, local communities	4 levels: central, regional, departmental, local	4 levels: centre, region, province, local community
Political status	Federal region and municipality	Federal region and municipality	Single elected regional government in England	Department and commune	Local community
Administrative subdivisions	Senate of Berlin, 12 districts	Senate of Vienna, 23 districts	Greater London Authority 32 boroughs, own roof organisation, association of London government	City Council of Paris	Giunta Comunale, 19 municipi
Governmental structures	8 ministries, 1 Senate chancellery	8 branch departments, 1 magistrate	several autonomous city-wide agencies	Mayoral administration with branch departments	Mayoral administration and 15 branch departments
Parliamentary relationships of forces	Chamber of deputies, 141 seats	Community Council with regional parliament Function, 100 seats	The London Assembly, 25 seats	Conseil de Paris 163 seats, deputies at the same time also represent a district	Consiglio Comunale Di Roma, 63 seats
Governmental	SPD/PDS	Proportional	Centre-left	List Delanoë	Centre-left



coalition		government, absolute SPÖ majority	government	92 seats, 49.6%, PS, PCF, Greens	majority
Ruling mayor	Klaus Wowereit	Michael Häupl	Ken Livingstone (direct election)	Bertrand Delanoë	Walter Veltroni (directly elected)
Election modus	2001 5 years	2005 5 years	2004 4 years	2004 4 years	2001 5 years

Certain public tasks that in European central states are under the purview of the national administration, in federal states are under that of the cities investigated. Given that, for instance, the health sector in Great Britain and France are administered from the national level, the corresponding cities do not have to concentrate any great resources there themselves. The size of the public sector and thus the financial obligations of the public employer are also pre-structured by the constitutional type and the *division of labour among the regional authorities*. Where police and justice administration are essentially directed by the national level, the city does not have to pay anything and the resources are put at its disposal. The question of the division of tasks and the division of labour among the levels of authority is compared, in the following table, among other things from the following points of view:

- Are the cities the dominant public master and employer for this area?
- Are they managers of the specified public tasks, that means, do they fulfil them by way of their agencies or other municipal installations?
- Is the way and form of the realisation of tasks primarily under the control of the cities?
- Do they have the competence to set general legal conditions in an authoritative way?

In that context, the coincidence of all four criteria should signify high competence and purview as far as the realisation of the respective tasks is concerned; the absence of the majority of the criteria and in particular of the criterion of being the employer, by contrast, justifies the predicate "low". The applicability of some criteria describes a medium position in the division of labour.

### Responsibility and competences of the cities within the division of labour between the levels of authority

	Economy	Social Affairs	Urban Develop- ment	Health	Schools	Colleges and universities	Culture	Police	Justice
Berlin	●●	●●	●●●	●●●	●●●	●●●	●●●	●●●	●●●
Paris	●●	●●	n.d.	●	●	●	●●	●	●
Vienna	●●	●●	●●●	●●●	●●	●	●●	●●	●
London	●●	●●	●●●	●	●●	●	●	●●●	●
Rome	●●	●●	●●●	n.d.	●	●●	●	●	●

Legend: ●●● high, ●● medium, ● low

Who must distribute the money among fewer priorities can steer better and may be able to achieve more even with a smaller budget. In this way, the view on the size of the budgets of the investigated cities can also be put in perspective. Moreover, in the

case of financial distress situations, there always threatens a restriction of control capacities in many areas.

As already described, we distinguish public service and the public sector: in other words, between the direct public service (direct employer role of the state) and the public sector, i.e. the institutions and enterprises, where the state is the owner, however, as a rule not the employer. Public property, the ownership or respectively shareholding in enterprises in public and private legal form is a common characteristic of all cities investigated. The role of “PPP” should also be considered here, because the contractual involvement of private, commercially-oriented service providers will in the future play a greater role.

	Energy	Water	Waste Disposal	Transport	Social Apartment construction	Real estate economy	Health	Masses and Markets
Berlin	■■■■■	■■■◇◇◇	●●●●●	●●●●●	◇◇◇◇◇○	◇◇◇◇◇○	◇◇◇◇◇○	◇◇◇◇◇○
Paris	□□□□□	■■■◇◇◇○	●●●●●	●●●○○○	◇◇◇◇◇○	●◇◇◇◇◇	○○○○○	◇◇◇◇◇○
Vienna	◇◇◇◇◇○	●●●●●	◇◇◇◇◇○	◇◇◇◇◇○	●●●●●	○◇◇◇◇◇	●●●●●	n.d.
London	■■■■■	■■■■■	■■■■■	●●●◆◆◆	●●●●●	n.d.	○○○○○	n.d.
Rome	◇◇◇■■■	◇◇◇■■■	◇◇◇◇◇○	◇◇◇◇◇○	n.d.	◇◇◇◇◇■	n.d.	◇◇◇◇◇○

Public-legal management by the community

●●●●●

Central state property

□□□□□

Private legal form in state ownership (majority ownership)

○○○○○

Municipal property in private legal forms (plcs, ltds)

◇◇◇◇◇

Privatised (either wealth privatisation or private share-holding)

■■■■■

Public- private partnership

◆◆◆◆◆

Excepting from London, the analysed cities exercise control over a considerable amount of firm assets. Not the outward form of the property – public-legal or private – is the decisive point here, but the company strategy pursued and the situation of the enterprises themselves.

For instance, the municipal apartment stock in Paris is organised in the form of a stock-holding company, the one in Berlin is divided among 6 limited companies under private law, the Vienna one is an enterprise held entirely by the city, and in London the districts manage an apartment stock of *council flats* that is almost as large as that of the three above-mentioned cities together. In all the above-mentioned cases, the city is the owner. Yet, what does this tell us about the situation of public apartment ownership, what about housing policy? In France, the two largest energy supply firms, EDF and GDF, are stock-holding companies that are in their majority state-owned. Yet, both by the world-wide purchase of shares drive ahead the privatisation of the energy sector. And the EDF, moreover, is one of the largest nuclear electricity producers.

### Economic and financial strengths of the cities

The position of a city in the national and international city network is crucial to its economic and financial strength. It is determined mainly by economic centrality. The major criterion is the branch-related number of company headquarters, the share of the city in innovations etc. The place of a city in the national and international city

network can only very conditionally and in the long term be modified by decisions of local politics. The point of departure of such developments is always the country-wide city system. In our study, we distinguish two basic types of country-wide city systems:

**Monocentric city systems** (political and economic power is centred in a city; the city has the relatively largest share of BIP, there is a cluster of company headquarters): Great Britain, France and Austria.

**Polycentric city systems** (political and economic power is distributed among several regional centres): Italy, Germany.

As the central criterion of the economic power of the cities, their share in national gross domestic product (GDP) is used.

The principal budgetary data of the municipal budget give an idea about sources of receipts and points of emphasis of expenditures; however, due to the respective specifics of the urban finances investigated, they are only comparable to a limited extent. That concerns mainly the problem of indebtedness and interest charges.

For comparison's sake, there should be used here the following numbers:

- Budget volume (Over what means do the cities dispose themselves?)
- Tax coverage quota as a percentage of the budget (What is the municipal financial power available?)
- Credit financing quota as a percentage of the budget (What do the cities finance by loan?)
- Interest payments/debt service in m. Euros/**GSP** and
- Debts in bn. Euros/**GSP** (ask the author: what is meant: GDP, GNP or other measure ?, translator's note).

## II – Country files

### 1) Berlin: Red-red rehabilitation brigade at work

Berlin is political centre of the German Republic, without at the same time being its economic centre. In distinction to London and Paris, Berlin has no function as international and national economic and trade centre with headquarter role. The share of national GDP of 3.5% remains marginal.<sup>12</sup> Berlin may also not wage on being embedded in an economically strong region.

The causes for that lie historically both in the break that the Second World War and the division of Germany meant for the economic development of the city as well as in the conservation of economically and technologically not competitive structures in the Western part of the city. The generous alimentionation of the old West Berlin in the framework of the Berlin aid by the federation was invested mainly in so-called extended work-benches and not in a highly technological, future-oriented economic structure.<sup>13</sup> At the same time, West Berlin after the German division all at once lost its

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<sup>12</sup> Senate administration for the Economy, Work, and Women, ed. "Economic and labour market report. Berlin 2005", Berlin 2005, p. 16.

<sup>13</sup> See on that: Carl Wechselberg: "The metropolis policy of the Berlin Senate since 1991", diploma thesis, FU Berlin, S. 32/33: "In general, what was subsidised was the standardised industrial mass production, poor in value-creation and capital-intensive, of simple consumer goods, for instance, food and luxury items... Overall... the de-coupling of West Berlin from the general post-Fordist structural

regional sales market, while the winding-down of the East Berlin firms well placed on the East European market after German unity weakened the structural export weakness of the now united city even more.

The partial move of governmental agencies to the Spree, decided by the German Federal parliament in 1994<sup>14</sup>, has not fundamentally changed Berlin's economic position in the polycentric German city system. The attempt of the coalition of CDU and SPD that ruled from 1991 to 2001 to rise, with the help of credit-financed large-scale projects, to an international service metropolis failed with the result of ruined regional finances. The Red-Red Senate composed of SPD and PDS that ruled after 2002, as a result of the debt-interest burden that had ensued, in the year 2003 had to declare budgetary distress. Upon arrival into office of the Red-Red coalition, of each Euro of tax receipts 41 cents in accounting terms had to be spent for the debt service.<sup>15</sup>

The political structure of Berlin is that of a unitary community whose foundation was laid with the Great Berlin law of 1920.<sup>16</sup> Berlin, following article 1, paragraph 1 of the Constitution of Berlin (CoB), is federal country as well as local community. From there it follows that many communal tasks are attributed to individual Senate administrations.<sup>17</sup>

### 1-1) Political institutions

**The Chamber of Deputies**, whose legislative period lasts 5 years, according to article 32 CoB comprises at least 130 deputies, who are elected directly for their electoral districts or via regional or district lists. At this point, the regional parliament as a result of the compensatory mandates consists of 141 deputies. The Chamber of Deputies enjoys a rather strong position that in some points goes beyond that of the federal parliament.<sup>18</sup> Thus it can up to now<sup>19</sup> initiate a vote of non-confidence against every single government member. It decides the purview of the branch administrations and elects the police chief. The deputies, aside from the regional

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changes meant that, in contrast to other big international cities, no new growth sector was able to impose itself."

<sup>14</sup> Law on the implementation of the Resolution by the German Federal Parliament of June 20, 1991 on the completion of the German unity, in: Documents on the Federal Capital Berlin, Press and Information Service of the country of Berlin, 1995. By way of the Berlin-Bonn law it was established that the majority of the jobs of the federal ministries had to remain in Bonn.

<sup>15</sup> Coalition agreement between the Socialdemocratic Party of Germany (SPD), the regional association of Berlin and the Party of Democratic Socialism (PDS), the regional association of Berlin for the legislative period 2001-06, Berlin, January 16, 2002, p. 63.

<sup>16</sup> The "Law on the creation of a new city community of Berlin", *Greater-Berlin law* in its short form, was passed on April 27, 1920 by the Prussian Regional Parliament, and entered into force on October 1, 1920. That way, there were integrated into what up to then had been the city community up, the seven urban communities Lichtenberg, Schöneberg, Wilmerdorf, Charlottenburg, Neukölln, Köpenick und Spandau as well as 59 territorial communities and 27 estate districts from the surrounding districts of Niederbarnim, Osthavelland and Teltow. The up to then 1.9 million Berliners were in this way joined by another 1.9 million inhabitants, roughly 1.2 million of these from the 7 surrounding cities. The city territory, this way, increased from 66 sqkm to 883sqkm.

<sup>17</sup> Zivier, Ernst R.: "Constitution and administration of Berlin", Scientific Publishers of Berlin, third newly edited edition, Berlin 1998.

<sup>18</sup> Nissen, Sylke: "The governable city. Metropolitan politics as construction of solvable problems. New York, London and Berlin in comparison", West German Publishers, Wiesbaden 2002, p. 173 ff.

<sup>19</sup> The Red-Red coalition has abolished this right; at the same time, the plebiscitary elements of the constitution will be extended.

legislative competence, budgetary authority and right to petition, are also responsible for the norm-setting of the community.

**The ruling mayor**, following art. 56, CoB, is elected for five years by the Chamber of Deputies. Its position is traditionally one of a “*primus inter pares*”: Following art. 58, 2 CoB, he or she can only get the guiding directives of government policy only in accordance with the Senate and with the approval of the Chamber of Deputies. At the same time, the Ruling Mayor also has certain administrative competences.<sup>20</sup>

**The Senate:** The Senators are the members of the Berlin regional government with ministerial competences. “Every member of the Senate administers his or her area of competence independently and on his or her own responsibility within the directives of governmental policy. In the case of differences of opinion or upon motion by the Ruling Mayor, the Senate decides.” (Art. 58, CoB). By way of the constitutional reform of 1995, the number of departments was reduced from a maximum of 18 to 10 departments; 1998 to a maximum of eight departments aside from the Ruling Mayor. The senators, following the branch principle, exercise the political direction of the Senate administrations under their purview. At the same time, they are responsible in a political-administrative sense, meaning that they can give directions to subordinated agencies – such as regional agencies. Senate administrations and regional agencies in the two-level Berlin administration constitute the level of *main administrations*.

The **districts** constitute the second level of the Berlin administration. They are legally subordinated administrative units. In this sense, they do not enjoy equal political rank with the independent communities in the regions with large territory. After a district reform in the year 1999, Berlin encompasses 12 districts with their own district mayors as well as 5 city councillors that form the district office. They are elected for five years by the district deputy assemblies (DDA). The DDAs are, due to the status of Berlin as a unitary community no local parliaments, but administrative organs without legislative, budgetary or tax authority. They exercise parliamentary functions mainly with view to the election of the district office next to a few additional office-holders as well as control, co-determination and audition rights. The political-administrative competences of the districts are regulated in the General Law of Competence (GLC); they are ultimately an executive organ of the regional government. Among the core competences of the districts, there belong: child and youth policy, social services, communal cultural work, school and pre-school planning, operation of the school locations, policy for the elderly, care of the handicapped, local ordering functions, control over businesses, constructions and measurement tasks.

### **European comparison reveals strong financial position of the Berlin district**

In comparison to the unitary communities, Paris, Vienna and Rome also examined here, the Berlin districts have a relatively strong position. This concerns both their competences as well as their financial and personal resources. In 2004, the 12 districts taken together had about 39,300 employees<sup>21</sup> and that way about as much as the whole of Paris. They disposed of an overall budget of ca. 4.7 billion Euros (ca.

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<sup>20</sup> At this point, these are the federal and European policy and media policy. Eberhard Diepgen (CDU), during the time from 1999 until 2001, was at the same time also senator of justice.

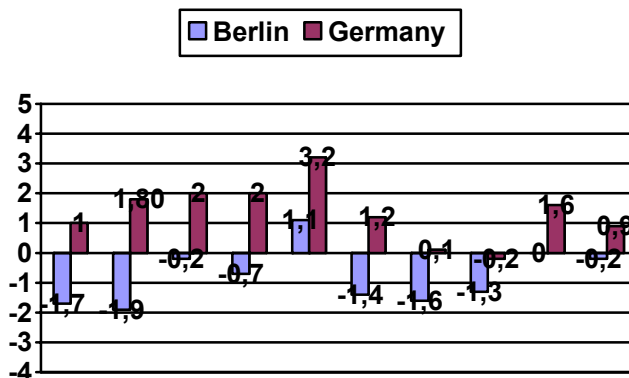
<sup>21</sup> Senate of Berlin, Report on the Second reading of the Draft of the Biannual Budget 2006/07 – Personnel expenditures and personnel plan of October 25, 2005, STW 341, Appendix 6.2, p. 1.

25 percent of the volume of the Berlin budget).<sup>22</sup> The payments to the districts to a far extent, however, are subject to the disposal of regional policy, which contributes to a permanent debate around questions of the real power of the communities. In that context, there is again and again raised the demand to put the districts, from the point of view of their revenues, into an equal position with the local communities of the large regions, because these may decide autonomously over the uses of the local tax receipts. If this concept were to prevail, the districts would certainly be able to decide completely on the communal tax shares in the wage and income tax, the value-added tax and the interest deduction tax as well as on the general receipts from the business and the ground tax along with the so-called small communal taxes (dog tax, amusement tax etc.), however, there would also result a revenue gap in comparison with the payments by the region of almost 2.8 Bn. Euro. After all, as compared to virtual communal tax receipts of 2,070.2 M. Euros, the payments of the country to the regions in the year 2003 still amounted to about 4.87 Bn. Euros.<sup>23</sup>

### Principal socio-economic data

The **economic power** of Berlin remains under-average in the federal German comparison. In the year 2001, there were earned here ca. 3.7% of GDP and in 2004, 3.5% of the German GDP. The following Graph shows that Berlin, after a brief unification boom in the beginning of the 90s remained to a large extent de-coupled from the business development of the Federal Republic.<sup>24</sup>

### Gross Domestic Product (real): Evolution of Berlin in comparison with Germany since 1996



<sup>22</sup> Senate Administration for Finance, ed.: Budget plan of Berlin for the years 2004/05, vol. 3, p. 2150.

<sup>23</sup> Enke, Thomas: Working paper on the financial equipment of the districts of May 19, 2004, PDS fraction in the Chamber of Deputies of Berlin.

Communal tax receipts (2003)

Wage tax (15%)	749.5 M. €
- Assessed income tax (15%)	28.4 M. €
- Interest deduction (12%)	30.3 M. €
Turnover tax (2.2%)	118.0 M. €
Business tax (- transfer to Federal level and region)	543.7 M. €
Ground tax	577.7 M. €
Amusement tax	10.0 M. €
Dog tax	9.6 M. €
Secondary residence tax	3.0 M. €
TOTAL	2,070.2 M. €

<sup>24</sup> [http://www.berlin.de/imperia/md/content/senatsverwaltungen/senwaf/wirtschaft/statistik/bipre\\_b.pdf](http://www.berlin.de/imperia/md/content/senatsverwaltungen/senwaf/wirtschaft/statistik/bipre_b.pdf).

The new capital city role of Berlin was not able to compensate the losses of jobs that had occurred due to the relocation of industries. In the years 1992 to 2001, the number of gainfully employed went back by about 74,000: Even if the Prognos Inc.<sup>25</sup> notes the creation of 52,000 jobs due to the capital function, it remains to be stated that the job losses of the 90s could only be dampened. The former Ruling Mayor Eberhard Diepgen today reaches rather sobering insights concerning the labour market political effect of the capital city: "As a result of the Berlin/Bonn law [...] and of the Federalism commission, at first, more jobs of the federal level left the newly confirmed capital than were transferred to Berlin as a result of the move. [...] German policies favoured a further relocation of industry. Two-thirds of the industrial jobs got lost. By the build-up of new services as well as the expansion of research and development, the losses could not be compensated up to now. [...] Despite warnings, there was no readiness to attack the problems, we stand before a disaster."<sup>26</sup>

Of a net increase in jobs, as other observers had still prognosticated in the beginning of the 90s, there cannot be the question. The unemployed quota increased from 12.1% in the year 1993 to 16.9% in the year 2002. In the same year, the social report of the Senate stated: "The share of the population concerned by poverty in Berlin amounts to a total of 12.8%. This way over 435,000 people [...] are concerned by poverty in Berlin. In the Eastern district, this share is smaller [...] than in the Western districts."<sup>27</sup>

From 1991 to 2002, the population size went down from 3.465 million inhabitants to 3.382 m inhabitants in the year 2002.<sup>28</sup> In the long term, a further reduction of the population until 2020 is envisaged.<sup>29</sup> There is therefore also no demographic capital bonus. The shrinking of the population must also be included into the examination, since this has direct consequences on the public sector. This concerns the question of the maintenance of school and pre-school locations, the material perspective of the apartment building corporations and in the medium term also the fee structure for communal services up to and including water supply. The phenomenon of the "shrinking cities" concerns all of East Germany and parts of the West German regions reaching into Nordrhein Westphalia. This population- political tendency will assume more weight as the general condition for the development and perspective of the public sector.

## **1-2) Contract basis: budgetary calamity – political relationships of forces and goals of the government.**

The elections of October 22, 2001 brought a disastrous defeat to the CDU, while the PDS in East Berlin obtained almost 50 percent of the votes. The SPD became the strongest party.

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<sup>25</sup> Arndt, Olaf; Steden, Philip: „Governmental relocation creates more jobs in a lasting way – Prognos study on the significance of the capital city function for the economy of Berlin”, in Monthly Report of the Federal Ministry of Finances, 07/03, p. 61.

<sup>26</sup> Biedenkopf, Kurt et al. (ed.): "Berlin – what is the capital worth to us", Leske and Budrich, Opladen, 2003, pp. 157/158.

<sup>27</sup> "Poverty and social inequality in Berlin", short statistical information on the first Berlin Poverty Report, Senate administration for social affairs, health, and consumer protection (ed.), Berlin 2002.

<sup>28</sup> <http://www.statistik-berlin.de>.

<sup>29</sup> Berlin Institute for Population and Development (ed.): "The demographic situation of the nation. How much of a future do Germany's regions have?", German Pocketbook Editions, Munich, 2006, p. 80 ff.

## Election results 2001<sup>30</sup>

	2001		1999		Difference	
	absolute	%	absolute	%	absolute	%
Legal voters	2,417,574		2,414,493		3,081	
Voter participation	1,645,673	68.1	1,582,407	65.5	63,266	2.6
Of that for	2001		1999		Difference	
	absolute	%	absolute	%	absolute	%
<b>CDU</b>	385,692	<b>23.8</b>	637,311	40.8	-251,619	-17.0
<b>SPD</b>	481,772	<b>29.7</b>	349,731	22.4	132,041	+ 7.3
<b>PDS</b>	366,292	<b>22.6</b>	276,869	17.7	89,423	+ 4.9
<b>Greens</b>	148,066	<b>9.1</b>	155,322	9.9	- 7 256	- 0.8
<b>FDP</b>	160,953	<b>9.9</b>	34,280	2.2	126,673	+ 7.7
Seats	2001		1999		Difference	
CDU	35		76		- 41	
SPD	44		42		+ 2	
PDS	33		33		-	
Greens	14		18		- 4	
FDP	15		-		+ 15	
<b>Overall</b>	<b>141</b>		<b>169</b>		<b>- 28</b>	

PDS and SPD were the clear winners of the elections. Yet under pressure from the federal party, the regional party leadership of the SPD at first took up coalition negotiations with Greens and FDP, since the federal SPD on grounds of the sharp opposition course of the PDS against the German foreign and military policy after 9/11 wanted to prevent its governmental participation. Only the failure of the so-called “traffic light” negotiations opened the road for Red-Red.

The electoral result of 2001 in my opinion represented the culmination point and preliminary conclusion of a development, whereby mainly the PDS was able to break into the social-democratic electorate and by way of its point candidate Gysi once more came close to the absolute majority in East Berlin, because also the new middle strata and students newly moved into the East Berlin central urban city could be won over. At the federal elections 2002 and mainly at the European elections of 2004, where the Greens with 22.8%<sup>31</sup> were able to reach their up to then best result in Berlin, it showed itself, however, that the party has been by no means able to tie these new electoral strata lastingly to its cause. And that the “Gysi” effect only covered fundamental shifts of forces in the Berlin inner city districts, where the Greens in some parts of the city were able to reach results of 40 to 50 percent. The socio-ecological and libertarian orientation within the large-city electorate gained a growing importance and power; however, this is neither a German nor a Berlin specificity, but can be shown also for other cities investigated.

### Governmental objectives and the inherent socio-political conflicts

Berlin’s governmental policy stands in the sign of budgetary calamity. In this way, it is not only subject to the material limitations of a growing interest-debt spiral, in which ever new credits have to be picked up to pay the current interest charges.

<sup>30</sup> <http://www.statistikberlin.de/wahlen/framesets/aghbv-2001.htm>

<sup>31</sup> <http://www.statistik-berlin.de>



It is, moreover, also a fact that Berlin at the same time is subject to quantifiable legal constraints on its political freedom of decision that follow from the “rules of the game” of the budgetary calamity. Relevant here is § 12, Paragraph 4 of the Criteria Law<sup>32</sup>, which maybe grants regions in budgetary distress a claim to rehabilitation allowances of the Federation, however, makes a “programme of autonomous effort” the prerequisite for that.

This way, Berlin regional policy is subject to conditions that determine mainly volume and kind of savings to be carried out by Red-Red. Therefore, SPD and PDS committed themselves to “reducing existing equipment advantages over other federal countries.”<sup>33</sup> Without “*consolidation efforts*”, the country is no longer capable of action from the financial point of view and the public sector threatens to be strangled in an interest- debt trap.<sup>34</sup> The “autonomous effort programme”, necessary according to the criterion law, is aimed mainly at getting into grip the current deficit of the city budget, to adapt Berlin’s expenditures to its financial possibilities. The reduction of the so-called primary deficit should not be charged at the federal level and the other federal countries and is one of the essential prerequisites for achieving the prerequisites of the criterion law. The rehabilitation goals were extrapolated in the framework of a programme of several years. This rehabilitation programme is part of the justification for Berlin’s suit in Karlsruhe. Red/Red renders the necessary “autonomous efforts”, Berlin needs to make, essentially in the following areas:

Reduction of personnel expenditures at a level of 1 Bn. € by socially agreeable personnel reduction and limited deteriorations agreed in collective agreements.

1.0 Bn. € by the exit from the Berlin system of apartment construction, as well as 1.25 Bn. € in particular in the area of consumptive expenditures. The latter includes a whole range of structural savings measures in the areas of the social, culture, science, economy and labour.

The structural savings measures were accompanied by a restructuring programme of the regional administration. By way of the reordering agenda<sup>35</sup>, decided by the Senate on April 1, 2003, in order to reach its political goals of emphasis, over 50 projects and intentions for the rationalisation of administrative action were made to work (merger of agencies, new set-up of building management, restructuring of the real estate funds, outsourcing of public tasks). It is past of the rehabilitation of the country of Berlin following § 12, Paragraph 4 Criterion law.

Nevertheless, Red-Red precisely from the point of view of social policy, despite the budgetary calamity, has undertaken considerable efforts both for the maintenance of core areas of the public sector as well as for the keeping of social balance in the city. Moreover, initiatives were taken for the strengthening of direct democracy and citizens’ involvement.

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<sup>32</sup> Long title: Law on general criteria for the implementation of the Constitution for the distribution of the value-added tax receipts, the financial compensation among the federal states as well as the granting of supplementary federal allowances. Of September 9, 2001, announced in the Federal Register of Laws, I, 2001, no. 47 of September 12, 2001.

<sup>33</sup> Coalition agreement of 2002, opus cit., p. 6.

<sup>34</sup> Coalition agreement of 2002, opus cit., p. 53.

<sup>35</sup> <http://www.berlin.de/verwaltungsmodernisierung/neuordnungsagenda/index.html>

The set-up programme for 60 citizens' agencies, supposed to reduce long walks to offices has been completely exempt from the savings. With the citizens' office programme Berlin may be tops even in the European comparison. Red-red has expanded the procedures for referendums and petitions in the general framework of a constitutional reform. At the district level as well, citizens' referenda were newly introduced. The Berlin participation law for seniors is the first regional law of its kind in the Federal Republic that legally fixes their participation rights.

Beginning in 2007, a cost-free year of pre-school will be introduced. More than half of the Berlin parents with lower income, by way of the social grading of the kindergarten and pre-school fees, will have to pay much less than in other cities. With the introduction of the flexible school-entry phase, poverty-induced differences when starting school shall be overcome. Low-income parents pay nothing extra for school books. Unemployment allowance II recipients may now use libraries free of charge and go to the theatre for three Euros. In distinction to other cities, Berlin disposes of a social ticket that allows the utilisation of public short-distance traffic for half the price of a monthly ticket. The Berlin regulation for acceptance of rental charges for UM II recipients is considered path-breaking federation-wide.

In the year 2003, against the opposition ranging from the CDU to the Greens, regional means were used once more in order to assure regional ownership of the hospital society "Vivantes". The municipal transport enterprises BVG were given long-term guarantees for its assets. The re-habilitation and, therefore, the maintenance of these public enterprises was and is not to be had without a contribution by those employed there. Since this holds for all parts of the public sector, even for the very core of the regional service, collective agreements became a central field of confrontation over the consolidation course.

The collective agreement and personnel policy of Red-Red shall in the following be examined as a case in point of government policy with respect to the public sector.

### **Red-Red as employer: The regional collective agreement/application contract of 2003**

The coalition agreement between SPD and PDS envisaged to save another ca. 11,900 jobs with a value of 567 M. €s.<sup>36</sup> With the new collective agreement for the Berlin public service and the Special Allocation law for the civil servant sector concluded in 2003, yet another 500 M. €s a year will be saved from the incomes of the employed.

The question, why, given such massive job savings, such drastic interferences with the incomes of the employees became necessary, is just as justified as the question, why this could not happen without leaving the employer association.

In the 90s, there had been established a special system of financing wage increases in the Berlin public service. The lion share of what Berlin could save by the reduction

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<sup>36</sup> Coalition agreement, opus cit., Annex "Personnel and job savings".

in jobs came back to benefit the employees in the form of increasing incomes. In the period 1991 to 1999, 2 Bn. DM alone were spent for wage, salary and pension increases. Of the material counter-value of all the jobs saved in the period from 1997 to 2000, 80% flowed back into the development of incomes of the employed and the pensions of the civil servants.<sup>37</sup> This system of financing income increases by way of personnel reductions was finished by the looming budget disaster.

At the same time, the collective agreement partners, in particular the federal interior minister of that time, Schily, did not follow the request of the Red-Red regional government to incorporate, at the Potsdam collective negotiations in 2002/03, a special distress clause for the country of Berlin. The exit from the employers' association that followed is criticised until today. Two things are being overlooked here: *First*, the regional government had to act in order to even open up its own collective bargaining corridor, because remaining in the employers' association would have automatically meant the adoption of the agreement Berlin could not afford. Only the exit made negotiations at the regional level possible. *Second*, there exists today in Berlin not an absence of collective agreement, but an active application contract<sup>38</sup>, by which Berlin is included into territory-wide collective bargaining agreement.

Yet, also with an opening clause supported by the federal level, nobody could have avoided the question how to finance of the envisaged wage scale and salary increases following 2003 were to be financed. Increase of indebtedness, higher reductions in investment or in social transfers – these were the bad alternatives.

A lasting increase of receipts due to the limited tax political competences of the country was not at issue. And even if it were different, there remains the question why these funds have to flow mainly into the incomes of one social group, namely the collaborators of the public service, and why they cannot be used for the reduction in debts or for the improvement of investment.

At the same time, the continuation of traditional collective agreement policy would also have put into question the financial basis for additional new hiring. A general stop in hiring and an increase in the working time of the civil servants to 42 hours seemed, in other words, a bad way out from the conflict between Red-Red and the trade unions of the public service.

This confrontation had its objective foundation. In Berlin, not only budgetary policy and collective bargaining but also *collective bargaining and employment policy* as well as *collective bargaining and social policy* were in a sharp contrast. The different interests were no longer to be brought to coincide at the old conditions *across the whole city*. By way of the application contract of 2003, this interest conciliation was reached: The Berlin employees take part in the wage increases decided at the federal level (4.4%). At the same time, there takes place, however, a graded income renunciation ranging from 8 to 12 percent. In exchange, the employees receive the stepwise introduction of the 37 hour week; firm-level dismissals remain excluded until December 31, 2009. In this way, Red-Red concluded a long-term agreement on protection against dismissal for the public service. Moreover, 500 professional

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<sup>37</sup> From 1996 to 2000, 23,000 jobs in the direct regional service with a counter-value of 509 M DM had been saved; only a part of that even arrived in the regional budget, 226 M. DM had to be employed for the refinancing of the civil servants' pensions.

<sup>38</sup> [http://bb.verdi.de/hintergrund/berliner\\_tarifrunde\\_fuer\\_den\\_oeffentlichen\\_Dienst/data/berliner\\_tarifve\\_rtrag.pdf](http://bb.verdi.de/hintergrund/berliner_tarifrunde_fuer_den_oeffentlichen_Dienst/data/berliner_tarifve_rtrag.pdf).

training jobs per year are guaranteed, where the country of Berlin overfulfills the quota. Moreover, it was agreed to create new jobs in compensation for the work-time reduction in the kindergarten/pre-school and the police sector.

Ver.di head Frank Bsirske expressly lauded the Berlin collective agreement: “We succeeded to translate the Potsdam collective agreement for the whole Public Sector to Berlin and to simultaneously take account of the situation of the city. The participation in the income increase of 4.4 percent in all is linked with an exchange of money against free time.”<sup>39</sup> After the conclusion of the collective agreement for the public service, the Senate has decided a hiring corridor of on average about 1,200 jobs per year. In the year 2005, Berlin will remain under the planned personnel budget by about 284 M. Euros.<sup>40</sup>

### **Collective bargaining policy in the context of left policy concepts**

In the past few years, there were a number of collective bargaining conflicts that have one common feature: the subject of the collective bargaining was not the struggle over distribution of productivity excesses, but the way and the extent of the financial contribution to the rehabilitation of public firms asked from the workers and employees. That is the common characteristic of the collective bargaining conflicts at “Vivantes”, the Berlin Transport Enterprises and at the “Charité”. All of the collective negotiations negotiated in this context have to be understood as part of a rehabilitation strategy that relies on three basic elements: the financial support by the country, the contribution to rehabilitation by the employees and rationalising structural changes and job reduction in the enterprises themselves.

The debate around the contribution that collective bargaining can make to securing employment and to the creation of new jobs is not new. It had been initiated last but not least by Oskar Lafontaine at the end of the 80s and continued by academics such as Peter Grottian and trade unionists such as the former ÖTV chairman Herbert Mai in the 90s. It remained mainly a theoretical debate.

“It cannot be disputed”, thus Lafontaine back then, “that he who determines the conditions and the costs of labour also has to say something about how many people can be employed. That means: a responsibility of the collective agreement partners also for the size of unemployment [...]”<sup>41</sup> Lafontaine’s proposal was to reduce work-time in the public sector in exchange for graded renunciation to wages, to use the budgetary scopes of manoeuvre thus gained for the creation of new jobs, and to then transfer this model also to the private economy. The conservative camp has used Lafontaine’s reflections to conduct a general discussion on wage reduction. Lafontaine’s collective bargaining positions were part, however, of an economic and labour market political concept proposed by the left that also included a general work-time reduction down to the 30 hour week, the re-appreciation of informal labour and the humanisation and democratisation of the work world itself.

The advances of the ÖTV chairman of that time, Herbert Mai, who wanted to create by way of a collective agreement on redistribution of work-time and income hundred

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<sup>39</sup> Same website as above.

<sup>40</sup> Status report on keeping the budget numbers as of September 2005, report of the Senate finance administration to the Main Budgetary Committee of November 15, 2005, red number 3624.

<sup>41</sup> Lafontaine, Oskar, ed, “The song of sharing. The debate on work and the political new beginning”, Hoffmann and Campe, Hamburg 1989, p. 80.

thousands of new jobs, failed as well against the resistance not only of the public employers but also broad trade union circles. It therefore remains speculative how the situation would be with unemployment in this republic if Lafontaine and Mai had imposed themselves. Yet there, where the Left fails or is weak in its reform policy, neoliberalism will determine the conditions.

This evaluation should also offer a perspective on the conceptual shifts taking place within the Berlin party landscape. In particular, the Greens have executed a grave shift of positions: Whereas in the 90s, they pleaded for the maintenance of the public sector, they now wage massively on privatisation. On the agenda of the Greens, there figures the breaking apart of the BVG, the selling of all apartment holdings except for 50,000, the privatisation of the Study Works, the full privatisation of the local kindergarten sector and ultimately also the privatisation of "Vivantes".

The perspective of the public sector is debated, however, among the coalition partners as well.

### **1-3) Budgetary policy – rehabilitate and shape**

In order to understand the reason for the Berlin budgetary calamity, we must understand the financial point of departure of the city after German unity. From 1952 to 1994, the last year of the federal help, there flowed, first to Berlin (West), in the final stages of federal aid into both halves of the city, ca. 248 Bn. DM in financial aid by the federal level to public budgets and private households of the city.<sup>42</sup> The federal aid created essentially three circuits of subsidies:

- The misallocation financing for the regional budget;
- The subsidising of private and public investments, economic enterprises,
- The direct subsidisation of wage earnings.

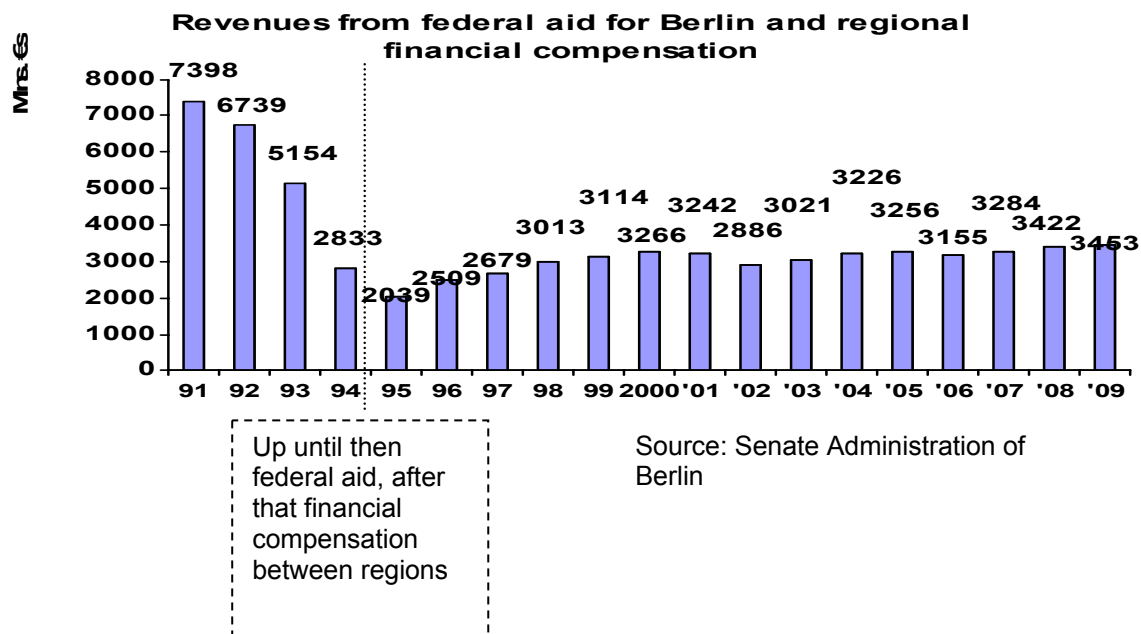
They had been fixed legislatively by the Berlin aid law of 1964.<sup>43</sup> In the year 1989, the Berlin regional budget lived to almost 50 percent on loans: 12.448 Bn. DM federal aid along with 80 M. DM federal subsidies fuelled the regional budget. If one counts in the 9.2 Bn. DM subsidies to the economy and the employees, the city had gotten used this way to annual subsidies of 22.7 Bn. DM.<sup>44</sup> When the subsidies dropped away, the city had no other choice, but the path into indebtedness, because there had developed a structural deficit of several M. €s, because the incorporation of the capital city into the regional financial compensation could not compensate the losses as the following Graph exemplifies.

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<sup>42</sup> Weizen, Heinz Willi: "Berlin und seine Finanzen" (Berlin and its finances), Hitit Publishers, Berlin 2000, p. 13.

<sup>43</sup> The helps encompassed mainly: VAT level reduced by 2 to 10% (Value-added tax preference), reduction of income and corporate tax by 30 or respectively 22.5%, investment subsidies ranging from 7.5 to 15%, depreciation allowances for credits, Berlin subsidy of 8 percent of wages. See on that: Heinz Willi Weizen, "Berlin and its finances", p. 18 ff.

<sup>44</sup> op cit., p. 18.



That created the following finance political point of departure in the beginning of the 90s:

The tax receipts would, in the long run, hardly be sufficient to pay the public service. The receipts from the regional compensation agreement and the compensatory allocations by the federal level were not able to cover material expenditures and investment requirements.

The general economic conditions of the united city worsened considerably. The elimination of the subsidies for the private economy and the employees, in subsequent years, went ahead with an exodus of companies from the city and a reduction of the population. The labour market of the city was structurally weakened. A lasting growth as a result of the unity and the role as capital did not happen. These were general conditions that, on the one hand, would have forced any regional government to compensate the financial problems caused by the federal level by cranking up the credit spiral. At the same time, the Grand Coalition saw itself confronted with considerable social expectations to play in Berlin a socio-political pace maker role in the adaptation of life conditions. Under this social pressure, the Diepgen government in 1994/95 as the first federal region carried out a far-reaching East-West adjustment of incomes for the employees working under a collective contract that cost ca. 460 Bn. DM.<sup>45</sup>

By way of the elimination of the Berlin subsidies, the financial crisis knocked at the door. This situation would have placed any government before very serious decisions to get financial policy and the requirements of the social balance in the city into correspondence. The policy of the grand coalition, however, acted in a way

<sup>45</sup> Answer of the Senate to the Small Inquiry No. 72 by the deputy Marian Krüger concerning the "Outlays of the federal country of Berlin for collective agreement provisions or respectively for collective agreement-based wage scales and increases in the public sector", January 4, 2000.

exacerbating the crisis to a decisive degree, because it produced additional budgetary risks over and above those already existing. It let itself be guided, moreover, by completely overdrawn expectations of a growth in the number of inhabitants and enterprise residences, and this in times, where the shrinking process, the moves of people and businesses had long since become the determining trend. The confidence that, from the capital role, there would ensue, in a nature-grown way, a new business upswing marked the actions of the politicians of the grand coalition. "Trade follows the flag", thus Klaus Landowsky, the former fraction head of the CDU in the Berlin Chamber of Deputies. Politics should be "on a grand scale and not philistine", taking into view a "large scale enterprise". A "city that has to do world politics".<sup>46</sup> When the expected business upturn did not follow, the city then remained saddled with numerous large-scale projects that in turn had become boarders of the region and required considerable subsidies by the region. In order to mobilise fresh money for the regional budget, the grand coalition, moreover, had driven the apartment companies of the city, by way of so-called "internal business", into growing indebtedness.<sup>47</sup> Berlin's equipment standards in core areas of the public services (police, school, social services) lay both far above the federal average as well as, in many points, above the average of the two other city state.

The budgetary emergency was, therefore, caused, on the one hand, by a running deficit, the so-called "primary deficit".<sup>48</sup> On the other hand, by the old debts that came due up until the taking of office by Red-Red and the interest burdens resulting from that. To pay the interest charges alone, the regional government had to pick up ever new debts. Furthermore, the crisis of the regionally-owned Bank Society made it necessary to incur additional public credits. Following 2002, in addition, considerable tax shortfalls due to the tax policy of the Red-Green federal government had to be compensated by credits.

The essential criteria of a **budgetary distress situation** rely on the judgements of the Federal Constitutional Court. Indicators for the presence of such a budgetary distress are mainly the credit financing quota (share of public expenditures that are financed by credits) and the interest-tax quotas (relationship between the interest charges paid and the tax yield). A budgetary emergency comes up when the credit financing quota and the interest-tax-quotas in the corresponding federal region amount to more than double the federal average.

Although the regional government has realised grave savings measures, Berlin was not able to get itself out of its calamity:<sup>49</sup>

- The credit financing quota of the country of Berlin in 2005 amounted to 2005: 17.2% (regional average 8.7%),
- The interest-tax relation lay at 21.1% (average across all regions: 11.5%),
- The per-capita indebtedness lay at 17,275€ per inhabitant (average across the regions 7,300€).

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<sup>46</sup> Landowsky, Klaus: "Valid is the spoken word. Berlin speeches against the spirit of the times", ed.: CDU Fraction in the Berlin Chamber of Deputies, Berlin, March 1998, p. 17 and p. 10.

<sup>47</sup> The apartment conglomerates were asked to sell each other stocks, the purchase price each time was transferred to the regional budget. To finance these transactions, the societies had to pick up new credits.

<sup>48</sup> This being the difference between current incomes and expenditures without credits and debt service.

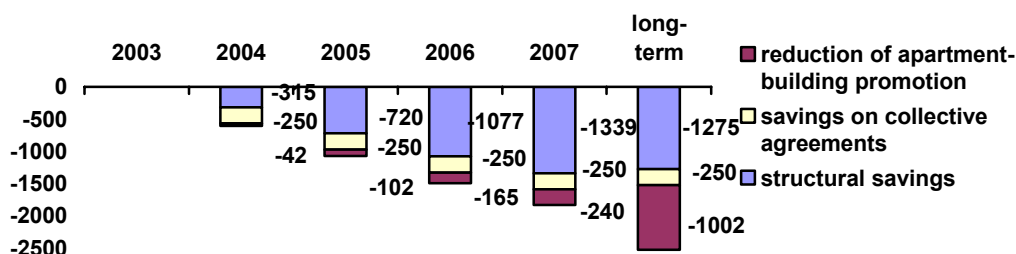
<sup>49</sup> Senate administration for Finances, ed.: "Haushalt und Finanzen Berlins. Ein Überblick" (Budget and finances of Berlin. An overview), transparency foil presentation, p. 21.

These data illustrate the legal claims of the country of Berlin to rehabilitation helps by the federal level.

The financial crisis of Berlin is more than a local problem. It raises the question for the financial capacity for action of a partial state of the Federal Republic and the capacity for action of the social Federal state (Art. 20, Basic Law) as a whole. "The consequent question is", thus the budgetary policy speaker of the Left Party.PDS fraction of the regional Chamber of Deputies, Carl Wechselberg: "Do the Federal level and the other countries leave Berlin and its population to itself and this way to the (self)destructive effect of an interest/debt trap that forces Berlin, despite all of its own efforts, to expand an ever greater share of the regional budget, when taken by itself relatively static, for interest payments?"<sup>50</sup> That is why the federation-wide confrontations over Berlin's claims on rehabilitation help by the federal level are also part of the conflict over the perspective of the social state in Germany: "**Berlin defends in Karlsruhe not less than the validity of the constitutional principle of the unity of life conditions in the Federal Republic as well as the basic principles of the federal solidary principle.** Both have an unrestrictedly progressive character. Berlin this way opposes itself to the conservative model of a split-up and fragmented state with widely different life conditions for its population. This way it also turns against a further Americanisation of the conditions in the Federal Republic."<sup>51</sup>

The prerequisite for help by the federal level is, as already described in detail, a programme of own effort, exemplified here once more:

#### Berlin's own efforts in numbers - Expenditure reliefs face to 2003 in Mlns €s



Expenditure relief compared to 2003 in M. €s; including Senate resolutions of December 2003; as compared to 2002: 500 M. €s.

Senate administration for Finance, Berlin

#### Principal budgetary data in 2004<sup>52</sup> and outlook to 2005/06

The Berlin regional budget in the year 2003 had a volume of 22.4 Bn. €s. Of these, there were spent at the level of the main administration ca. 16.83 Bn. €s, at the district level ca. 5.54 Bn. €s.

<sup>50</sup> Wechselberg, Carl, "Crisis and consolidation – on the budgetary distress of the region of Berlin. Thesis paper of the Left Party.PDS on the conversations with the Berlin WASG", Berlin, December 2005.

<sup>51</sup> Carl Wechselberg, opus cit..

<sup>52</sup> The following numbers are taken out of the budget plan of Berlin for the budget years 2004/05, Senate administration for Finances, ed., Berlin 2004, Vol. 1, pp. 21-54.



The two most important expenditure items are respectively the Senate administrations for **education**, youth and sport with ca. 2.7 Bn. €s as well as the Senate administration for **science, education and culture** with ca. 2.3 Bn. €s. In the educational sector, these are mainly the expenditures for school personnel, in the scientific and cultural sector, it is a matter of the current subsidies.

At the **district** level, the so-called transfer **expenditures**, these are mainly payments to people who have a claim according to Social Law, the child and youth help law, the basic security law as well as allocations to free agents working for the common weal and youth aide. These were in 2004, including the personnel expenditures for those working there: **ca. 2.2 Bn. €s for social matters and ca. 1.5 Bn. €s for youth**. Berlin's equipment standards, especially in the youth help programme, are considered the highest federation-wide.

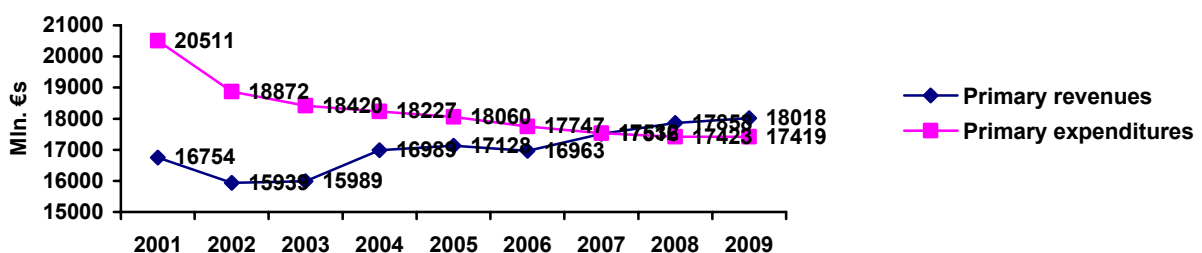
By way of **debt service** and interests, 2.39 Bn. Euros were tied. **New debts** ran up to 429 Bn. €s. The old debts ran up to about 55 Bn. €s.

The most important indicator for the Berlin budget policy is the primary deficit. It is, in other words, an indicator of the extent to which the country of Berlin may finance its current expenditures by its receipts, if the interest charges produced by old debts remain out for the time being.

By way of a strict savings policy, it was possible to reduce the primary deficit from 2.43 Bn. €s in 2003 to 932 M. €s in the year 2005. In the biannual budget 2006/07, it is envisaged to dismantle it completely until 2007. The financial deficit then still remaining will then be retraceable to the interest charges and cannot be reduced by Berlin alone without help from outside.<sup>53</sup>

## The development of the primary deficit

Primary budget: equilibrium in 2007



Preliminary situation 2005 (state: January 6, 2006); on the expenditure and the revenue side adjusted by the one-time effects of the neutralisation agreement

Sources: Senate administration for finances, Berlin

<sup>53</sup> <http://www.berlin.de/sen/finanzen/haushalt/plan/index.html>.

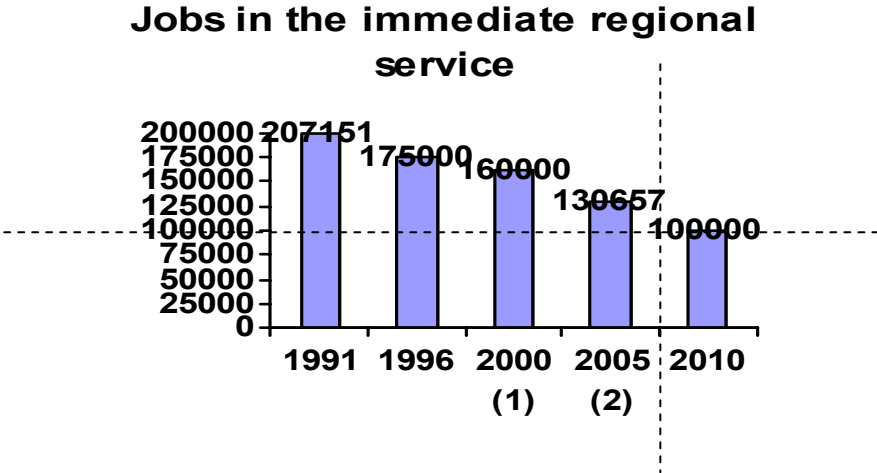
With -932 M. €, the primary deficit of the Berlin regional budget has reached its lowest level since German Unity. This way the budget, for the second time in a row, could be continued with a clearly better result as compared to the budgetary plan.

**1-4) Public service and public sector**

**Public service**

We understand by that the immediate regional service that is the employees of the Senate administrations, the institutions subordinate to them as well as the district offices. That means, we restrict ourselves to the part of the public services where the country of Berlin is immediate employer or respectively master.

The public service of Berlin, due to the specificities of the two-halves of the city after unification was exposed to a special extent of personnel demolition. If the old West Berlin with the help of a couple of billions federal aid in its back, before state unification, had used personnel policy in the public service very strongly as an instrument of labour market policy, after German unity, numerous members of the municipal administration or respectively the central state apparatus of the GDR (for instance, police and fire brigade) had to be taken over. After the elimination of the Berlin aids and the necessity to abolish functional overlaps in both cities, there was considerable financial pressure for action to reduce personnel size over-dimensioned in the federal comparison. From 1991 to 2005, the personnel size was reduced from 207,151 to 130,657 posts.<sup>54</sup> The personnel reduction was carried out excluding dismissals because of malfunctioning enterprises using age-conditioned fluctuations in staff.



(1) 2005: before the hiving-off of the pre-schools.  
 (2) 2005: after the hiving off of the pre-schools.

After 2006: projection, cross-region benchmark 2012 including local communities of 100,000  
 Source: Senate administration for finances, Berlin

<sup>54</sup> [http://www.berlin.de/imperia/md/content/senatsverwaltungen/finanzen/haushalt/060116\\_haushalt-Und\\_finanzen\\_berlins\\_internet.pdf](http://www.berlin.de/imperia/md/content/senatsverwaltungen/finanzen/haushalt/060116_haushalt-Und_finanzen_berlins_internet.pdf).

The following table shows the internal structure of the personnel of the immediate regional service in the year 2004.<sup>55</sup> The police and the personnel of the school and youth sector form the two largest personnel groups. The 12 district administrations have personnel of 4200 to 3800 persons respectively. That way Berlin has by a long shot the largest personnel of the cities compared. However, it becomes clear here as well that this circumstance has its reason also in the structure of tasks that is attributed to Berlin at the federal and local level and does not apply the same way to the other cities investigated.

<b>I – Main administration</b>	
Chamber of deputies	156.50
Constitutional Court	6.00
Ruling Mayor	221.17
Interior	29,966.60
Justice	9,677.50
Health, Social and Consumer Protection	2,148.06
Education, Youth and Sports	34,037.93
Urban development	2,187.91
Economy, Work and Women	801.55
Finances	7,540.93
Science, Research, and Culture	793.54
Court of Audit	265.25
Responsible for Data Protection and Informational Freedom	35.00
Overhang/Central Personnel Matters	4602.23
General Personnel Matters	8.00
Main administration	<b>92,448.17</b>
Districts overall	<b>39,828.34</b>
Immediate Regional Service (total)	<b>132,276.51</b>

### Participations of the region of Berlin

“The region of Berlin is a large-scale entrepreneur.”<sup>56</sup> The region of Berlin in 2004 participated in 60 societies or important institution of public law from various branches. Moreover, there are over 160 indirect participations. Different from the situation in Rome and Vienna, these participations are not summed up into one holding (Rome: Gruppo Comune di Roma; Vienna: Vienna City Works Holding).

In the beginning of the 90s, the large municipal enterprises of Berlin such as the BVG, the Water Works, the BSR, the energy firms Bewag and Gasag were transformed by the Senate, with the approval of the Chamber of Deputies, into institutions under public law. By way of the decision taken in 1992 for the founding of the bank society of Berlin, the Regional Bank Berlin, including the Savings Bank were united with the bank sector (Berlin Hype, Berlin Bank etc.) under the roof of a holding. The history of the Bank Society, whose threatening collapse as a result of

<sup>55</sup> Senate of Berlin, Report on the second reading of the draft of the biannual budget 2006/07 – Personnel costs and payroll lists of October 25, 2005, STW 341, Appendix 3.1.

<sup>56</sup> Lederer, Klaus; Benjamin-Immanuel Hoff: “With more clarity and control. Berlin begins to redirect the course in public enterprises”, in: “Transparency is popular. On how to deal with the public firms of the city-region of Berlin”, PDS fraction in the regional Chamber of Deputies of Berlin, ed., Berlin 2005, p. 2.

speculative real estate deals became the catalyser of the breaking apart of the grand coalition, cannot be described here for reasons of space. However, it can be used to exemplify a structural problem of the public sector in general and Berlin politics in particular. When the city is the owner, it also bears the entrepreneurial risk. That means, if need be, to have to compensate lack of entrepreneurial success in the market competition by boosting stock, aid to liquidity etc. The circumstance that Berlin still has the full warrantee and thus ultimately all responsibilities for liability for all financial obligations, in the case of the Bank Society resulted in that the region of Berlin in the year 2001 first had to stock up the capital of the bank by several billion €s and then, by way of the “Risk Shielding Law” of 2002 was forced to assume the liability for existing obligations of the extremely shaky real estate service centre of the bank, since otherwise the closing of the bank by the Federal Supervisory Agency for the Credit System was looming large.

There, where the country as owner and entrepreneur is loss-making, there in other words threatens, if the firms are no longer capable of rehabilitating themselves by their own devices, the socialisation of these losses as a feature inherent to the system. The region is always liable with the public budget. This has advantages for the public firms, because for instance, the warrantee function of the region for a society under public law provides for profitable refinancing conditions at the capital market. This advantage, however, is not to be had without the disadvantage that all economic risks can finally be devolved to the regional budget. The politics of the great coalition of the CDU and SPD, however, consisted in acquiring by credit-financed “shopping tours”, mainly in the water and in the garbage disposal sector, new participations for the BWB (Berlin Water Works) and the BSR (Berlin City-Cleaning Works) which, however, did not fulfil the high expectations put in them and became loss-makers. The foundation or respectively the acquisition of daughter firms was practically withheld to control by the Parliament. In the transport businesses, million-heavy management mistakes, as for instance, when concluding a contract over the distribution of fare revenues between DB plc and BVG (Berlin Transport Service), result in annual losses in the two-digit million range.<sup>57</sup> The apartment building societies in the 90s were forced by the Senate of Berlin to so-called “inside businesses”. They had to sell one another apartment stocks, and pass on the receipts to the owner, meaning the country of Berlin that refurbished its budget this way. They had to sell their holdings and transfer the revenues to the owner, meaning the country of Berlin that in this way increased its budget. The indebtedness of the apartment societies which by the old debts linked to their ownership of apartment assets in the Eastern part of the city, were in any event already exposed to considerable hardships, was in this way pushed yet further. The control of the multi-articulated participations of the firms themselves was only possible in a limited sense. The management of the firms was too often staffed by the Grand Coalition according to the party allegiance principle. Lack of transparency and corruption did not only ever more often mark public reporting on these firms, but they also sharpened the rehabilitation problem. The grand coalition did not leave a strategy for the perspective of the firm sector in regional ownership, but rather companies that, as will be shown further below, were in the most cases rehabilitation cases.

The Red-Red coalition this way not only had the task of fighting for the rehabilitation of the large regional enterprises, but also of improving and restoring transparency and control in their dealings with its regional enterprises.

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<sup>57</sup> Matuschek, Jutta, “Setting points for the future”, in: “Transparency is popular: On dealing with the public enterprises in the city-region of Berlin” (ed.), Berlin 2005, p. 23.

In the meantime, a special subcommittee of the Chamber of Deputies was introduced in order to control the firms (the so-called participation committee). By way of a corruption register, persons that had gotten suspicious should be recorded and be barred from receiving public contracts. In a 2004 Senate decision linking up with that, the Red-Red Senate has positioned itself<sup>58</sup> as to which enterprises in the future were to be kept in public management or respectively ownership.

For each individual enterprise, there was determined an ownership-participation strategy with financial and substantive political pre-conditions. It forms the basis for the strategic control of the respective concrete agreements on objectives which are supposed to be concluded by each of the executive boards with the enterprise management. Thus, there is planned a far-reaching retreat of the city from the financial service sector, while the local disposal and transport sector should be maintained just as the hospital society "Vivantes". The greatest privatisation endeavour is the Berlin Bank Society to be privatised until 2007. Parts of the up to now regional insurance society "Feuersozietät" were already privatised. Scheduled for privatisation, or respectively privatised in the meantime, by contrast, were the apartment society GSW as well as individual apartment holdings, parts of the Fire Society, the regional share in the German Construction Revision plc, the urban estates, the "Behala", other apartment holdings, the German-Polish economic promotion society and the Royal-Prussian Porcelain Manufacture (KPM).

The Senate resolution mentioned relies on the principle of the "turning around of the proof requirement". The regional government or respectively the firms have to prove themselves that the purpose of the enterprise can only be continued as a public holding or respectively in the ownership of the country of Berlin. This may be the case especially for many daughter firms acquired already during the times of the grand coalitions. It must be doubted, however, that the "reversal of the proof requirement" represents an adequate procedure for firms of the apartment and the health sector.

The question of the privatisation of public ownership is one of the central political conflict lines in between government and opposition in Berlin. The deficits of the regional firms and their, partly considerable need for subsidisation was and is again and again an occasion to demand further privatisation. The region was supposed to sell "Vivantes" and, moreover, retract itself to a far extent from apartment ownership. Local individual firms in the pre-school area should be abandoned and also the Student Works. The Greens and the FDP demand, moreover, the splitting up of the BVG (Berlin Transport Society), the FDP, beyond that, wants to sell the BSR (Berlin Cleaning Service).

The opposition with considerable public approval refers again and again to a high rehabilitation and funding need of the participations. Therefore, the rehabilitation question is linked directly with the problem of maintaining local ownership and management.

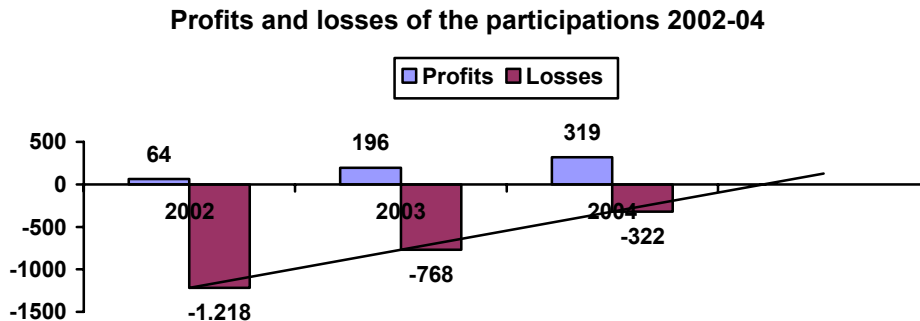
### **Enterprises on re-habilitation course<sup>59</sup>**

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<sup>58</sup> Senate of Berlin, "Finance and subject conditions for the participations of the region of Berlin", July 5, 2005.

<sup>59</sup> Senate administration for Finances, ed.: "Participation Report 2005 – Business Year 2004", vol. 1, pp. 13 ff.

On the whole, the participations for 2004 show a turnover of more than 12 billion Euros as well as, at the end of the year, a loss of 3 m. €. As can be gathered from the following graph, in the years 2002 to 2004, the total enterprise losses have been reduced by 1.54 bn. € as can be gathered from the following graph.



Source: Senate Administration for Finances, Berlin

There has contributed to that personnel reduction and the reduction of personnel costs by way of collective agreements of rehabilitation by which the employees have renounced to incomes or respectively part of their income in exchange for a survival guarantee for the firm. In the years from 2001 to 2004, the personnel in the participation firms was reduced from 72,932 to 59,523 full-time equivalents. In this way, personnel reduction has made a major contribution to the rehabilitation of regional finances. The running contributions that Berlin provides annually, for instance, in the framework of long-term agreements such as with the BVG (Berlin Transport Society), have gone back from 448 m. €s to 373 m. Euros.

However, this may not deceive us as to the fact that part of the regional companies, such as the BVG will continue to be dependent on subsidies, and behind the numbers, there hides the awkward position of some of the apartment societies, namely the WBM.

In what follows, now an overview of the enterprises with participation (in brackets: level of participation by the region of Berlin in the respective firms).<sup>60</sup>

### **Credit system and insurances**

In here belong two stock-holding companies: The Bank Society of Berlin, which after successful personnel reduction, now with 9.900 employees in the year 2004 (full-time jobs) is the third-largest city participation in terms of personnel and the BCIA whose task is the management of contracts and controlling in the context of the taking over of old risks of the Bank Society by the country of Berlin. Moreover, there belong in here also two institutions under public law. The Fire Society after the sale of its active part in 2004 essentially only carries out its reinsurance business. The Investment Bank of Berlin in the beginning of 2004 was founded afresh out of the Regional Bank of Berlin and functions as promotion bank of the country. Since the EU Commission has coupled the subsidies necessary to save the Bank Society from insolvency to the condition of privatising the Bank Society until 2007, the Senate has to sell the bank. The selling of the bank certainly closes off one chapter of the history of Berlin as owner; however, it is not tantamount to a complete withdrawal of the city from the finance sector, since the Investment Bank was first taken out of the bank conglomerate. This means that in particular many economic promotion programmes

<sup>60</sup> See <http://www.berlin.de/sen/finanzen/vermoegen/beteiligungen/index.html>.

and tasks such as the crediting of small and medium firms will remain with a firm in regional ownership:

- Bank Society Berlin plc (80.95%)
- BCIA Berlin Society for the Controlling of the old real estate risks Ltd. (100%)
- Fire Society of Berlin/Brandenburg (institution of public law: warrantor: regions Berlin and Brandenburg)
- Investment of Berlin (Institution of public law, warrantor: country of Berlin).

### Apartment economy

After the city of Berlin privatised several apartment building societies in the past years, at this point still **six societies with more than 3,700 employees** belong into the area of the regional portfolio. In the year **2004, they disposed of their own apartment stocks of more than 286,000 apartment complexes**. In the year 2004, these societies had to record ca. **8.1 Bn. €s in debts as well as interest and repayment charges of ca. 360 M. €s overall**.<sup>61</sup> This considerable interest change in combination with the problem of many unoccupied apartments ever again leads to restrictions on the liquidity of individual societies. This constitutes the material constraints for the societies to acquire liquidity either by an increase in the rental payment, additional personnel reduction or the sell-off of individual apartment stocks. An alternative consists in the granting of new liquidity subsidies or helps to debt remission by the owner, meaning the regional country of Berlin. Since Berlin itself is in a budgetary emergency and in view of the sheer size of indebtedness, the real possibilities of the country here as well are very limited:

- DGEWO German Society for the Promotion of Apartment-Building of Non-Profit plc (100%)
- GESOBAU plc (100%)
- GEWOBAG Non-Profit Apartment-Building Stockholding Society of Berlin (96.69%)
- HOWOGE Apartment Building Society plc (100%)
- CITY AND COUNTRY Apartment-Building Society plc (100%)
- WBM Apartment Building Society Berlin- Centre plc (100%)

### Health and social sector

To this sector, there belongs with the hospital company Vivantes the second-largest city-owned company with 10,500 collaborators. The Berlin handicapped workshops, on almost 1,350 work spaces, offer work and educational possibilities to handicapped people.

- Berlin Workshops for the Handicapped plc (BWB) (70%)
- Vivantes network for Health plc (100%)

The hospital firm “Vivantes” was founded on January 1, 2001 as a limited liability company joining 10 city hospitals. This urban company stand in competition with large health concerns such as “Helios” or the “Rhön” clinics. This competition for the regional health market is a direct consequence of the change of the federal

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<sup>61</sup> BBU – Association of Berlin-Brandenburg Apartment Firms registered associations, ed.: Strategic Controlling of the City Apartment firms in Berlin, 4<sup>th</sup> quarter, 2004.

legislative framework by altering the financial conditions through the introduction of case cost standards. That way the question whether the city firms were to be included into the competition was withdrawn to the disposal of regional policy and it was only a question of the “How?”. The Red-Red regional government, in that context, in the year 2002, has approved a strategy concept of the management of “Vivantes” that until the year 2009 envisages restructuring and reductions of personnel costs. At the same time, there threatened the insolvency of the firm in 2004. Before this background, further rehabilitation measures became necessary. Against the resistance by the opposition, including the Greens, the Red-Red coalition decided to convert old debts of the country-owned enterprises in the sum of 230 m. €s into its own capital; the employees contributed to the rehabilitation by a collective agreement amounting to 34 m. €s that envisages a renunciation (limited in time) to Christmas and holiday allowance.<sup>62</sup> By way of this new rehabilitation concept, there was dealt a refusal at the same time to the privatisation interests of private hospital firms that wanted to use the financial distress of the regional enterprise to acquire at least parts of it.

In the process of the debate over the future of the company, there also became apparent contradictions in the Red-Red coalition: “The threatening privatisation was prevented, yet that does not mean that the cow is from the ice at all.” The Berlin finance senator (SPD) considers the rehabilitation mainly as a business economic means, “with the goal to make the clinic a ‘pretty bride’ in order to be then able to sell it with a profit to private investors.” This [...] personal goal of the finance senator is in diametrical opposition to the idea of [...] the health senator” (Heidi Knake-Werner, Left Party.PDS), who wants to maintain “Vivantes” as a municipal firm.<sup>63</sup>

## **Regional development and real estate administration**

Overall, there are 12 societies that have a very broad spectrum of tasks from the renting out and operation of service buildings (the BIM Ltd.) ranging over the administration of the city estate grounds around Berlin (BSGM) or the sale of city-owned territories (Real Estate Funds) to the operation of the Olympic stadium or the development of a research and technology park (WISTA).

- Berlin real estate management ltd. BiM (100%)
- Operating Society City Estates of Berlin Ltd. (100%)
- BSGM Berlin City Territory Management Ltd. (100%)
- BSGM Berlin City Territory Management Ltd. & Co. Real Estate limited partnership (partner: City of Berlin)
- Territorial Fund of Berlin Ltd. Co. limited partnership (partner: City of Berlin)
- Olympic Stadium Berlin Ltd. (25.10%)
- Water City Ltd. Guardian Development Agent of the Region of Berlin (50.5%)
- WISTA management Ltd. (97.86%)

## **Transport and services**

The largest firm in this sector is the BVG (Berlin Transport Society). The transport firms in 2004 with 13,700 employees in the company (with full jobs) were the largest city-owned installation and the largest transport company of the Federal Republic. It

<sup>62</sup> Ingeborg Simon, contribution in “Transparency is popular”, opus cit., pp. 27 ff.

<sup>63</sup> Ingeborg Simon, opus cit.



transports around 906 m. transport cases. The airport society Berlin-Schönefeld in the same year, on its three airports, counted around 14.8 m. passengers. Under the companies rendering services, let there be mentioned the Mass of Berlin as an example that with 1.5 m visitors in its own and guest events and over 22,000 exhibitors also counts among the branch leaders in the national comparison:

- Berlin Transport Society (BVG), institution of public law
- BEHALA – Berlin Harbour and Stockhouse Society Ltd. (100%)
- Berlin Energy Agency Ltd. (25%)
- Berlin Large Market Ltd. (100%)
- Berlin Tourism Market Ltd. (15%)
- BGZ Berlin Society for International Cooperation Ltd. (60%)
- Ekz.bibliotheksservice Ltd. (4.69%)
- Fiscus Ltd. (6.25%)
- Airport Berlin Schönefeld Ltd. (37%)
- IIC The New German Länder Industrial Investment Council Ltd. (5.68%)
- INPRO Innovation Society for progressive production systems in the vehicle industry Ltd. (14.29%)
- Mass of Berlin Ltd. (99.7%)
- VBB Transport Association Berlin- Brandenburg Ltd. (33.33%)

### **Transport and Disposal Economy**

Five institutions of public law or respectively societies in which the region of Berlin holds participations realise tasks of provision and disposal. The BSR (Berlin City-Cleaning) with over 6,400 employees (full-time job equivalents) was, in the year 2004, the fourth-largest city-owned firm.

- Berlin City Cleaning Service (BSR), Institution of public law (warrantor: country of Berlin)
- Berlin Water Works (BWB), Institution of public law (warrantor: City of Berlin)
- Berlin Water Holding plc (50.1%)
- MEAB Mark Disposal Institutions – Business Agent Ltd. (50%)
- SBB Special Waste Disposal Society Brandenburg/Berlin Ltd. (25%)

### **Culture and leisure**

The region of Berlin participates in eleven societies or respectively institutions that have cultural tasks or can be counted to the leisure department. In there belong, for instance, the Berlin Baths that in the year 2004 had over 4.1 M visitors or the Zoological Garden with 2.2 million guests.

- Berlin Bath Societies, Institutions of public law (warrantor: Country of Berlin)
- Berlin Cultural Institutions Ltd. (100%)
- German Class Lottery Berlin, Institution of Public Law (warrantor: Region of Berlin)
- German Film and Television Academy Berlin Ltd. (100%)
- German Historical Museum Ltd. (50%)
- Friedrichsstadt Palace Business Agent Ltd. (100%)
- HEBBEL-THEATRE BERLIN LTD.(100%)

- Child and youth leisure centre Wuhlheide – Regional Music Academy – Ltd. (100%)
- Artistic and Exhibition Hall of the Federal Republic of Germany Ltd. (2.44%)
- Radio Orchester and Choirs (non-profit) Ltd. Berlin (20%)
- Zoological Garden Berlin plc (0.03%)

## Science

Berlin participates in seven institutions that have scientific tasks or stand close to science. However, not all of them are headquartered in Berlin.

- Subject Information Centre Chemistry Ltd. (40%)
- Subject Information Centre Karlsruhe, Society for Scientific-technical Information Ltd. (2.17%)
- FWU Institute for Film and Picture in Science and Teaching Ltd. (6.25%)
- Hahn-Meitner Institute Berlin Ltd. (10%)
- HIS University Information System Ltd. (4.17%)
- IWF Knowledge and Media Ltd. (10%)
- Science Centre Berlin for Social Research Ltd. (25%)

## 2) London: No return to “Old Labour”

### 2-1) Origin and development of the political system of the city of London, social and economic conditions

In the British metropolis, in contrast to Berlin, Vienna, Paris and Rome no tradition to a unitary community has been able to establish itself. Around the middle of the 19<sup>th</sup> century, there existed in Greater London ca. 300 different administrative institutions.<sup>64</sup> This administrative pluralism under the strong hand of the British central government is one of the dominating elements of the local political tradition. City-wide institutions were always opposed by relatively strong decentralised bureaucracies, in particular in the form of the districts (boroughs). For that reason, it was also in no way a breach of this tradition, when the conservative Prime Minister Margaret Thatcher in 1986 pushed through the dissolution of the labour-dominated Greater London Council. A brief excursion on the genesis of the political and administrative structures should enable an understanding of the historical particularities of the political system:<sup>65</sup>

#### Metropolitan Board of Works 1855 to 1888

The Metropolitan Board of Works formed no unified, democratic municipal city administration but a communal purpose-oriented association to whom there belonged delegates from 19 local administrations. There were thus no directly elected deputies at the all-city level.

#### London County Council 1888 to 1965

With the “Local Government Act” of 1888, there was introduced, for the county of London, an elected organ of representation (London City Council) with 118 seats. This organ was responsible for infrastructure policy; later school policy and real

<sup>64</sup> Schröter, E., in: Röber, Manfred et al. (ed.): „Modern administration for modern metropolises. Berlin and London in comparison”, Leske and Budrich, Opladen 2002, p. 19.

<sup>65</sup> Schröter, E. in opus cit., pp. 19-25.

estate use policy were added. As counterweight to the City Council, there were formed by the “London Government Act” of 1899 28 boroughs (districts) at first.

### **Greater London City Council (GLC) 1965 to 1986**

The change in the local structure of London was put on the agenda especially due to the fact that in the meantime, half of the inhabitants of the London Greater Area lived outside of the political-administrative limits of the old county administration. The foundation of the Greater London City Council, however, did not lead to a fundamental strengthening of the political competences of the London City Council, but it was mainly motivated by party politics. The conservatives hoped, by the incorporation of their strongholds in the greater London area, to bring about a turn-around in the relationships of power in the labour-dominated council. Instead the contrary happened. However, the weakness of the GLC consisted in its lower competences face to the boroughs whose number had grown to 32.

### **Abolition of the GLC “reform of the reform” 1987 to 1997 and 2000**

By the electoral victory of the Tories in the year 1983, prime minister Margaret Thatcher set up dissolving the GLC. The Council had become the stronghold of the left-wing of (Old) Labour whose speaker Ken Livingstone criticised the conservative policy of the government on every occasion. By way of the Local Government Act of 1985, Thatcher, however, in the British understanding, did not dissolve local self-administration, since the historically grown boroughs remained in place, but eliminated, by the parliamentary road, one city-wide institution that was considered an experiment and was being criticised because of its weaknesses. Yet, after the demonstrative smashing of the GLC, the Tory government itself became the addressee for the criticisms of the unsolved problems of the megalopolis London. It reacted to that by creating several government agencies for London in a row. Thus in 1994, there was introduced a Government Office for London that even Labour left untouched after taking over government.

### **The new Greater London Authority (GLA) after 2000**

The reconstruction of a political representation for the London population was one of the declared electoral goals of the Labour Party that in 1997 replaced the conservative government of John Major. However, the constitution of the GLA under the New Labour Government should in no way be understood as a restoration of the old situation. Tony Blair as well apparently wanted no large city parliament with many deputies that evaded governmental discipline. And a come-back of the old left wing of the Labour Party, now shifted to the centre, also was out of the question for Blair. Blair during the electoral campaign promised a “Voice of London”<sup>66</sup>, not more. The discussion of the new structures only set in after the elections. The role model for the new institutions was not Old Labour-dominated GLC, but the political basic structure of New York City. “Give us a mayor the New York way”, was the credo of this debate. After more than a decade of city development, not guided by the whole city, apparently the need for a strong, authoritative executive had arisen. The reduction of the standard of living in the city, characterised by “the continued deterioration of the industrial basis [...], unemployment, homelessness and spatial segregation” as well as growing over-congestion of the transport system, was now brought into connection with “lack of leadership in the city”.<sup>67</sup>

### **Strong mayor – weak parliament**

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<sup>66</sup> Sylke Nissen, opus cit., p. 14.

<sup>67</sup> Sylke Nissen, opus cit., pp. 13-14.

The new structures oriented themselves towards a “holding model” of city administration, the GLA group. Next to the GLA, there belonged in there:

- Transport for London (TfL), public transport
- Metropolitan Police Authority (MPA), police, authority tasks of civil administration
- London Fire and Emergency Planning Authority (LFEPA), fire fighters and other emergency services
- London Development Agency (LDA), urban development, economic promotion.

This “organisational model lets appear a fragmented structure where independent administrative units and autonomous planning agencies play an important role that is subject, however, to political control (for instance, by budget, directive and personnel decisions) by the Greater London Authority, in other words by the mayor and who are also responsible to him.”<sup>68</sup> The GLA is the agency of the mayor; the other agencies mentioned are partially autonomous and work after the collegial principle. Into its executive boards, there are “called in between one and two dozen members, among which there count members of the city parliament, representative of the boroughs, representatives of associations or also independent experts.”<sup>69</sup>

The role of the mayor is mainly to develop long-term strategic planning for infrastructure policy and its large-scale projects as well as guidelines for the work of the other agencies of GLA group, that means an integrated policy concept for the mutual interaction of the political actors and institutions.

Of course, it is expected of him to take a position on all others local policy topics as well. We got to understand, however, that the GLA has hardly any social, health, and school policy competencies or scopes for design, since these competencies lie with the British central government and/or respectively the boroughs. Here, the mayor rather appears as lawyer and moderator of city-wide interests, who addresses demands to others.

Face to the GLA, the role of the London parliament, the “London Assembly” remains limited to the functions of an executive board. That is why the London Assembly can only be classified as a local parliament in a restricted sense. It can only change the budget draft of the mayor by a two-third majority. Personnel decisions of the mayor do not require approval by parliament. The parliamentary control rights remain restricted to hearings. However, the assembly can staff individual leadership position, such as, for instance, the Chief Finance Office.

#### **Competence delimitations between boroughs and GLA<sup>70</sup>**

<b>Competence</b>	<b>Boroughs</b>	<b>GLA</b>
<b>Economic promotion</b>	Execution of individual projects and programmes	Investment policy, infrastructure policy
<b>Inner Security</b>	Local prevention Programmes	Police, fire fighters
<b>Transport</b>	Road maintenance	Bus and tube and

<sup>68</sup> E. Schröter, opus cit., p. 30.

<sup>69</sup> E. Schröter, opus cit., p. 30.

<sup>70</sup> Arthur, Richard: “The new two-level system in London” in: Manfred Röber et al., ed. “Modern Administration for Modern Metropolises. Berlin and London in comparison”, Leske and Budrich, Opladen 2002, p. 185.

	Traffic controls	operation & financing
<b>Social Services</b>	All (offers for the elderly, the handicapped etc.)	None
<b>Social Aid</b>	Partial	None
<b>Apartment Management</b>	Administration of more than 500,000 council flats	None
<b>Education</b>	School and pre-school care	None
<b>Environment/Urban planning</b>	Waste disposal	Real estate planning, waste disposal
<b>Leisure/Culture</b>	Libraries, sport installations	District- overarching culture centres, e.g. Barbican Art Centres

The reestablishment of a city-wide administration has changed nothing to the strong position of the London boroughs. The real administrative power continues to lie with them, because there the personnel of the local public sector and the financial resources are concentrated and because they dispose independently over schools, pre-schools, apartments and socio-cultural institutions.

The competence for the health system (National Health System), the universities and colleges as well as school policy just as justice administration lies with the central administration that is also responsible for the tax and fee policy. London, just as the other British local communities, only has the levying competence for the council tax.

### **General social and economic conditions**

The city of London has a share of 20% of the GDP of the whole of Great Britain,<sup>71</sup> meaning that its economic weight in the national economy is more than four times greater than that of Berlin. Following the last population census in the year 2001, the population of London amounted to about 7.1723 M. people.

Despite London's enormous economic strength, unemployment lies over the regional average (from 6.9% to 5.6%). In parts of the city, as in Inner East London, it lies with up to 13.8% even clearly above the national level.<sup>72</sup>

London's economic power rests on three columns: The city is one of the leading international financial centres, as well as an internationally eminent location of culture and media services, and a national industrial centre. Moreover, tourism plays a growing role.

With over 486 foreign banks, London is one of the largest banking locations of the world, at the same time, the London Stock Exchange with a daily average turnover of 637 Bn. Pounds is considered the third-largest international stock market. This extraordinary position in the network of the international trade and financial relations is even reinforced by the fact that 108 of the 500 largest European firms have their headquarters in the metropolis. 441 investment funds pump capital into the city. Following data by the GLA, the branch of the culture and media services ("cultural and creative industries") has a yearly turnover of 25 to 29 Bn. Pounds and employs 700,000 people.<sup>73</sup> Within the producing sector, the printing and paper industry as well

<sup>71</sup> Greater London Authority, Mayor's Office, letter of June 23, 2003.

<sup>72</sup> "Investing in London", ed. Richard Garlick, London 2001.

<sup>73</sup> "Investing in London", opus cit.

as pharmacy complete the economic profile of the city. Next to Paris, London is the second-largest real estate market, where the city with regard to its rental level lies on place one.<sup>74</sup> 28.4 M. visitors, meaning almost six times as many as in Berlin, make tourism the second-largest and fastest-growing economic branch of the city.

However, London belongs, with above-average unemployment and individual city districts that can be found in the national poverty ranking at the higher-levels, also to the social trouble spots of Great Britain. In one of the richest cities in the world:

- One million inhabitants live on social aid,
- there can be found 20 of the 88 poorest administrative units of England,
- 43% of children and 29 of the pensioners living in households below the poverty line.<sup>75</sup>

At the same time, GLA points to considerable problems in the area of environmental protection and transport, the congested London transport ways are supposed to cause costs of two billion Pounds. At the same time, for the next 15 years, a population increase of 700,000 inhabitants is expected.

**2-2) Political relationships and political agenda beginning in 2000**

Against the declared wish of Labour prime minister Tony Blair, in the year 2000, the popular London local politician and Left Labour dissident Ken Livingstone became directly elected mayor.

The elections to the city-wide community institutions – assembly and mayor – are decoupled from the elections to the representative bodies in the boroughs. They are elected in the framework of the typical local elections in the whole of Great Britain.

The London election results show a number of particularities. The opposition parties left of Labour, especially the Greens and with view to their political positions on domestic, foreign and college and university policy, the liberals as well here are stronger than on the regional average. Yet, also the conservatives should also not be underestimated. As a result of the elections in 2004, the Tories after all have the strongest fraction in the London Assembly. Without the popular Livingstone, who – as a direct candidate – apparently also attracts many sympathisers of the Greens and the liberals, the structural left majority in London could not have been achieved.

**Political relationships of forces in the London Assembly and as a result of the mayor’s election 2004:<sup>76</sup>**

**Assembly**

Year	Labour	Conservative	Liberals	Greens	Independent	Others
2000	28.77%	27.51%	14.05%	10.52%	1.95%	
2004	24.43%	27.83%	16.5%	8.37%	8.18%	14.58%
<b>Balance</b>	- 4.34	+ 0.32%	+ 2.45%	-2.37%	+6.23%	

**Mayor’s elections**

<sup>74</sup> Compare Dekka- real estate invest: Country analysis Great Britain, on [www.dgz-dekabank.de](http://www.dgz-dekabank.de), stock of 27.5 M. square meters marketable space.

<sup>75</sup> Garlick, opus cit. as well as Martin Clarke, City Hall, letter in reply of April 24, 2003.

<sup>76</sup> <http://www.londonelects.org.uk/results/assembly/index.html>

	Ken Livingstone (independent)	Steve Norris (conservatives)	Frank Dobson (Labour)	Susan Kramer (Liberals)	Damian Hockney (Greens)
Mayor's Elections 2000	38.1%	26.5%	12.8%	11.6%	0.9%
	Ken Livingstone (Labour)	Steve Norris	Frank Dobson	Hughes Simon	Frank Maloney
Mayor's Elections 2004	35.7%	28.24%	-	14.28%	6.02%

Remarkable is the low electoral participation of 36.97% (2004) or respectively 33.5% (2000) as well as the weakness of the political parties. Since ca. half of the members of the Assembly are elected directly in the electoral districts, party lists have only a limited influence on the composition of the local community parliament. The losses of the Labour Party quite obviously have to do with the widespread rejection of the Iraq policy of prime minister Tony Blair. The "Respect" party of the Blair critic, George Galloway, excluded from the Labour Party, immediately upon its foundation achieved a respectable result with 4.5%. On the right side, Labour lost to the anti-European UK Independent Party. The political right achieved more than 40% if the 4.7% of the Fascist BNP are taken into account. Despite the limited role of the assembly, the Londoners also set signs for national politics. They punished Labour, but also barred the way into office to the Tory candidate. At the same time, the London electoral result mirrors a clear Centre-Left majority of Labour, Liberals, the Greens up to and including the left-wing Respect party. Clearly above the national average of 1 or respectively 0.3% average are the results of the Greens and of "Respect", while New Labour loses the most within this Centre-left electorate.

While minority party-political streams have thus hardly any chances to be represented at the all-city parliament level, they can achieve quite outstanding results at the ordinary British local elections at the district level. For instance, the "Respect" party, at the British local elections in the beginning of May 2006, succeeded in becoming second-largest force in the district parliament.<sup>77</sup>

### **Strategic government goals**

Ken Livingstone in the wake of his victory in 2001 proclaimed "Independence Day" and "the most open, accessible and inclusive style of government ever seen in the UK."<sup>78</sup>

The self-understanding of local governmental consists mainly in shaping in the long term, meaning over several legislative periods, the general conditions for London:

"The Mayor is responsible for strategic planning in London. His duties include producing a Spatial Development Strategy for London – which he has called the London Plan. The London Plan will set out an integrated social, economic and environmental framework for the future development of London over a 15-20 year period."<sup>79</sup>

<sup>77</sup> junge Welt, May 6, 2006.

<sup>78</sup> "The Guardian", May 6, 2000.

<sup>79</sup> Martin Clarke, City Hall, Head of Strategic Finance, Reply letter of April 24, 2003.

Yet, overall, the self-description of London policy makes a decidedly project and campaign-oriented impression: From the large project worth billions to Livingstone's most recent mobile phone initiative (he wants to get outdated mobile phones recycled in an environmentally- friendly way): It is always the image of the carer and the doer. **The short and medium-range policy goals are defined in so-called "Corporate Plans"** that contain concrete political and financial instructions by the bureaucracies of the GLA groups or regulate their integrated interaction. At present, there applies Corporate Plan 2005-08.<sup>80</sup>

**An accessible city:** Extension of the public transport system, reduction of congestion and other traffic charges.

**A city for people:** Improvement of public security and policy work, encouragement of citizens' involvement and multiculturalism, rolling back anti-social behaviour and criminality.

**A prosperous city:** Coordination of state and private investment, expansion of the IT infrastructure, social urban development, tourism promotion

**A fair city:** Educational promotion, encouragement of professional independence, social apartment policy

**A green city:** Improvement of waste disposal, climate protection policy.

In order to illustrate the **realisation of these governmental goals**, we shall limit ourselves to **case studies**:

The transport sector is one of the strategic policy fields of the city. London is a growing metropolis; the expansion of traffic-technical capacities is a must not only due to the growing population. Here also gigantic investments are being made, of which London politics promises itself sustainable labour market effects. Linked to that are projects of ecological modernisation, such as for instance the procurement of environment-protecting busses. To stop the downturn of public infrastructure associated with the Tory period and to improve living quality in a noticeable way is a claim to the Livingstone administration who tries to redeem that mainly with **large projects of transport infrastructure**. In that context, there stand **in the foreground**:

The largest project driven forward under the direction of the TfL is **Crossrail**. This express tram line is built from East to West London and is supposed to have capacity for 800,000 transport cases. (The tube has 2,500,000.) Crossrail is supposed to create 30,000 jobs.<sup>81</sup> Overall costs are planned at more than 14.8 Bn. Pounds.<sup>82</sup> 50% percent of Crossrail belongs to the TfL and 50% to the Department of Transport. A private consortium is supposed to participate with 2 Bn. Pound in the investment.<sup>83</sup>

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<sup>80</sup> [http://www.london.gov.uk/gla/budget/docs/corporate\\_plan\\_070405.pdf](http://www.london.gov.uk/gla/budget/docs/corporate_plan_070405.pdf).

<sup>81</sup> Jay Walder, Managing Director, Finance and Planning, TfL (Dynamic City Conference, November 8, 2005).

<sup>82</sup>

[http://www.crossrail.co.uk/80256B090053AF4C/files/economicappraisal/\\$file/economic+appraisal+of+crossrail.pdf](http://www.crossrail.co.uk/80256B090053AF4C/files/economicappraisal/$file/economic+appraisal+of+crossrail.pdf), p. 3.

<sup>83</sup> [www.crossrail.co.uk](http://www.crossrail.co.uk).



A further great project of the TfL, which is also supposed to create thousands of jobs, is the **Gateway Bridge (TGB)**. Here the issue is the improvement of the traffic connections of the growing living and industrial areas in East London. In this up to now marginal area of London, there is expected a population increase of up to 72,000. Thousands of new jobs are supposed to be created. 383 M. Pounds should be invested in the production of the TGB. The bridge is supposed to be built in the framework of a “Private Finance Initiative” (PFI), that means private investors contribute to the construction costs and for that receive receipts from the business of the bridge.<sup>84</sup>

“Private Finance Initiative” and “Public Private Partnerships” (PPP) are also fundamental elements of **Livingstone’s investment policy<sup>85</sup> in the tube**, combined with a more neo-Keynesian looking expansion of the credit-raising of the TfL. In the framework of a 5-year-plan, 10 Bn. Pounds are supposed to be put into the modernisation of the tube. Of that 3 Bn. will come from raising credits, 4 Bn. from PPP and PFI, 2 Bn. from subsidies from the centre.

### 2-3) Principal budgetary data

The city of London is on the drip of the allocations of the central state (Standard Spending Assessments – SSA) and can only point to a relatively small tax share in its own revenues.

The only tax, which the local government has the competence to levy is the “council tax” - a local tax that every citizen pays. The amount of the tax depends on the classification of the item of real estate. The more valuable the site, the higher the tax.<sup>86</sup>

While Berlin is subsidised in the system of the federal finances of the Federal Republic, London sponsors the rest of the country if one follows the argument of the GLA: “*London contributes upwards of 20 Billions net each year to the national exchequer.*” Every Londoner, so it says, every year pays 1,000 Pound more to the government than he receives in service or respectively social services.

### Budget of the city of London

It counts among the particularities of the London budget that the budgetary year is not identical with the calendar year. In the budgetary year, the agencies of the GLA had scheduled ca. 8.8 Bn. Pounds overall in expenditures (row 2 of Table 1). In 2003/04, it was ca. 7.5 Bn. Pounds.

### 2004/05 Principal data<sup>87</sup>

Budget (in m. £)	Gross expenditure	Specific grants	Other income	Net expenditure	Reserves	Budget requirement
Metropolitan Police	2,872.3	-188.1	-317.2	2,367.0	-23.7	2,343.3

<sup>84</sup> <http://www.tfl.gov.uk/tfl/thames-gateway/tgw-bridge/tgb-whywhere.shtml>.

<sup>85</sup> Transport for London 5-year Investment Programme (p. 2), <http://www.london.gov.uk/mayor/transport/docs/tfl5-year-plan.pdf>.

<sup>86</sup> HM Treasury 2002 Budget, in Calculating London’s Tax Export, p. 7 – [http://www.london.gov.uk/mayor/economic\\_unit/docs/workingpaper\\_06.pdf](http://www.london.gov.uk/mayor/economic_unit/docs/workingpaper_06.pdf)

<sup>87</sup> Source: The Greater London Authority’s Consolidated Budget and Component Budgets for 2004-05; <http://www.london.gov.uk/gla/budget/docs/04-05budget.pdf>.

<b>Authority</b>						
<b>London Fire and Emergency Planning Authority</b>	442.2	-13.7	-33.2	395.3	-6.9	388.4
<b>Transport for London</b>	5,065.6	-2,232.5	-2,467	366.1	-340.3	25.8
<b>Greater London Authority</b>	73.4	-	-10.1	63.3	-7.0	56.3
<b>London Development Agency</b>	343.0	-343.0	-0.2	-0.2	0.2	-
<b>Total Other Services</b>	<b>5,924.2</b>	<b>-2,589.2</b>	<b>-2,510.5</b>	<b>824.5</b>	<b>-354.0</b>	<b>470.5</b>
<b>Total GLA Groups</b>	<b>8,796.5</b>	<b>-2,777.3</b>	<b>2,827.7</b>	<b>3,191.5</b>	<b>-377.7</b>	<b>2,813.8</b>

With the current subsidies and administrative revenues, expenditures are only covered up to about a third. The rest of ca. 2.8 bn. Pounds (see column 7 in the table) is covered by taxes and tax-like fees as well as by special subsidies by the central government.

The financing of these expenditures is fuelled from **three main sources**:

- On-going allocations by the central government (grants) that are reserved for own purposes or projects, for instance, the “safer street initiative (meaning more police in the streets)”, allocations destined to the capital<sup>88</sup>
- Independent revenues from its administrations or respectively from the transport businesses (other income) and fees for police interventions in soccer stadiums,
- Taxes and tax-like fees. This refers, on the one hand, to the communal tax, the council tax, and, on the other hand, to the so-called non-domestic rate (NDR) fee levied on the use of ground/real estate employed for business purposes that is raised locally but centrally distributed.

<b>Budget (in £ m)</b>	<b>Total to be financed</b>	<b>Police Grant</b>	<b>General GLA grant</b>	<b>RSG/ NDR</b>	<b>Council Tax Income</b>
<b>Metropolitan Police Authority</b>	<b>2,343.3</b>	<b>-1,123.1</b>	-	<b>-698.9</b>	<b>521.3</b>
London Fire And Emergency Planning	388.4	-	-	-268.4	120.0
Transport for London	25.8	-	-	-	25.8
Greater	56.3	-	-36.3	-	20.0

<sup>88</sup> Source: Yvonne Peart, MPA Information Officer, Answer to E-mail, November 7, 2005.

London Authority					
London Development Agency	-	-	-	-	-
Collection Fund Surplus	-3.3	-	-	-	-3.3
<b>Total Other Services</b>	<b>467.2</b>	<b>-</b>	<b>-36.3</b>	<b>-268.4</b>	<b>162.3</b>
<b>Total GLA Group</b>	<b>2,810.5</b>	<b>-1,123.1</b>	<b>-36.3</b>	<b>-967.3</b>	<b>683.6</b>

By way of the budget of the GLA Group, the community finances are only insufficiently described, however. The budget of the boroughs allocated in the framework of overall state allocations that is used, among other things, for the social benefits, is considerably greater than that of the GLA Groups.<sup>89</sup> They also receive the larger part of the Council Tax for financing their tasks.

In comparison to the budget of 2003-04, the revenues were expanded by 720 m. Pounds. These expenditures rely mainly on the expansion of independent municipal revenues, where in this context especially the congestion fee imposed by Livingstone (see below) makes itself felt in a positive way. Increase of expenditures and – as will still be shown – expansion of credits constitute two important core elements of Livingstone’s growth-oriented finance policy.

The cultural and scientific institutions with supra-regional importance are not financed, or respectively kept up in any significant way by the local budget, but by the central state and receive grants-in-aid by semi-state and private organisations, such as the National Lottery.

### **Role of indebtedness**

Within the GLA group, credit financing plays a subordinate role. The bulk of the debt lies with the districts. In 2003, indebtedness amounted to 9.8 Bn. Pounds.<sup>90</sup> The interest payments are at about 825 M. Pounds (800 M. Pounds with the boroughs, 25 M. Pounds at the GLA)

### **New revenue sources: The London Congestion Charge system**

Ken Livingstone in his first term in office introduced a congestion fee for all vehicles driving from Monday to Friday between 7 a.m. and 18 p.m. into the city centre (8 £ per day). These revenues finance public transport.<sup>91</sup> Livingstone notes that the Congestion Charge System reduced individual car traffic by 20% and will yield an estimated 731 M. Pounds over 5 years.<sup>92</sup>

<sup>89</sup> Martin Clarke, City Hall, Head of Strategic Finance, Reply letter of April 24, 2003: “Most benefits are paid by the State (central government). The GLA does not pay for any social welfare benefits. The bulk of the benefits paid by the boroughs are housing benefits and council tax benefits. These are means-tested benefits paid to meeting housing rent and council tax payments by people on low incomes. In both cases, the State reimburses the boroughs through the grant system for most of the cost of the benefits.”

<sup>90</sup> Martin Clarke, City Hall, Head of Strategic Finance, Letter in reply of April 24, 2003.

<sup>91</sup> [www.cclondon.com](http://www.cclondon.com).

<sup>92</sup> Thirty-first Mayor’s Report to the Assembly, [http://www.london.gov.uk/mayor/mayors\\_report/may21\\_2003.jsp](http://www.london.gov.uk/mayor/mayors_report/may21_2003.jsp).

## 2-4) Public service and public sector

### Public service

More than 22 percent of Londoners work in the public sector. It is ascribed 740,000 employees, meaning about as much as the private financial sector, one of the dominating economic branches of the city. However, the GLA group has the smallest share of that. The dominating public employers are the boroughs with more than 250,000 employees, the “National Health System” (NHS) as well as the British central government.<sup>93</sup>

<b>Employees in the public sector</b>	<b>740,000</b>
Of which:	
State industry	53,000
Central government/civil servants, the army	112,000
Local administration, districts, of which ca. 69,000 GLA Group	322,000
Colleges and universities	57,000
NHS	156,000
Other organisations	41,000

### Personnel of the GLA Group<sup>94</sup>

	<b>2003/04</b>
GLA	588
TfL	18,012
LDA	235
MPA (police staff)	29,884
MPA (other staff)	13,040
LFEPa (active staff)	5,800
LFEPa (other staff)	1,176
<b>Total</b>	<b>68,735</b>

In the case of the considerable personnel costs for GLA and boroughs, it must be respected that in the case of the expenditures for schools and pensions there exists partial financing by the central government.

In a way similar to what was practice in Berlin up until Germany unity, the employees receive a city-specific supplementary benefit, the “London allowance”. This is justified by the high costs of living. The level of the subsidy depends on the employer and on the living district; it ranges from about 2,700 Pounds to 6,300 Pounds in the inner city up to 2,680 Pounds in the outer districts and 1,430 in the environs.<sup>95</sup>

### Public sector: Enterprises of local infrastructure and existential provision

The city of London as owner or as an agent by tender is active in the following areas, where here the GLA and the borough are considered at first in common.

<b>Transport</b>	Transport for London, infrastructures
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<sup>93</sup> Public sector employment in London (p. 20),

<http://www.london.gov.uk/gla/publications/factsandfigures/DMAG-briefing-17.pdf>.

<sup>94</sup> Council Tax Precept 2003-04, <http://www.london.gov.uk/gla/budget/docs/03-04ctax-leaflet.pdf>.

<sup>95</sup> <http://www.unison.org.uk/acrobat/B694.pdf>, p. 4.

	owned by the GLA Group, private operating firms on individual lines. Includes tube, busses, the airport
Waste disposal	Effort to re-centralise tenders, business privatised
Apartment management	The London Housing Board (LHB) is responsible for apartment management (London Regional Housing Strategy); the owners of the apartments of the boroughs
Pre-school	Managed by the boroughs
Community culture	Barbican Art Centre

### **Energy and Water Companies<sup>96</sup>**

The water, electricity and gas sectors are privatised. There is a state supervisory agency in every sector. The supply enterprises are regionalised. The English system of service is based on the lasting acceptance of private monopolies. The Officer of Water Services (OFWAT) regulates the water sector and functions like an ombudsman in the interest of the clients and is independent of the government, yet cooperates with in. It is financed by the water companies (for 2005/06 at a level of ca. 14.7 M. Pounds). The Officer of Gas and Electricity Markets (OFGEM) also works this way and is financed by the electricity and gas companies. The costs for these consumer protection institutions are devolved to the prices.

### **Health services<sup>97</sup>**

The central state National Health Service (NHS) is subject to the supervision of the health ministry. Its hospitals are centrally financed and administered.

Alternatively to that there was introduced a new system, the “Foundation Hospitals”. These hospitals are locally administered, not centrally. The agents are local authorities and institutions. They also receive state subsidies; however, they are themselves responsible for their business results. They are independent employers. That is one of the points, why “Foundations Hospitals” are exposed to massive criticism by the trade unions, who fear a wage dumping at the expense of the employees of the NHS.

### **Cases of what remains of the communal sector in London**

#### **Transport sector**

The transport authority TfL is responsible for the tube, bus traffic, local shipping, the Docklands Light railway as well as for the support of district transport policy. A dominating role is played here as well by the PPP<sup>98</sup>: Three infrastructural firms have received 30-year-long contracts for the operation of trains, rails, stations and signalling installations. The TfL daughters London Underground (LU) is in public ownership; it owns the networks and it determines the schedule. London that way

<sup>96</sup> <http://www.ofgem.gov.uk/ofgem/shared/template1.jsp?assortment=/aboutofgem/ourwork>

<sup>97</sup> Department of Health,

<http://www.dh.gov.uk/PolicyandGuidance/OrganisationPolicy/SecondaryCare/NHSFoundationTrust/fs/en>

<sup>98</sup> Department for Transport,

[http://www.dft.gov.uk/stellent/groups/dft\\_localtrans/documents/pdf/dft\\_localtrans\\_pdf\\_023750.pdf](http://www.dft.gov.uk/stellent/groups/dft_localtrans/documents/pdf/dft_localtrans_pdf_023750.pdf).

counts among the minority of British communities that were still able to hold public ownership of PPSDT.<sup>99</sup>

In the case of non-abeyance by quality standards, the private businesses have to pay fines.

- A delay of 10 minutes during rush hours may cost up to 21,000 Pounds,
- A signalling problem that causes longer delays can cost up to 300,000 Pounds.

These three business agents are:

JNP – responsible for infrastructure on the Jubilee, Northern and Piccadilly lines,  
BCV – responsible for infrastructure on the Bakerloo, Central and Victoria lines,  
SSL – responsible for the tube lines: Circle, Metropolitan, Hammersmith& City, District and East London.

### **PPP and PFI – The Livingstone administration plays the neoliberal instrument**

Livingstone's expansion of PPP and PFI is quite along the lines of the New Labour government that has set into motion in all of Great Britain 500 PFI contracts with a volume of 28 bn. Pounds.<sup>100</sup> The principle of "Private Finance Initiative" is: Private investors pay in advance, for instance, for the construction of buildings and infrastructure objects and are then made to share in the profits by long-term rental or fee collecting contracts. In some cases, these – by way of the PPP – take over the management of these projects themselves.

The trade unions, mainly the trade union of the public sector, UNISON, fight against this policy and do not leave a good hair to it. "The Private Finance Initiative: A Policy built on Sand" is the credo here. The state was entering considerable follow-up risks; however, they mainly fear wage dumping and the limitation of the role of the public sector as an employer.<sup>101</sup> The advocates of the PFI by contrast adduce famous examples of massive budget transgressions in the case of large projects that were administered by the state authorities. Thus, for instance, argued Vice prime minister John Prescott:

"As we know, many public sectors also had serious problems and we all paid the price: Guy's Hospital over 3 years late and 124 million pounds over budget; ... and in the case of the Jubilee Line extension, 2.1 billion become 3.5 billion and it came 2 years over due."<sup>102</sup>

In the case of deviations from the budget of more than one Bn. Pounds and delays of several years, debating the efficiency of the public sector can no longer be avoided. The history of the PFI in Great Britain makes unmistakably clear that inefficiency and insufficiency in the public sector will always count among the most effective argument for pushing on with the privatisation of public tasks and institutions. However, also the PFI projects are getting to be criticised more and more often – due to inefficiency, budget overdrafts, delayed completion of projects. A prominent and current problem of that is the national new school construction and rehabilitation programme run by

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<sup>99</sup> Dickhaus, Barbara and Dietz, Kristina, opus cit., p. 35.

<sup>100</sup> Unison, ed.: The Private Finance Initiative. A Policy built on Sand. A report for Unison by Prof. Allyson Pollock, David Price and Stewart Player, London 2005, p. 3.

<sup>101</sup> Unison, ed., opus cit., pp. 12 ff.

<sup>102</sup> Unison, ed., opus cit., p. 16.

way of PFI contracts. From 2001 to 2003, 650 shall be constructed anew or refurbished. In reality, only 430 were managed.<sup>103</sup> Yet, not only in the school sector PFI do programmes not run as they should. A report by the Construction Products Association (CPA) lists troubles in the areas of apartment and road construction, in hospitals and with PPSDT.<sup>104</sup>

**Waste disposal<sup>105</sup> - How Livingstone tries to overcome the inheritance of the Thatcher era, re-regulation instead of re-nationalisation**

At the moment, there exist 16 organisations that are responsible for waste disposal in the districts. The system is considered complicated and inefficient, since the districts have to administer a variety of contracts with private companies. These conditions are considered the inheritance of the smashing of the Greater London Council and the privatisation of public infrastructure under Margaret Thatcher. For that reason, but also due to stricter environmental standards by the central government and the EU, Mayor Ken Livingstone has proposed the creation of the founding of a unified waste agency for the whole of London. The new London Single Waste Authority (LSWA) was responsible for central tendering and the control of contracts; Livingstone hopes for savings of 39.2 M. Pounds and the avoidance of penal payments to the Central government and the EU due to non-abeyance by the waste utilisation requirements. The majority of the 16 local carriers of waste disposal, however, have long-term contracts that will end in part in 2004. Looked at more concretely, it is a matter here of sensible re-centralisation of tender policy, not of re-nationalisation, not the ownership role of the local state should be re-vitalised, but its negotiation power face to the private should be strengthened.

**The housing sector**

The London Housing Board (LHB) is responsible for the apartment sector (London Regional Housing Strategy). The following institutions are members of the LHB: Government Office for London, Greater London Authority, Housing Corporation, Association of London Government, London Development Agency and English Partnership. The manageress of the Government Office for London is at the same time its chairwoman.

This structure makes clear that the British local apartment sector should also be simultaneously supported by the central government and the GLA. London was allocated for 2004/5 and 2005/6 2.1 Bn Pounds overall by the central government in the framework of the Regional Housing Strategy and the Decent Housing Strategy, including several hundred M. Pounds from structure and social funds means of the EU.

At the same time, apartments are restored and modernised with the help of PPP projects. The most important characteristic are the property relations on the London apartment market; owner-occupied flats dominate, as the following table shows:

London	57% single owners	Inner London	41% single owners
	15% private tenants		19% private tenants

<sup>103</sup> The Guardian, November 5, 2005.

<sup>104</sup> Ibid.

<sup>105</sup> Proposa for a London single waste authority and enhanced Mayoral waste planning powers: <http://www.london.gov.uk/mayor/environment/waste/docs/lswa/proposal.pdf>.

	26% social tenants		37% social tenants
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**Of the ca. 790,000 council flats** 516,000 belong to the districts; 74,000 belong to housing associations.

It belongs to the core tasks of the London Housing Board to deal with the lack of social apartments. It also deals with the quality of the existing flats, the problem of unoccupied flats and of “involuntary homelessness”, for instance, people who have a temporary address and live for instance in a pension (paid by the boroughs, because they cannot afford a normal apartment). The LHB works on the basis of the **London Housing Strategy** with the following political priorities:<sup>106</sup>

- Offering of affordable housing
- Modernisation of the stock of council flats – **Decent Housing Standard**
- Rent supplements for people with low income
- Getting an apartment for certain employee groups (“key workers”) in the public service
- Starter Home Initiative (SHI)
- Neighbourhood projects
- Fight against homelessness
- Measures against social ghettoisation
- Urban renewal projects.

**Two priorities of this strategy should be explained here briefly:**<sup>107</sup>

Until 2010, all social apartments must correspond to the “**Decent Housing Standards**”. The standard is being set per law by the central government; as owners the boroughs (districts) must correspond to this standard. In 2001, almost a million flats in London did not reach this standard, among them 35% of private apartments.

The British form of the owner-occupation supplement for certain employee groups in the public service is called “**Starter Home Initiative**” (**SHI**). It was called into life by the British central government and is allocated in London by the LHB. The SHI is a system of subsidies that encourages both renting and, in particular, acquisition of property. 89 percent are spent for that in order to help mainly members of the NHS, of the TfL as well as policemen, social workers and teachers to acquire apartments. One motivation for this programme is the fact that the price for apartment ownership in London lie about a third over the regional average (ca. 264,000 Pounds down to 183,000 Pounds) and the market provides less houses or respectively owner-occupied apartments than there is demand for these.

**Pre-school care**<sup>108</sup>

Only 12% of the kindergarten spaces in London are offered by the local community, and in six districts, there are absolutely no public pre-school arrangements. No data on the standard of care could be obtained, but if a considerable part of the districts does not offer any kindergarten places, there can be no question of a pre-school care network with territorial coverage.

<sup>106</sup> Source: London Housing Strategy 2003, p. 5, <http://www.gos.gov.uk/gol/docs/202207/20319>

<sup>107</sup> <http://www.london.gov.uk/mayor/housing/docs/housingadvice.pdf>

<sup>108</sup> London child-care strategy, [http://www.london.gov.uk/mayor/strategies/childcare/docs/childcare\\_strategy.pdf](http://www.london.gov.uk/mayor/strategies/childcare/docs/childcare_strategy.pdf).



Parents can declare costs of child care, as long as certain income thresholds are not passed, on their tax declaration. Who earns less than 14,000 Pounds can receive back up to 70% of the care costs by way of a tax refund in the framework of the Working Tax Credit (WTC). Only 14 percent of all London families receive this credit, in England and Wales it is on average 20%.

### 3) Paris: A policy of social city development

The picture of the political system of the French Republic is marked by a “pyramidal, strongly centralised character”<sup>109</sup> of the administrative system. In distinction to the Federal Republic, where federal and regional administrations are essentially divided, the French central government from Paris directs a large part of state administration. At the local level that finds its characteristic expression in the installation of prefects, who control the execution of governmental policy or respectively coordinate the activity of the different subordinate agencies of the state. The prefect “incorporates the Unity of the Nation”.<sup>110</sup> At the same time, the perception of France as classical centralised state is quite in need of correction. During the last three decades, there has taken place a gradual decentralisation, as a result of which also the position of the Paris communal policy was changed fundamentally. The emergence of a politically independent Paris communal administration should therefore always be put in the context of the administrative and political reforms in the Republic of France. These reforms are taking place *within* the central state, similar to what the case is in Italy. Its basic directions consist in<sup>111</sup>:

- De-centralisation, that means the shifting of competences to the regions created by the laws of 1982,
- De-concentration by way of internal administrative reform: more proximity to the citizens, for instance, by way of the “Maison de service public” comparable to the German citizen’s offices, more autonomous responsibility in the agencies, for instance, in the guiding of personnel.

Such administrative reform are again and again declared large-scale projects by the central state, for instance, by the installation of the “Commissariat à la réforme de l’État” set up by President Chirac in the year 1995.

In contrast to the Federal Republic, essential functions of public service are under the authority of the central state: The school system, university and high school organisation, national health system and to a large extent also the police and other security organs are the under the purview of the Republic.<sup>112</sup> In the case of the school system, regions and communities have limited competencies and possibilities for influence that limit themselves to planning and entertainment activities as well as school equipment; they exercise co-determination by way of the administrative council. As for the police, at the central level, the national police are responsible for the majority of police tasks (criminal, protection, transport, and general alertness

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<sup>109</sup> Hoffmann-Martinot, Vincent; “Zentralisierung und Dezentralisierung in Frankreich” (Centralisation and Decentralisation in France) in „Country Report France“, ed. by Marielouise Christadler and Henrik Uterwedde, Bonn 1999, p. 123.

<sup>110</sup> Vincent Hoffmann-Martinot, opus cit., p. 128.

<sup>111</sup> Bresson, Jérôme: “Short comparative report between the Berlin and the French administrative reform”, Senate administration for the Interior, Berlin 1997.

<sup>112</sup> Volk, Wilhelm, “The French regional administration and its correspondence in the German administrative system”, beg. p. 122.

police). Moreover, communities may keep a Police Urbaine, a city police (beginning at 10,000 inhabitants).<sup>113</sup>

Since important authoritative functions were withdrawn to Paris as a capital after the smashing of the *Commune* in 1871 by the National Assembly, today's local self-administration in Paris is a child of the 70s and the 80s of the 20<sup>th</sup> century. By way of the so-called Paris-Lyon law<sup>114</sup> of 1982, the big city agglomerations of France were accorded special competencies. Thus, Paris is a department and a commune at the same time and is divided into 20 *arrondissements* that are subject to the supervision of the Mayor. The conservative government of back then took care that only the parts of Paris came under to the rule of the new city administration where bourgeois majorities seemed probable. The *banlieues*, where in 2005, there occurred week-long rebellions of migrant youths without perspective, did not belong to these.

The most powerful Parisian institution is and remains the head mayor. For almost two decades, the Gaullist Jacques Chirac occupied the important post (1977-1995). During that period, he simultaneously occupied important posts in the executive, among other things the post of prime minister. This accumulation of mandates remains a specificity of French local politics. The local posts are not only used as a jumping board for launching a rise in national politics but are kept afterwards as fiefdoms. They constitute a system of notables<sup>115</sup>, based on the French electoral law based on the majority system that allows long times in office to the Head Mayor. Thus, the Gaullist Jacques Chaban-Delmas remained mayor of Bordeaux for almost 40 years (1947-1995) and bore the nickname "Duke of Aquitaine", while he belonged at the same time to several governments. Experts estimate that over two-thirds of French communities, "for 40 years only knew two or three different head mayors".<sup>116</sup> This system marks the political class of France until today and again and again produces scandals of office abuse and corruption. For instance, it became public during the scandal around the Paris mayor Tiberi that the justice minister of that time, Toubon, who was at the same time mayor of the 13<sup>th</sup> arrondissement, had exercised an influence on the procurators investigating the corruption affairs. In 1985, there were passed laws against the unlimited accumulation of mandates.

### **The political institutions and the status of Paris**

The political institutions of the city consists of the Mayor (Maire) elected for six years and the city administration subordinate to him, the City Council (Conseil de Paris) as well as the 20 districts (arrondissements) with their own mayors and organs of representation. The mayors respectively preside over the parliaments at the city and district level and rule their functions. District mayors are as a rule elected into the Conseil de Paris. The prefect remains an organ for the control of administrative action. Paris is a unitary community; the arrondissements are not legally independent or respectively enjoy independence, only where it is attributed to them by law.

### **The Roman majority voting system<sup>117</sup>**

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<sup>113</sup> Lisken/Denniger, Handbuch des Polizeirechts (Handbook of Police law), third edition, C.H. Beck Publishers 2001, pp. 1098/99.

<sup>114</sup> EU Capital Cities Study 2003, ed. by gen. European Service, London/Brussels, p. 56.

<sup>115</sup> Albert Mabileau, Communal and communal administration in France, Basel, Boston, Berlin, pp. 63-87.

<sup>116</sup> Philippe Garraud, Profession: homme politique. La carrière politique des maires urbains (Profession : politician. The political career of city mayors), Paris : L'Harmattan, 1989

<sup>117</sup> This system is employed in the case of cities with more than 3,500 inhabitants. Twenty lists are drawn up, one for each arrondissement. Each list contains as many candidates as there are seats for

French local electoral law enforces list associations, because it always advantages the strongest parties in the attribution of mandates, and discriminates against the weaker. A 5% hurdle, moreover, enforces additional hurdles for smaller parties. That conditions a right-left-polarised block building and an electoral campaign strongly tailored to the top candidate. Setting up fractions in the Conseil de Paris after the elections, however, does not take place along the lists, but along classical party lines.

### **The mayor and the adjuncts**

The mayor is elected by the deputies for six years. He directs and coordinates by way of the general direction the administration of the City of Paris that is divided up in 18 departments. Just as the Mayor the adjuncts – the *adjoints*, who are responsible for certain subject areas – are elected by the Conseil; their number may not exceed 30% of the membership of the Conseil of Paris. The configuration of the adjuncts reflects the composition of the electoral blocks carrying the mayor. That is, there is no proportional system in the attribution of the adjuncts or respectively the city councillors, as for instance in Vienna. We can, therefore, speak of a strong institutional intertwining of executive and legislative within the political institutions of Paris.

### **The Conseil of Paris<sup>118</sup>**

The members of the city parliament (Conseil de Paris) and of the district parliaments (Conseil d'arrondissements) are elected at the same time and for 6 years. The number of members is regulated by the Paris-Lyon law. The Conseil de Paris consists of 163 deputies that are at the same time members of the regional parliaments.

### **The arrondissements**

In the arrondissements, both the members of the Conseil of Paris as well as those of the Conseil d'arrondissements are elected. Every district parliament, for that reason, includes the deputies elected by lists that sit in the Conseil de Paris *and* district deputies. There are 367 district deputies overall. The mayors of the arrondissements are also elected in the Conseils d'arrondissements. The municipal administration can intervene directly into the decisions of the districts; resolutions must be presented to it and to the prefect for legal approval.

### **The administration of Paris**

The city administration is subject politically to the Mayor and is coordinated administratively by the general secretariat of the City of Paris. It consists of the 18 directions/departments for the different subject areas (finances, legal matters, school system, environment, housing etc.).

### **General social and economic conditions**

Paris is embedded in the economically most potent region of France, the Ile de France. This region, where there live, with 11 million inhabitants, roughly a fifth of the French population is the most important economic space of France. 30 percent of the GDP (in other words ca. 402.8 Bn. €<sup>119</sup>) are being earned here. Paris at this point is

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Paris deputies and districts. A general code obligates the deputies to live in the district, where they have been elected.

<sup>118</sup>

[http://www.paris.fr/portail/accueil/Portal.lut?page\\_id=4858&document\\_type\\_id=5&document\\_id=15453&portlet\\_id=10387](http://www.paris.fr/portail/accueil/Portal.lut?page_id=4858&document_type_id=5&document_id=15453&portlet_id=10387)

<sup>119</sup> Federal Statistical Office, Eurostat datashop, GDP at the level NUTS 3.

considered the largest business real estate market of Europe.<sup>120</sup> The city of Paris, with its 2.52 M. inhabitants<sup>121</sup> alone, produces a share in the national GDP of 10.26%.

Paris is without any doubt the centre of the national economy. 80 percent of the 500 largest French business firms have their main seat in Paris itself; added to that are research institutions, state administrations, colleges and international administrations. By its being embedded into the strongest economic region of France, Paris is directly linked to the overall economic business impulses to the French economy. However, the unemployment quota amounts to 11% (2004) and Paris that way lies above the national average.<sup>122</sup>

### **3-2) Political relationships of forces and the agenda of the new left government**

The political and moral embarrassment of the old system of notables contributed in a major way to the decline of the Gaullist power in Paris and to the victory of the Left Alliance that made the socialist Bertrand Delanoë mayor. In the year 2001, Delanoë became the first left-wing maire since the days of the commune.

In the centre of this scandal, there stood Jean Tiberi who just like his predecessor Chirac belonged to the Gaullist RPR. We want to restrain in the following to just a few keywords of elucidation. One of the most important reasons for the erosion of political power, the credibility and social authority of the Gaullism that had dominated the city before was this scandal.

What were the keywords of the scandal?<sup>123</sup>

- Officials and party friends were carried as co-operators of the city administration; however, were doing mostly party work
- Falsification of electoral lists
- Allocation of social apartments following party political and personal criteria
- Personal enrichment of the wife of the head mayor, Xavière Tiberi, by fictitious study grants
- Party political interferences into the investigation of the case.

The scandal that began with a legal investigation against Tiberi's wife in 1996 dragged over years and in the public provoked ever more strongly the question whether and to what extent also the long-year predecessor of Tiberi and now state president Chirac was to be made responsible for the corruptive structures. The RPR leadership let Tiberi drop and sent the former president of the French national assembly, Philippe Seguin, into the race as the new front man of the Paris Gaullists. This operation that was supposed to serve to secure power, however, only exacerbated the decline of the Gaullists. They divided and Tiberi and Seguin ran against each other. There was a loss of authority of the political right and its personnel, an erosion of its party block that went along with a budgetary crisis characterised by ever more debts. By way of the mayor's elections 2001, political change came on the agenda. The political left, in the form of a list alliance in favour

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<sup>120</sup> Compare Deka-Immobilieninvest: "Country analysis France", on: [www.dgz-dekabank.de](http://www.dgz-dekabank.de), real estate holdings ca. 31.5 M. sq.m.

<sup>121</sup> [www.frankreich-experte.de](http://www.frankreich-experte.de).

<sup>122</sup> Taken from: [http://www.paris-france.org/fr/La\\_mairie/salle\\_de\\_presse\\_dossiers\\_presse/pdf/DPbudget2004.pdf](http://www.paris-france.org/fr/La_mairie/salle_de_presse_dossiers_presse/pdf/DPbudget2004.pdf).

<sup>123</sup> Rudolf Balmer, Frankreich Informationsdienst, <http://perso.wandoo.fr/balmer/main.html>.

of the common candidate Delanoë, ran united against the split-up right. Of course, that had already been the case in 1995, where Delanoë only lost by a short margin against Tiberi.

As a look at the electoral results shows, this victory cannot be explained, however, by an overwhelming interest in a political change of direction dominating all parts of the electorate. Strong bourgeois electoral groups remain a power factor in Paris, with which the Left has to count. The split Gaullists in the meantime are united again, and under the new name UMP supply the largest fraction in the Conseil de Paris. Tiberi was elected mayor of the fifth arrondissement and is member of the UMP fraction.

### **The power shake-up in the arrondissements: Electoral results for the Paris Mayor's Office<sup>124</sup>**

<b>Party/List</b>	<b>Result</b>	<b>Seats</b>
List Delanoë	49.6%	92
Diverse right	0.5%	1
List Tiberi	13.7%	13
List Seguin	36.2%	57
Overall	100.0%	163

For the political understanding of the electoral result, it is important to understand the institutional influence of the districts on the compositions of the parliament. The deputies are elected by way of single district lists. The strongest list, to start with, has a claim to the most mandates. In comparison to the elections in 1995, where the list Delanoë, an alliance of socialists and communists, reached 46.47 percent, apparently not much has changed. The block of the Gaullist RPR and of the conservative-liberal UDF with the list Tiberi, in the second electoral round in 1995, reached 47.91 percent.<sup>125</sup> The real power shake-up took place in the arrondissements. In 1995, the block of RPR and UDF dominated in 14 of 20 arrondissements; in 2001, it had lost additional 6 districts to the socialists and their alliance partners (Greens and MRC).<sup>126</sup>

### **In the Conseil de Paris, the deputies divided between six political groups or respectively fractions:<sup>127</sup>**

<b>Fraction</b>	<b>Deputies</b>	<b>Adjuncts</b>
Groupe Socialiste et Radical de Gauche (Social democrats and socialists)	52	20
Union pour un Mouvement Populaire (UMP), Gaullist	58	0
Les Verts (Greens)	23	7
Union pour la Démocratie Française (UDF)	12	0
Communiste	10	4
Groupe Mouvement Républicain et Citoyen	7	2

<sup>124</sup> The ALG European Service, ed. „EU Capital Study 2003“, London, p. 57.

<sup>125</sup> <http://www.tns-sofres.com/etudes/dossiers/muni2001/muniparis1995.htm#top>

<sup>126</sup> *ibid.*

<sup>127</sup> [http://www.paris.fr/portail/accueil/Portal.luf?page\\_id=4989](http://www.paris.fr/portail/accueil/Portal.luf?page_id=4989)

As a result of the Roman majority vote, the socialists and its allies supply the majority of the mayors in the districts (PS/RG: 10, Greens: 1, MRC: 1). The other eight districts are ruled by the UMP. UDF and Communists do not have any mayors. The distribution of the adjuncts reflects the governmental majority.<sup>128</sup> The socialists dominate here as well, who not only supply the majority of the adjuncts, but also occupy almost all key themes (economics/finances, urban enterprises, but also social matters and education). The Greens among other things occupy the areas environment and anti-discrimination, the Communists among other things the youth sector, the MRC among other things the school questions.

### **The political agenda of the left government**

Citizens' participation, social development of the city, transparency and administrative reform are the keywords of the new Delanoë. They stand for change of perspective in city politics. Not without justification, commentators point to the fact that French politics had for a long time occupied a "general's perspective" on the fate of the city. Grand projects designed to show off the power and the greatness of the Grande Nation, in other words, ultimately external demands determined the agenda: "By contrast, Delanoë in contradistinction to his conservative- étatist predecessor occupies a perspective of unusual proximity to city affairs: by way of policies for the housing blocks, social projects and citizens' surveys, he wants to give back to the Parisians a sense of co-determination in their community."<sup>129</sup>

The following examples should exemplify the agenda of the new city government:<sup>130</sup>

### **Participatory projects, administrative reform close to the citizens, in-sourcing of public tasks**

Since 2002, there were instituted youth councils in every arrondissement who organise among other things job exchanges; at the same time, a Paris youth council was created by members of the local councils. It disposes of 80,000 Euros, the Councils of the arrondissements of 335,000. At the same time, there were created starting in 2001 121 neighbourhood advisory councils. In all arrondissements, there are supposed to develop "Maison de service public", who correspond approximately to the German citizens' councils, as they were introduced for instance at the end of the 90s in Berlin. The competences of the district mayors were extended; 63 installations, especially out of the child and youth sector, were transferred to the district. Per district, there should develop respectively one centre for citizens' initiatives and associations.

### **Expansion of the public service**

The expansion of the public service is a trade mark of the ruling left block. In the period from 2000 to 2004, the public service of the city of Paris (community and department) has grown by more than 5700 positions, that means by about 13 to 14 percent. For 2004, there was planned the creation of 495 new jobs, in particular in the area of small child-care. Moreover, in the period from 2001 to 2003, 1600

<sup>128</sup> [http://www.paris.fr/portail/accueil/Portal.lit?page\\_id=1&elected\\_official\\_directoty\\_id=-1&portal\\_component=20&document\\_id=&document\\_type\\_id=&seq=0&actorlastname=6actorgender=6actorgender=1&actorpoliticalgroupide=&actordistrictnumber=&detailed\\_search=afficher+les+resultats](http://www.paris.fr/portail/accueil/Portal.lit?page_id=1&elected_official_directoty_id=-1&portal_component=20&document_id=&document_type_id=&seq=0&actorlastname=6actorgender=6actorgender=1&actorpoliticalgroupide=&actordistrictnumber=&detailed_search=afficher+les+resultats)

<sup>129</sup> DIE ZEIT, 53/2004.

<sup>130</sup> Taken from: [http://www.paris-france.org/fr/LA\\_MAIRIE/salle\\_de\\_presse\\_dossiers\\_presse/pdf/DPbudget2004.pdf](http://www.paris-france.org/fr/LA_MAIRIE/salle_de_presse_dossiers_presse/pdf/DPbudget2004.pdf)

employees were transferred from temporary positions to fixed ones. Service contracts with private agents were terminated for cost reasons and the corresponding tasks were re-transferred into the public service, which was supposed to yield savings of 9 million €s.

### **Expansion of the pre-school network, school refurbishment programme**

Here, there is planned the opening of 4,500 new pre-school places, the construction of 8 new cribs and the rehabilitation of additional ones. In sum, 99 M. €s were supposed to be spent for a school and pre-school refurbishment programme.

### **Expansion of public transport, reduction of private car traffic, urban renewal**

The new government wages on the expansion of PPUT as alternative to individual car traffic. Mainly, investments are made in new tram and bus lines; moreover, the net of bicycle roads is supposed to be extended.

The rehabilitation and the renovation of the “couronne de Paris”, the rather poor North of the city, is one of the most important directions of urban politics. Following Paris’ own self-understanding, a “decade-long neglect” is supposed to be made good again.

### **Active social policy**

The city government in the presentation of the budgetary draft of 2004 placed emphasis on the statement that social policy enjoyed priority in its eyes (“priorité à la solidarité”). The increase of the general social expenditures by 10 percent and the expenditures of policies for the elderly by 14% is presented as a sign of the trustworthiness of a policy of social urban development. Newly and in addition, 3500 social apartments are being subsidised. An important institutional role in social policy is played by the “Centre d’action sociale de la Ville de Paris” (CASVP). The CASVP is the most important social agency of the city. It keeps branches in every arrondissement.

### **3-3) Budgetary policy**

The Paris budget comprises the expenditures of the Parisian territorial authority (city and department) that in the budgetary draft for 2004 ran up to ca. **6 billion Euros**. This means a general increase in expenditures of 4.8 percent as compared to 2003. The expansion of public tasks must also be retraced in a major way to the increase in investment expenditures by 24 percent.

### **Principal points of the budgetary draft of 2004:<sup>131</sup>**

#### **Expenditures**

Operational budget, meaning current expenditures (personnel, administrative expenditures, material expenditures, health etc.):

4.3 % increase in comparison with 2003

Investments: 1448 M. €

24% increase in comparison with 2003

#### **Receipts**

The receipts of the operational budget amount to 4883 M.€

<sup>131</sup> Taken from: [http://www.paris-france.org/FR/La\\_Mairie/salle\\_de\\_presse\\_dossiers\\_presse/pdf/DPbudget2004.pdf](http://www.paris-france.org/FR/La_Mairie/salle_de_presse_dossiers_presse/pdf/DPbudget2004.pdf).

Of which taxes and other fees, allocations by the region	2542 M.€
Allocations by the state	1302 M.€
Property activation	100 M.€

The operational budget liberates an **excess of 316 M. €s.**

The Paris revenue basis relies mainly on growing allocations by the state and the region Ile de France<sup>132</sup>; at the same time, the receipts from the real estate-related tax rise, although the taxes have not been increased. Obviously, Paris is scooping out here the effects of price developments on the real estate market. As the financial report by the Paris city government for the years 2001 to 2004, the budget always showed a primary surplus a couple of hundred million €s that were spent mainly investively. Only in this way does it become clear how Paris can extend both its expenditures with respect to consumption as well as personal management, but can also limit indebtedness.

**Wealth activation:** Here it is mainly a matter of the sale of no longer needed real estate, both in the city itself as well as in the region Ile-de-France in the counter-value of 100 M. €s.

**Credits:** The credit line amounts 718 M. €s; whether this credit was really used could not be determined; neither was it possible to find out precise data on debt service or respectively interest.

The Paris city government makes great efforts to increase its rating with international financial agency; in summer 2003, the Agency Standard&Poors had again given the mark AAA for Paris.

**Debts:** The debts of the city of Paris as of September 30, 2003 were at 994 M. €s, while in the year 1997, they still lay at 2 Bn. €s.<sup>133</sup>

### **Political emphasis of the expenditures**

Next to the personnel expenditures, the social expenditures as well as the subsidisation of public personal short-distance traffic represent the largest areas of transport expenditures:

- 1,698 M. € personnel (personnel expenditure quota 34.77 %),
- 715 M. € social expenditures, of which 460 for social aid as well as 255 M. € for the CASVP (+17% in comparison to 2003)
- contribution to the police prefect office: 240 M. € (+5.3% in comparison to 2003)
- contribution to the STIF: 212 M. €s (+3.4% in comparison to 2003)
- subsidies to business: 163 M. € (+3.7%, in comparison to 2003)
- contribution to SYCTOM: 99 M. € (+ 1.9% in comparison to 2003).

### **3-4) Public service and public sector à la française**

On January 31, 2002, the city of Paris (ville de Paris) counted less than 40,000 employees, 38,069 being the personnel of the community of Paris and 1,545 are personnel of the département. The employees distribute themselves over almost

<sup>132</sup> Rapport financier 2004, Mairie de Paris, ed., pp. 2-3.

<sup>133</sup> Taken from: [http://www.paris-france.org/FR/La\\_Mairie/salle\\_de\\_presse\\_dossiers\\_presse/pdf/DPbudget2004.pdf](http://www.paris-france.org/FR/La_Mairie/salle_de_presse_dossiers_presse/pdf/DPbudget2004.pdf).



3,000 administrative institutions, as for instance, the mayor's office of Paris, the central supply institutions and the mayor's offices of the individual arrondissements, furthermore, the technical installations of the city (local architecture etc.), cultural institutions (museums, libraries), educational and social infrastructure institutions (cribs etc.).<sup>134</sup>

**The following table shows the personnel as of 2003**

	Branch/task	Number of posts
Département	Social affairs, child care and health	1412.6
	Economic and employment promotion	5.8
	Families and children	222.7
	Human resources	97.3
	Other	9
	<b>Total</b>	<b>1747.4</b>
City	Office of the Head Mayor	246.8
	Cultural Affairs	2392.3
	Legal Matters	62.9
	Schools	5846.3
	Social matters, child care and health	823.1
	Decentralised administration, citizens' Affairs	1407.1
	Economic and employment promotion	189.8
	Families and children	5954.8
	Information and communication	244.1
	Youth and sports	2528
	Housing	326.8
	General administration	1265.7
	Propriety and environment	8768.3
	Care of monuments and architecture	1411.6
	Care of green spaces	4017.3
	Security prevention	1055.5
	Integration policy	35.5
	Human resources	512.9
	IT administration	344.9
	Road construction/road upkeep	1520
	Finances	232.8
	Administration of human resources	463.7
	General inspection	47
General secretariat	227.9	

<sup>134</sup> From:

[http://www.paris.fra/portail/accueil/portail.lut?page\\_id=4857&document\\_type\\_id=5&document\\_id=3045&portlet\\_id=10385](http://www.paris.fra/portail/accueil/portail.lut?page_id=4857&document_type_id=5&document_id=3045&portlet_id=10385).

	General secretariat of the Conseil de Paris	520.5
	City development	507.5
	<b>Whole of Paris</b>	<b>41,044.3</b>
<b>Whole of Paris</b>		<b>42,803.7</b>

In 2004, the personnel of Paris rose to 43,275 jobs; the number of jobs at the Département de Paris amounted to 2,067. These are together 45,344 jobs for the Paris local authority.<sup>135</sup>

The real volume of public service in Paris should be greater, however. The police prefect office alone states its number of employees to be 33,530 (2004), of which 19,790 police clerks, 6,000 community clerks and 7,659 employees of the fire department.<sup>136</sup>

### The public firm sector in Paris<sup>137</sup>

#### Excursion: French nationalisation policy

The communal public sector of France is imbedded in a national public sector, whose peculiarities should be described briefly in the following: in contrast to the Federal Republic of Germany, France disposes of a tradition of nationalisation, in particular the nationalisation of whole companies outside of the existence provision and infrastructure sector. The nationalisation that seized almost all parts of the economy followed various motives, however, were driven forward mainly by the ambitious nationalisation programmes of the French left parties from 1936 to 38, 1945 and 46 as well as those of 1981 to 86: "In the beginning of the 80s, the motivation for nationalisation came mainly from three reasons: The guarantee of social regulation function and the offering of social goods, defence of national independence in the area of technology, covering of losses [...], strengthening of national capitalism."<sup>138</sup> Significantly, the nationalisation policy of the Left stopped at the water sector. A strengthening of the communal economy does not seem to have been intended. The coalition government of Socialists and Communists that came to power in 1981 under the presidency of François Mitterrand spent for its nationalisation programme that encompassed almost the whole bank sector, 51 Bn. Francs overall without current capital inflow. But soon it turned out that almost all of the now state firms worked at a loss.

The enterprises of the public service, in the year 1984, despite subsidies made losses of ca. 13.4 Bn. Francs; without subsidies even 67 Bn. Francs.<sup>139</sup> The massive needs in subsidies of the public enterprises, in the period from 1981 to 1992, required state subsidies at a volume of 166 Bn. Francs.<sup>140</sup> This sobering financial balance of the nationalisation policy offered the conservative-liberal parties sufficient real policy arguments to push through a revision of the policy of the left government of 1981. The nationalisations and its disastrous financial consequences non-intended

<sup>135</sup> Taken from: [http://www.paris-france.org/fr/La\\_Mairie/salle\\_de\\_presse\\_dossiers\\_presse/pdf/DPbudget2004.pdf](http://www.paris-france.org/fr/La_Mairie/salle_de_presse_dossiers_presse/pdf/DPbudget2004.pdf).

<sup>136</sup> <http://www.prefecture-police-paris.interieur.gouv.fr/international/anglais/presentation.htm>

<sup>137</sup> Mairie de Paris – Direction of Finances, Paris, France in June/July 2005.

<sup>138</sup> Kamm, Fabian, "Investigation and comparison of the privatisation of public firms as central constituent of economic policy in the 80s and 90s in Germany and France", Frankfurt/M, European College Manuscripts (Europäische Hochschulschriften), vol. 3003, pp. 142/43.

<sup>139</sup> Kamm, Fabian, opus cit., p. 143.

<sup>140</sup> Kamm, opus cit., p. 145.

by the left government, therefore, paradoxically contributed precisely to an increased privatisation pressure. While the privatisation policy was finally also picked up again by later socialist governments and even reinforced, the public firm sector in France at the end of the 90s remained somewhat stronger than in the Federal Republic.

### Comparison of the number of employees in the public enterprise sectors<sup>141</sup>

	Energy	Transport & Telecom.	Post & Telecomm.	Finances	Industry	Others	Trade
FRG	257,900	857,700		390,000	131,300	327,200	8,400
Total	1,972,500 (Share of the overall number of employees: 9%)						
France	176,200	348,000	430,700	68,600	106,600	186,000	11,800
Total	1,328,400 (Share of overall number of employees: 10.3%)						

### EDF and GDF: Two state concerns slated for privatisation

The **energy sector** as before is too a far extent in state property. The two dominating firms are **Électricité de France (EDF)** and **Gaz de France (GDF)**. The EDF is a stock company since November 19, 2004. It is one of the biggest European energy companies, which in 2003 produced 22% of the whole electrical energy produced in the European Union, the largest part of which in nuclear power plants. Following the liberalisation of the French electricity market, there exists a regulatory agency that is also supposed to offer other suppliers access to the market; EDF, however, remains the market-dominating monopolist.<sup>142</sup> This also holds for the largest French gas provider Gaz de France. After its partial privatisation, the state still holds 74.95% of the stocks.<sup>143</sup> The French state during the sale of the stocks earned a revenue of 2.5 Bn. €. The initial listing triggered a run of 3.2 M. private investors at the stock at the end quoted at 30 times its value,<sup>144</sup> as it was witnessed in Germany last at the first listing of the Telekom. The placing of GDF is considered a test run for the envisaged sale of up to 30% of the EDF: "Economic minister Thierry Breton considers the partial privatisation of the concern a large success that opens the road for the quoting of the energy provider Électricité de France."<sup>145</sup> Given the monopolist and centralistic structure of the French energy sector, Paris as owner and entrepreneur only plays a marginal role. However, Paris owns 33.5% of a stock-holding company that deals with remote-heat provision, the Compagnie parisienne de chauffage urbain (CPCU). The majority shareholder is Elyo, a company in the ownership of the Suez-Lyonnaise des eaux.

### Water supply French way – water supply à la parisienne

On the whole, in France, water supply may be a local task; in fact, however, there exists a private water economy. France was the pioneer in the privatisation of water supply: "Eight of ten Frenchmen receive their water from a private agent; in the urban agglomerations, it is even nine out of ten. The 'French model of water management' today is a fixed notion."<sup>146</sup> Because the communities responsible for water supply could not cover the high investment need from their own forces, this task was gradually transferred to private firms. On the basis of their dominating position on the national water market, the large French water companies expanded internationally.

<sup>141</sup> Kamm, opus cit., p. 168.

<sup>142</sup> Dickhaus, Barbara/Dietz, Kristina, opus cit., pp. 50-52.

<sup>143</sup> Die Welt, July 9, 2005.

<sup>144</sup> Manager Magazin, July 7, 2005.

<sup>145</sup> Die Welt, July 9, 2005.

<sup>146</sup> Laimé, Marc: "Privatisation is considered a cure-all for the modernisation of water supply", Le Monde diplomatique no. 7612 of March 11, 2005.

There they play a role both in the privatisation of public water provision both in the developing countries as well as in the OECD.

As Marc Laimé<sup>147</sup>, a prominent critic of the French model, writes, the “15,000 purpose-oriented water enterprises that exist in France and that are administered by the communities, [...] are opposed by firms that are superior to them in many respects – for instance, as far as technology, business management experience, research, administration, management, financing and client service are concerned.”<sup>148</sup> Characteristic for the French model is apparently the alliance of the local state and its exponents with water concerns that by networks of daughter firms control the local suppliers to the detriment of the consumers. The French communities give out local water supply to private firms, that is, the right to be the sole supplier is transferred by tender for a limited time to one applicant. “Such a concession treaty lasts about 20 years in France which in the cities is practically always given to one of the three large French water concerns (Suez, Vivendi, Saur-Bouygues). That concerns about 70 percent of the French water economy.”<sup>149</sup> The large water concerns profit by way of their daughter companies licensed for local water supply of the fees. In the French public, such collusions between bidders as well as corruption are under permanent criticism: “The French government even saw itself forced to pass a special law against corruption in the water economy. [...] The French court of accounts has ever again criticised the business practice and the accounting reports of the water concerns that have an absolute monopoly during the running time of the concession as intransparent and incomplete. On occasion of controls of the concession contracts and post facto calculations, the concerns at times had to lower water prices by up to 40%.”<sup>150</sup>

In Paris, the city administration is 70-percent majority owner of “Eaux de Paris” (SAGEP), a local water supplier with 3 water works and 601 employees. This form was founded in 1986 and in 1987 received a 25-year-long concession treaty for water provision, meaning the promotion, the transport, and the distribution of water for the city of Paris. However, the city also did not get past one of the three cities. The Suez-Lyonnaise des Eaux also holds 14 percent of the shares in the plc SAGEP.<sup>151</sup> The SAGEP is one of the 20 local stock-holding companies, in which Paris participates and that is charged with executing public tasks.

### **Paris as owner, entrepreneur and carrier of public infrastructures and existential provision, An Overview**

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<sup>147</sup> Laimé, Marc “Dossier de l’eau. Pénurie, pollution, corruption (Water file : lack of it, pollution and corruption), Paris, Le Seuil, 2003.

<sup>148</sup> Laimé, Marc, *Le Monde diplomatique*, March 11, 2005, opus cit.

<sup>149</sup> Garnreiter, Franz: “Privatisation – economic foundations and consequences”, <http://www.isw-muenchen.de/download/privat-g.html>.

<sup>150</sup> Garnreiter, Franz, opus cit.

<sup>151</sup> *Les Sociétés d’Économie Mixte de la Collectivité Parisienne 2003 (The Societies in Mixed economic Ownership of the Parisian Collectivity 2003)*, Mairie de Paris, ed., Paris 2003.

<b>Transport</b> <sup>152</sup>	<p><i>STIF (Syndicats des Transports de l’Ile de France/Transport society of Ile de France), Corporation under public law ; task : Organisation of the public short-distance traffic of the region Ile de France, in other words a large “Thinking head”. The central government holds a majority share of 51.4%, (1) while the region Ile de France holds 18.6%, the city of Paris 18.6% and the departments 11.4% of the capital</i></p> <p>Two societies in public ownership, the RAPT, which operates mainly the metro and bus lines and the SNCF Ile de France (Société Nationale des Chemins de Fers(National rail society) ) that operates regional rail traffic. 75 percent of the services remain in public hands; the rest is accessible to private bidders.</p>
<b>Waste disposal</b> <sup>153</sup>	<p><b>Syctom</b> – Inter-local syndicate for the treatment of the household waste of the Paris agglomeration; represents 89 communities in 5 departments of the Ile de France; points of emphasis recycling, special waste, running of disposal sites.</p> <p><b>Private societies</b>, which on the basis of legal instructions were forced to recycle in particular in the case of packaging material and bottles, for instance, Eco packaging and Adelphe plc</p> <p><b>City administration of Paris:</b> 20% of the employees of the city are employed for waste disposal and public cleaning (see table on p. 55)</p>
<b>Housing management, real estate management, Real estate development</b>	<p>11 sociétés d’économie mixte – SEMs, meaning mixed economy corporations, in which the city participates as a rule with a majority share-holding</p>
<b>Water</b>	<p>Communal task, contracted out to SAGEP, a mixed-economy plc, with Paris as a majority shareholder</p>
<b>Energy</b>	<p>CPCU Société d’économie mixte -SEM, responsible for remote-heat provision especially of the social apartments</p>
<b>Child care</b>	<p>Municipal kindergartens, kindergartens run by associations, and parent-supported kindergartens</p>
<b>Culture</b> <sup>154</sup>	<p>Théâtre de la Ville, includes the two theatres “Sahra Bernard” and “les Abesses”, run by association, property of the city, 2001: supplements of ca. 62 M. Fr, at a total budget of 77.8 M. Fr.</p>

In sum, it can be noted that the city of Paris also with view of local existential provision profits considerably from cooperation within the central state or respectively between the French local authorities. In the transport sector a strong regional

<sup>152</sup> From: “Città Visibili città vivibili – I servizi nelle metropoli europee”, research realised by ENPowering, Confservizi Lazio under contract with the community of Rome, November 2003, online under the address; [http://www.romaeconomia.it/index.php?id\\_voce\\_selez=292](http://www.romaeconomia.it/index.php?id_voce_selez=292).

<sup>153</sup> <http://www.romaeconomia.it/attachment/15894919%20-%20SCHEDE%20SIU%20PARIGI.pdf>.

<sup>154</sup> *ibid.*

association produced the public good mobility; important sectors of the economy are organised cooperatively with other communities. The city budget only plays a complementary role in this context. The health system as in Great Britain is essentially organised as a national health service.

### **Stock-holding companies Parisian style: Paris as owner of communal enterprises**

While Paris in the transport sector acts mainly as participant to regional societies in state ownership and in the disposal sector appears mainly as employer and producer of the service, the city is, in large parts of the local economy, especially of apartment and real estate management, owner of companies that realise public tasks.

Characteristic for the city enterprises are the **Sociétés d'économie mixte – SEM**. In this context, it is a matter of mixed-economy societies consisting of public and private capital. In 2003, there were counted in the whole of France 1,198 SEM with 66,400 employees and a turnover of 12 B. €. the total capital of these corporations is stated as 2.4 Bn. €, of which 64% are in public property. The legal form of these societies is private legal; they are stock-holding companies. The public share in social capital distributes itself often between the three French levels of authority: region, department and community. At the same time, large, private firms as, for instance, BNP Paribas, participate in the Paris SEM. Their share fluctuates in between 49 and 15 percent. That way, despite the participation of private capital, public influence on the firms dominates. The SEMs are active mainly in the following sectors: apartment construction, transport, urban renewal, real estate management, water economy, energy, construction as well as within the local economy (e.g. cultural and tourist installations).

The city of Paris is stock-holder of 20 SEM (see the Table below)

- 17 municipal societies,
- 1 SEM of the department
- 2 SEMs of the state.

These corporations employ more than 4,300 employees. Here as well the enterprises of the apartment economy and real estate management stand in the foreground. More than 90,000 apartments are in the property of the Paris SEMs. Projects of social city renewal play a large role:

- rendering empty houses more attractive,
- increased production of social apartments,
- business promotion by the offering of space.

The SEMs occupy an intermediate position in between the Public Service and the private economy. The business tasks of the SEMs must correspond to the legal norms for the tasks of the French territorial authorities, the orientation towards the common weal must be proven. In this way, the SEMs are placed both into competition to private firms as well as entrusted exclusively with the realisation of communal tasks. The SEMs can also hold shares in other SEMs. The political influence of the city of Paris is guaranteed by way of executive board members nominated by the city parliament, whose number is determined by the Paris share in the capital of the stock-holding company.

Tasks, capital structure and personnel of the Paris SEMs are described in the following table<sup>155</sup>:

<b>SEM</b>	<b>Turnover 2003 (M. €)</b>	<b>Public capital share (%) a) Paris, b) Department/Region, c) other SEM</b>	<b>Capital of the society (in Euros)</b>	<b>Personnel Capacity</b>
<b>RIVP</b> Régie immobilière de la Ville de Paris/Real estate management of the city of Paris	302	a) 35.74	31474400.00	735
<b>SAGI</b> Société anonyme de gestion immobilière (real estate management)	261.9	a) 40.00	32000000	742
<b>SGJA</b> Société de gérance Jeanne d'Arc/Management societey Jeanne d'Arc	4.7	a) 40.00 b) 59.98	1440000	26
<b>SIEMP</b> Société immobilière d'économie mixte de la Ville de Paris/ Mixed-economy real estate society of the city of Paris	56.9	a) 54.16	1350000	243
<b>SEMIDEP</b> Société anonyme d'économie mixte immobilière interdépartementale de la région parisienne/Mixed economy inter-district real estate plc of the Parisian region	31	a) 32.50 b) 21.66 c) 27.40	1000000	90
<b>SEM CENTRE</b> Society of the Paris Centre	12.4	a) 80.00	230000	29
<b>SGIM</b> Société de gérance d'immeubles municipaux/Management of urban real estates	66.7	a) 39.60	2177292	205
<b>SEMEA 15</b> Société d'économie mixte d'équipement et	21.2	a)58.77	246944	60

<sup>155</sup> *ibid.*

d'aménagement du XV <sup>ème</sup> arrondissements/Mixed economy society of installations and equipments of the 15th				
<b>SEMAPA</b> Société d'économie mixte d'aménagement de Paris/Mixed economy society of Parisian installations	440.9	a) 56.96 b) 11.63 c) 5.00	762245.09	67
<b>SEMAVIP</b> Société d'économie mixte d'aménagement de la Ville de Paris/Mixed economy society of the installations of the city of Paris	20.4	a) 51.41 b) 15.33	508313.00	30
<b>SEMAEST</b> Société d'économie mixte d'aménagement de l'Est de Paris/Mixed society of installations in the East of Paris	2.5	a) 59.20 b) 20.76	240000	34
<b>SAGEP</b> Société anonyme de gestion des eaux de Paris/Stock-holding society of the water works of Paris	127.7	a) 70.0 b) 1.00	1000000	601
<b>POBP</b> Société anonyme d'exploitation du Palais omnisports de Paris- Bercy/plc for the management of Paris- Bercy	14.6	a)51.0 c)10.0	953125	61
<b>SAEMES</b> Société anonyme d'économie mixte d'exploitation de stationnement de la ville de Paris/plc of parking arrangements in the city	31.8	a) 68.71	2957511	267
<b>CPCU</b> Compagnie parisienne de chauffage urbain/Paris society of urban heating	251.6	a) 33.50	27605120.01	498



<b>SNTE</b> Société nouvelle d'exploitation de la Tour Eiffel/Operator society of the Eiffel Tower	53.1	30.00	1200000	263
<b>SAEMPF (DF-VP)</b> Société anonyme d'économie mixte locale des pompes funèbres de la Ville de Paris/plc of the local undertakers of the city of Paris	8.4	74.00	2743200	94
<b>SOGARIS</b> Anonymous mixed economy society of the car and bus station of Rungis	18.6	49.53	7233837.50	70
<b>SEMMARIS</b> Société d'économie mixte d'aménagement et de gestion du marché d'intérêt national de Rungis/Mixed economy society for the equipment and the management of the national interest market at Rungis	66.7	16.50	4946864.00	222
<b>CENACA</b> Centre national des expositions et concours agricoles/agricultural exhibitions	0.5	4.67	915000	1
<b>TOTAL</b>	<b>1793.6</b>		<b>120983851.60</b>	<b>4338</b>

Even if most SEMs are majority participations of the city of Paris, the influence of private enterprises may not be underestimated. Thus the Bank BNP Paribas holds a 30% share in one of the most important real estate society, the RIVP, which in turn participates in many SEMs. The concern Suez-Lyonnaise des Eaux is majority stockholder of the remote-heating society CPCU. Next to these private actors, other state actors participate in the communal firm. There is hardly any Parisian SEM where there do not participate at the same time other territorial levels; moreover, the state railroad society SNCF appears as a co-owner.<sup>156</sup>

#### **4) Vienna: Continuity and change of a social-democratic model city**

##### **4-1) Origins and development of the political system, general socioeconomic conditions**

<sup>156</sup> Les Sociétés d'Économie Mixte de la Collectivité Parisienne 2003, Mairie de Paris (ed.), opus cit.

Vienna is political and economic centre of the Austrian federal republic. In 2004, the city had 1.629 million inhabitants.<sup>157</sup> Vienna's population is growing: Since 1991, the city was able to win an additional 90,000 citizens. Vienna is a multi-cultural city with a share of foreigners of 16%. Vienna is the location of international organisations such as the organisation for industrial development and the high commissioner for refugees of the UN. The International atomic energy agency and the OPEC have their headquarters in Vienna. Next to New York and Geneva Vienna is the most significant location of UN agencies.

Economically, Vienna dominates the national economy like hardly any other European capital. With a GDP of 56.4 Bn. Euros in the year 2001, Vienna had a share of 27.72% of the Austrian GDP. Despite a dynamic economic development that is marked by a change towards the service economy, the unemployment quota lies, at 9.8%, above the national level of 7.1% (2004).<sup>158</sup>

Modern Vienna since the founding of the republic has been marked by the Austrian social democracy. "Red Vienna" since the 20s of the 20<sup>th</sup> century is considered the "internationally renowned model case of a social-democratically directed city administration."<sup>159</sup> The core point of the reform work was social apartment construction, whose appearance marks the identity of the city until today. From 1919 until 1934, the community of Vienna constructed 61,175 apartments, 5,257 settler houses and 2,155 business spaces.<sup>160</sup> These ambitious reforms were secured by "a redistribution police [...] where somewhat more than half of the local taxes were levied on the well-to-do strata."<sup>161</sup> After the overthrow of the Republic by the authoritarian-semifascist Dollfuss regime in the year 1934, the Vienna city parliament was abolished. After the liberation from fascism, Vienna is again ruled by social-democratic mayors. After the elimination of the war damages and the reestablishment of the local apartment sector, Vienna policy since the 60s set new developmental emphases: the extension of public transport and of the health sector.

### **The political system of the city of Vienna**

Since January 1, 1922, Vienna is an independent federal state of Austria. The special position of Vienna within the Austrian federal republic resembles that of Berlin in Germany. Vienna is federal region and municipal community at the same time. At the head of the regional government stands the regional headman. The regional parliament has 100 deputies; the regional government is formed by the headman and 14 government members at this point who carry the title "city councillor". As any other municipality as well, Vienna must, independent of its size, have three organs and an administrative apparatus: local community council, community executive (in Vienna: City Senate) and Mayor; the creation of a community office (in Vienna: Magistrate) is planned. The members of these organs are personally identical with the organs of the federal region.

The Mayor is elected by the Community Council for 4 years and is president of the City School Council and numerous such organs. As the Head Mayor, he is

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<sup>157</sup> <http://www.wien.gv.at/statistik/daten/pdf/bev-entwicklung-lang.pdf>.

<sup>158</sup> [http://www.statistik.at/statistische\\_uebersichten/deutsch/pdf/k15t\\_9.pdf](http://www.statistik.at/statistische_uebersichten/deutsch/pdf/k15t_9.pdf).

<sup>159</sup> "Wien – das Werden einer Metropole" (Vienna – the development of a metropolis), Ferdinand Opl, Director of the Vienna city and regional state archive under:  
<http://www.gv.at/ma08/geschichte/whiseinl.htm>

<sup>160</sup> <http://www.wien.spoe.at/online/page.php?P=10203>.

<sup>161</sup> Ibid.

responsible for the so-called “transferred area of action of the community”, meaning tasks that have been transferred by federal or regional laws to the community. As the Mayor, he is the executive (=supreme head) of the magistrate and superior of the executive councillors, the district executives and all employees of the city administration.

The administrative tasks are being accomplished by the office (magistrate) of the Vienna regional government at whose head there stands the regional office director (magistrate’s director). Thence there follows the relative weak position of the Vienna districts who have only very few competences, no independent district mayors, and with a budget share of ca. 1.5% also have hardly any own budget-political discretionary power. That makes for a strong position of the executive that, by way of the magistrate’s administration, disposes of a direct way of reaching into the districts. This strong executive finds its counterpart in a particularly well developed direct democracy. Since 1964, there have taken place 30 popular referendums in Vienna.<sup>162</sup>

The SPÖ may traditionally be the strongest political force, it decided, however, to also involve the other parties into the executive by a system of proportional influence. Thus all parties represented in the community council participate in the City Senate. For instance, there exist under an SPÖ mayor quite naturally ÖVP, FPÖ and Green city councillors. The government members are determined following the d’Hondt system where the number of the government members always lies in between 9 and 15. Following the elections of 2001, the City Senate had the following composition: the SPÖ had nine, the FPÖ three, Greens and ÖVP respectively one to two Senate mandates.<sup>163</sup>

This proportional system, however, stops at the border of the administration. The power is maybe distributed, but not really divided equally, since not all members of the City Senate dispose of their own portfolio. This is reserved to the current 8 executive City Councillors. All the 8 executive City Councillors elected as a result of the municipal elections of 2001 belong to the SPÖ. Nothing has changed to that from 2005. The majority party reserves for itself the real leadership of the administration and has always constituted a government in the government. Nonetheless, the opposition can exercise an influence on decisions that in Germany are reserved to the government parties, for instance, in the case of personnel matters and in the examination and debate on the plan (budget) and the balance of accounts of the community.

The actual **Vienna power triangle**, therefore, consists of the mayor and the executive city councillors, the community council, and the director of the magistrate. All these institutions are dominated by the SPÖ.

The office of the director of magistrate has a special significance. He is the chairman subordinated to the mayor of all employees of the magistrate (not however of the executive city councillors and the district mayors) and substitutes for the mayor in his capacity as head of the magistrate. The office “Magistrate direction” guided by the director of the magistrate at this point encompasses seven business sections; these departments fulfil important central and supra-ordinate tasks. The magistrate is the

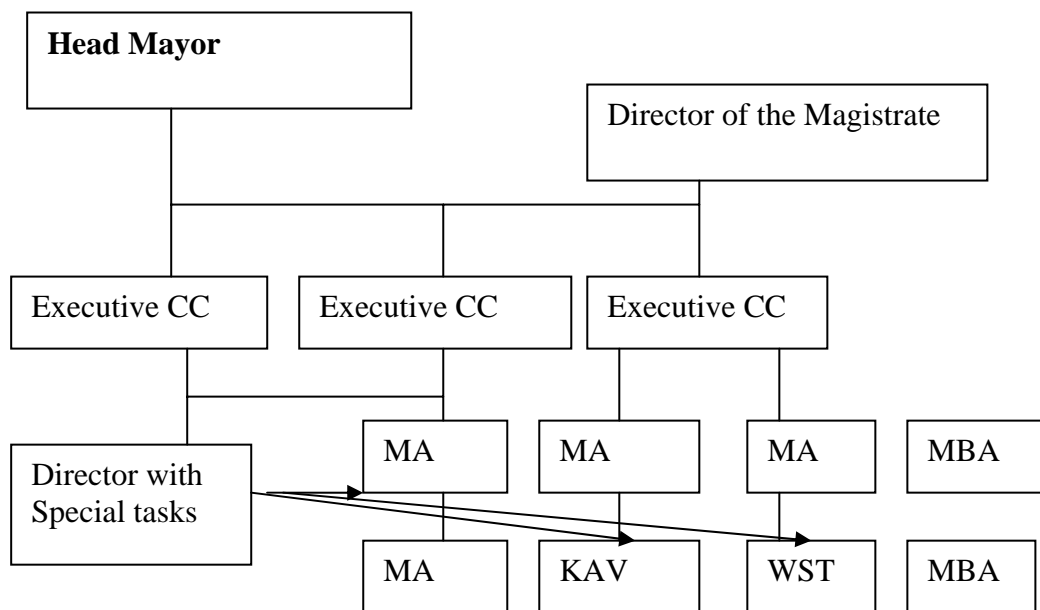
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<sup>162</sup> <http://www.wien.gv.at/ma62/volksbegehren>

<sup>163</sup> <http://www.wien.gv.at/organisation/kap222.htm#aufteilung>

community office of the city of Vienna and at the same time district administrative office.

### Organisational build-up of the Magistrate



MA      Magistrate's Department      MBA Magistrate's District Office  
 KAV Hospital Association

### The districts

Vienna has 23 districts with a directly elected district representation that consists of 40 to 60 members ("district councillors"). At the head of the district, there stands the district head elected by the district representation. The district representation must elect three committees: the financial committee, the construction committee and the environmental committee, responsible for the pre-deliberation of matters of the district representation that concern environmental matters.<sup>164</sup> The Vienna municipal constitution allows to the districts essentially co-determination rights and only very few determination rights (Art. 61-66).<sup>165</sup> The community council can revoke decisions by the district representation and also dissolve whole district representations. The districts have a limited budgetary competence without personnel authority. In the year 2002, these means amounted to 150 M. € for all 23 districts, that is only ca. 1.6% of the total budget of the city Vienna. Among the district tasks, there count mainly:

- upkeep of public buildings (including schools and kindergartens) and parks
- road upkeep
- care for the elderly
- public baths
- out-of-school care of youth
- cultural affairs of the district
- public work in the interest of the district.

### Direct democracy at the local and regional level

<sup>164</sup> <http://www.wien.gv.at/organisation/kap32.htm>

<sup>165</sup> <http://www.wien.gv.at/recht/landesrecht-wien/rechtsvorschriften/html/v0010000.htm>.

Popular questionings, referendums and petitions each have a quorum of 5% of the eligible voters at the last local council elections (ca. 55,000 votes). The result of the questioning has no binding effect. By way of popular referendums, there is possible, with the same quorum, a plebiscitary legislation.<sup>166</sup>

#### 4-2) Political relationships of forces and governmental goals, the Vienna strategy plan

The political relationships of Vienna community council are the following:

##### Elections 2001 and 2005 compared<sup>167</sup>

Results of the elections								
Year	SPÖ	FPÖ	ÖVP	Greens	LIF	KPÖ	SLP	BCH
2001	46.91	20.61	16.39	12.45	3.43	0.64	0.01	0.01
Change	+7.76	-7.78	+1.13	+4.51	-4.52	+0.07	+0.01	+0.01
Distribution of mandates (100 seats)	52	21	16	11	0	0	0	0
2005	49.09	14.83	18.77	14.63	1.47	1.15	0.02	0.04
Change	+2.18	-5.33	+2.38	+2.18	-1.96	+0.51	+0.01	+0.04
Distribution of mandates (100 seats)	55	13	18	14	0	0	0	0

The comparison shows a considerable upward trend of social democracy that apparently won in Vienna the third time in a row. The election loser FPÖ, however, was able to achieve an unexpected partial comeback in 2005. By way of an openly anti-foreigner campaign, the FPÖ top candidate was able to stop the downward trend. In the media, this has conveyed him a victor's image, even though the FPÖ is the great loser of the election. The Greens lie clearly above their national level, the conservatives below. 84% of the Viennese said that their electoral decision had been fixed long in advance. Only 8 percent decided themselves in the weeks before the elections. This points to a social-democratic milieu still fully intact that can rely on the workers, the public sector and the pensioners. 58% of the voters that are older than 50 years, 54 percent of the civil servants, 65% of the workers and 45% of the employees elected the SPÖ.<sup>168</sup> Among the workers and the elderly, however, also the xenophobic FPÖ lay over the average. The voter participation sunk to 60% (-7%), however, also puts the SPÖ success somewhat in perspective: "Every fifth Viennese, who at the elections 2001 had made his cross at the Reds, according to a SORA electoral flow analysis for the ORF, stayed at home this time. The Freedom Party and the Greens have also lost considerably to the non-voters."<sup>169</sup>

#### Strategic objectives of the regional government

In the year 2000, the municipal government submitted a strategy plan for Vienna that was updated and extrapolated into the year 2004, on occasion of the EU

<sup>166</sup> <http://www.wien.gv.at/organisation/kap34.htm#abstimmungland>.

<sup>167</sup> <http://www.wien.gv.at/wahl/NET/GR011/GR011-109.htm>.

<sup>168</sup> Der Standard, printed edition, October 24, 2005.

<sup>169</sup> <http://derstandard.at/>

enlargement.<sup>170</sup> The current “**strategy plan for Vienna in the enlarged Europe**” is not addressed solely at the administration, but points at the interaction of the local administration and the community council with social institutions. It is addressed to all social groups of the city, [...] to science, the economy, the population, initiative groups and administration but also to cooperation partners at the regional, the national, and the international level.”<sup>171</sup> The plan that begins with a self-assured political assessment of the local community of Vienna states the claim that an “outward city policy” aimed at European interlinking should take influence on regional development and regional cooperation in the EU. In the framework of a European city network, Vienna wants to exercise an influence on the “maintenance and continued development of the European social model”. Communal existential provision should remain intact: “A liberalisation may not lead to negative effects on the communal services. The services [...] must as before be rendered in a fashion oriented by the common weal. It is a permanent task to make local services more efficient and more flexible [...] as well as to include new models of public-private partnership and new public management.” Explicit plans for material privatisations, by contrast, are not found.

The strategy plan thus defines an agenda of adaptation of the local social state to the general conditions of EU and globalisation. That means restructuring of the public sector of the city along two main directions: legal form-privatisation or respectively hiving off of agencies to societies of public and private law. For that, there stands the foundation of the City Works Holding (1999), the Hospital Association 2002, the constitution of the “Vienna Social Funds” and the restructuring of the whole social and health service of the city, among other things by the creation of ten new “social centres” (merging of offices and departments). Until 2010, there is supposed to take place a reform of geriatrics that implies a restructuring from the expensive home care towards household care. This restructuring process aims on the one hand at rationalisation, meaning job reduction and turning away from the collective agreement law of the Austrian public service and, on the other hand, on the maintenance of the public owner and control function. The labour market under these conditions can no longer play a relief function for the labour market, which is also acknowledged very openly in the strategy plan: “In the last four years alone (2000 to 2004), the number of employees in material goods production sank by 15,000, that in public service by 16,000. As opposed to that [...], 26,000 additional employees work in the services close to the firms.” Dealing with this structural change that in the last years led to considerable gains in productivity, but did not produce any corresponding impulses on the local labour market is defined as a central task of Vienna policies. In that context, Vienna puts its stakes mainly on qualification measures for the employed. After all, per year 45% of all employee relationships are subject to “turnover.”

#### **4-3) Budgetary policy**

The finances of the city of Vienna are characterised by a high stability. The government has managed, despite the general fiscal and overall conditions considered difficult to reduce the debts of the cities and at the same time keep high investment expenditures. There can nonetheless not be question of a Keynesian expenditure policy. City finance councillor and vice mayor Sepp Rieder (SPÖ) puts his emphasis on the point: “ In 2004 as well, we have held on to the basic notion of Vienna finance policy that additional expenditures should not be automatically be

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<sup>170</sup> <http://www.wien.gv.at/stadtentwicklung/strategieplan/index.htm>.

<sup>171</sup> Ibid.

covered by new debts.”<sup>172</sup> Since the year 1997, Vienna has more than halved its indebtedness of ca. 4 billion Euro in the year 1997 to ca. 1.6 Billion Euros as per December 31, 2004. In comparison: The debts of the federal level in the same period increased by 14.8 billion Euros (12.2%).<sup>173</sup>

Budget cuts in Vienna as well can be considered an important prerequisite for a shaping and forming policy. If the debts had not been reduced, the interest charge would today lie at more than 850 M. €, taking into account the higher debt level of the 90s even at more than a billion. In other words, more than 10% of the budget would no longer be available for social and economic purposes of the city.

**Development of the city budget of Vienna, 2002 to 2005<sup>174</sup>**  
**(All Data in Bns. Of €)**

	<b>2005</b>	<b>%</b>	<b>2004</b>	<b>%</b>	<b>2003</b>	<b>%</b>
<b>Receipts</b>	<b>9.382</b>	<b>100</b>	<b>9.288</b>	<b>100</b>	<b>9.608</b>	<b>100</b>
Of which						
Own taxes	0.8898	9.6	0.884	9.5	0.857	8.9
Yields from common federal expenditures	3.028	32.4	2.988	32.1	3.035	31.6
Fees (water supply, disposal, waste)	0.470	5.0	0.462	5.0	0.457	4.8
Income from Services Administrative receipts and contributions for services (Baths)	0.520	5.5	0.638	6.9	0.597	6.2
Cost compensations of the Vienna City Works	0.716	7.6	0.711	7.7	0.721	7.5
Contributions of the federal level for the personnel cost of teachers	0.579	6.2	0.544	5.9	0.550	5.7
Other current transfer payments from agents under public law	1.448	15.4	1.456	15.6	1.460	15.2
Transfers from	0.238	2.5	0.211	2.3	0.183	1.9

<sup>172</sup> Der Standard, October 28, 2005.

<sup>173</sup> Der Standard, October 28, 2005.

<sup>174</sup> All data under <http://www.wien.gv.at/finanzen/budget/>

agents under public law						
Other sources, among which credits	0.283	3.0	0.364	3.9	0.301	3.1
Additional income (Incomes from wealth, pension contributions)	1.204	12.8	1.028	11.1	1.448	15.1

	2005	%	2004	%	2003	%
<b>Expenditures</b>	<b>9.401</b>	<b>100</b>	<b>9.305</b>	<b>100</b>	<b>9.621</b>	<b>100</b>
Of which						
Personnel Expenditures Magistrate, city teacher, Vienna City Works	2.211	23.5	2.176	23.3	2.185	22.6
Pensions	0.967	10.8	1.017	10.4	0.949	9.9
Administrative expenditures	1.137	12.1	1.380	14.8	1.356	14.1
Current transfers Of which supplements to the Hospital Association, City Works	3.341	35.6	3.003	32.4	2.928	30.4
Debt service	0.349	3.7	0.412	4.4	0.802	8.3
Investments	1.318	14.0	1.339	14.4	1.372	14.3
Others	0.029	0.3	0.028	0.3	0.029	0.3
<b>Difference</b>	<b>-0.019</b>		<b>-0.017</b>		<b>+0.013</b>	

### Political points of emphasis of the budget 2005

Vice head mayor Sepp Rieder (SPÖ) mentions “Health, Social Affairs and Education” for which there should be “more means” as well as a public investment programme as the essential points of emphasis.<sup>175</sup> “The investments of the city - as concrete support programme for the Vienna economy – remain with almost 2 billion Euros at record level.” These are financed by efficiency increases and savings at the administrative units as well as by a recalcitrant personnel policy. To what extent the growing expenditures in the social educational and health service also lead to real efficiency improvements cannot be proven at this point, since Rieder argues mainly in quantitative terms here:

- 40 M. €s more for “social services”,

<sup>175</sup> Der Standard, October 28, 2004.



- 30 M. €s more for all municipal and private installations, health and care institutions,
- 39 M. €s in the educational budget.

With 1.317 Bn. €s investment in the year 2005, Vienna per head of the population spends double as much as Berlin, for instance. At the same time, the political will becomes apparent to shape the investments of the magistrate and of the public firms as economic policy unit, so that Rieder assumes a city investment volume of together almost 2 Bn. €s.<sup>176</sup> Examples for such emphases are: the subway construction (325 M. €s), the “Vienna technology offensive” with 20.1 M.€s, the new construction of 5,000 apartments annually, as well as the rehabilitation of other apartments. The public sector thus understands itself as “business locomotive” for the region of “Vienna”. This public investment policy is combined with an active labour market policy: “Vienna in the last couple of years has steadily increased its investment from regional means for labour market measures.” For the year 2005, ca. 42 M. € are available. Despite an increase of the mentioned expenditures for active labour market policy by 20% since 2003, the level of unemployment in Vienna lying above the federal level, unemployment in Vienna could not be lowered fundamentally.

The **personnel costs** with about 32 percent amount to the largest item in the Vienna budget. The personal expenditure quota according to German standards, i.e. including the pension expenditures for the immediate regional administrations and including the regional teachers re-financed by the federal level, however, without expenditures for the municipal firms, amount to 25.4%. Even if one can talk of a parsimonious personnel policy in Vienna, it is not characterised, as in the German federal regions, by massive reduction of posts. The personnel strength of public service in Vienna is essentially kept. In the area of the magistrate administration, only about 1,100 posts were abolished between 2004 and 2005.

#### **4-4) Public service and public sector, the Vienna City Works Holding**

Overall the public service of the City of Vienna comprises ca. 83,000 jobs, including the City Works and the Hospital Association that are represented in an overview in what follows:

Magistrate administration (2005): 28,879

Largest personnel corpuses: kindergartens – ca. 5,500, street cleaning 3,100, fire fighters - ca. 1,750, school administration ca. 1,460

Regional teachers (2005): 10,479

KAV – Hospital Association (2005): 28,889

City Works (2005): 14,185

Vienna Living (2003): 3,655

The labour market political weight of the public service in Vienna is not described sufficiently in this way, however: the courts, universities and the police, in contrast to

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<sup>176</sup> Core area City of Vienna: 1,317 M. €s, Vienna City Works: 238 M. €s, Vienna Holding: 181 M. €s, Hospital Associations: 37 M. €s, Vienna housing: 150 M. €s, WWFF: 45 M. €s, overall volume: 1,968 M. €s, in: Der Standard, October 28, 2004.

Germany, are a federal matter, so that Vienna bears no costs. In the police sector alone, almost 4,000 policewomen and men are active in over 100 police inspectorates.<sup>177</sup>

### **Special features: The relieving effects of the Austrian financial federalism**

Parts of the public service of Vienna are carried directly by the Federal level. Added to the competencies already described are still the federal museums and federal theatres, for instance, the Burg Theatre as well as architectural monuments of national significance such as the Belvedere Castle, the Vienna Hofburg and Schönbrunn Castle. Austrian federalism, therefore, in the financial sense, has a considerable function of relief for the budget of the city, since Vienna must finance considerably fewer tasks than comparable German cities or respectively federal regions. While Vienna has to say nothing or only very little on the course of policy in these areas, the city is entitled to co-determine school policy, even though the school system is to a large extent financed by the federal level. The responsible federal authorities are the regional school councils (in Vienna that is the City School Council); at the top, there stands the respective regional headman as president of the regional school council. The members of the authority college entitled to vote are determined in each instance by the regional government following the proportional system. The colleges of the regional school councils that act as authorities not subject to instructions enjoy the right to guidance of the school system in terms of subject matter and pedagogy.

### **Public enterprise sector in Vienna**

The city of Vienna disposes about a very broad public enterprise sector, where the enterprises are arranged in various legal forms. The two large pillars of the public enterprise system are the **Vienna City Works** that are conducted as stock-holding company under private law as well as the **Vienna Hospital Association**, an “enterprise in the sense of § 71 of the Vienna municipal constitution”, i.e. a legally dependent unitary enterprise fully owned by the magistrate’s administration. Both firms were hived off in 1999 or respectively 2002 from the city administration. It is remarkable that the hospital city in Art. 72a of the Vienna Municipal Constitution has received a constitutional guarantee of its existence that actually sets high hurdles to any privatisation.<sup>178</sup>

The Vienna City Works Holding plc is considered the “spine and the central nerve system of the big city of Vienna”<sup>179</sup>. With its daughter companies -100% city-owned – it employs 14,148 co-operators (as of December 31, 2003).<sup>180</sup> The number of collaborators is to be reduced by plan.<sup>181</sup> The origin of this classical privatisation legal form is motivated in Austrian sources mainly with changes in the general conditions at the EU level: “The market-adequate social form of the plc is necessary for the Vienna City Works in order to be prepared for the [...] market opening first in the matter of electricity, then for gas.” The primary goal of changing the legal form is guaranteeing the future of the enterprise, especially of the competition to be expected by the liberalisation of the market. The holding functions as mother company, which was transferred in 1999 by a decision of the Vienna City Council from what up to then had been an enterprise, the Vienna City Works, of the Vienna

<sup>177</sup> <http://www.bundespolizei/gv.at/wien/polizei.asp>.

<sup>178</sup> <http://www.wien.gv.at/landesrecht-wien/rechtsworschriften/html/v0010000.htm>.

<sup>179</sup> Executive report of the Vienna City Works 2003, p.

<sup>180</sup> [http://de.wikipedia.org/Wiener\\_Stadtwerke](http://de.wikipedia.org/Wiener_Stadtwerke) (Vienna City Works)

<sup>181</sup> Die Presse, January 10, 2004.

city administration- comparable to the Berlin unitary enterprises – to the status of capital societies and hived off from the magistrate's area. The City of Vienna is 100% owner of the City Works Holding plc. The holding, which also centralises the administration of participations of the city, beyond that disposes of a multiplicity of participations.

## **Legal conditions for the core sectors of the Vienna City Works**

### **Energy sector**

The EU by virtue of June 2003 has passed a directive for the interior market for electricity and gas that in the medium term will lead to numerous changes on the European electricity market. In there, the member states are obligated to open their national electricity and gas markets until July 2007 at the latest; moreover, the creation of regulatory authorities is bindingly prescribed. For vertically integrated energy companies a legal disentanglement ("unbundling") of the supply network is obligatory, where the access network is supposed to be regulated by the public authorities. The regulatory prescriptions for supply security and environmental protection were also drastically sharpened by this directive. In Austria, a large part of these instructions has already been realised. The electricity market was liberalised in October 2001, the gas market one year later, and the network access had been regulated since the beginning. By way of the E Control Ltd. and the E control commission, regulatory agencies were installed. The disentanglement of the supply nets, by contrast, is still undone. In the confrontation over the so-called "Austrian electricity solution", politics has made clear that it wishes no opening of the Austrian electricity market for foreign competitors.

### **The transport sector**

In the year 2003, no common standpoint could be presented to the European Parliament by the member states in the European Council as regards the instructions concerning the liberalisation of the public personal short-distance (PPSDT). The reason for that was the discussion whether an obligatory tender for PPSDT should be written down firmly or whether also a direct handing out applying the criteria in the so-called Magdeburg judgement should be envisaged to offer some choice. In the "Magdeburg judgement" passed in July by the European Court of Law, the obligatory tender of common economic services insofar as the subsidies by the public authorities must fulfil certain prerequisites: The enterprise favoured must have been entrusted with the fulfilment of clearly defined common weal tasks, where the parameters for the payment compensation will have been fixed in advance in an objective and transparent manner. At the same time, the payment compensation under respect of the revenues achieved and an adequate profit may not represent an over-compensation, the cost runs must correspond to those of an average, well-managed enterprise. Once these parameters are fulfilled, state compensation payments may come forth without the otherwise envisaged examination and approval by the EU Commission. The City Works or respectively the Vienna lines, at the European level, in the framework of the big cities groups (Association of a Group of Transport Enterprises of Big Cities), enter actively into the opinion formation process.

In the matter of price policy, it is tried not to pass on world market prices for energy directly to the consumer. In the beginning of the year 2004, an increase of the consumer prices, despite a 25% increase in costs, was only announced for 2005.<sup>182</sup>

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<sup>182</sup> Die Presse, January 10, 2004.

This position apparently has not turned out to be tenable: For November 2004, the Vienna Head of Energy Obentraut after all had to present the increase in electricity and gas prices “as an economic necessity in the light of the exorbitantly risen energy prices on the international markets. “As Vienna Energy had to buy electricity for the Danube metropolis to over 50% by way of the stock exchanges, one was forced to pass on the price increases to the customers.”<sup>183</sup>

### **Under the protection of the Vienna Water Charta: the water sector**

The Vienna water works are a department of the magistrate of Vienna (magistrate division 31). Already B. Dickhaus and K. Dietz emphasise that the Vienna water sector belongs to the comparatively better protected areas of the public sector<sup>184</sup>, because the Vienna Community Constitution places privatisation under the proviso of approval by 2/3s of the members of the City Council: “Since December 2001, Vienna has been the first and until then only city of the world that has a constitutional protection for drinking water. By way of the Vienna Water Charta, the famous mountain spring water is supposed to be protected as the basis of life for subsequent generations.”<sup>185</sup> The Water Charta is a remarkable document, because here a city politically qualifies any privatisation of water as a threat to the natural conditions of life. With view to the current developments in Austria but also in other countries, it says in the Charta: The “sale of the ‘white gold’ must be stopped.” Water supply was “primarily [...] the task of the community. This task may not simply be passed on to private companies.” Local water supply had to guarantee a fair fixing of prices: “That means a clear No to profit maximisation.” This water policy should be executed in the “consensus of the European Union”; the water directive of the EU [...] does not compel the privatisation of water supply. The water policy of the city of Vienna keeps to the framework of community law.”

### **Competition for the market: The Vienna City Works Holding**

To the Vienna City Works Holding plc there are affiliated as daughter companies both the firms of energy supply (gas, electricity, remote heating) and of public short-distance traffic; in there belongs the Wienstrom Ltd., the Wiengas Ltd., the Remote Heating Vienna Ltd. and the Vienna Lines Ltd. & Co. partnership. Moreover, the Vienna undertaker Ltd. are part of the holding.

Beyond that, the Vienna City Works Participation Management Ltd. (BMG= Participation Management Society) are entrusted with the administration of other company participations, for instance, in the energy and transport sector.

The economic indicators present the City Works as energy and transport company.

<b>Statistical Indicators 2003<sup>186</sup>, in M. €s</b>								
Company	Turnover		Result of the year		Investments		Employees** on Dec. 31, 03	
	2003	2002	2003	2002	2003	2002	2003	2002
Holding	<b>23.3</b>	23.6	<b>1.6</b>	14.5	<b>0.1</b>	0.1	<b>150</b>	157
Vienna	<b>1703.6</b>	1233.7	<b>86.8</b>	39.2	<b>207.2</b>	202.5	<b>5691</b>	5750

<sup>183</sup> Die Presse, September 9, 2004.

<sup>184</sup> Dickhaus, Barbara and Dietz, Kristina, opus cit., pp. 55 ff.

<sup>185</sup> Vienna Water Charta, in: <http://www.wien.gv.at/wienwasser/versorgung/charta.html>.

<sup>186</sup> Vienna Water Charta, opus cit.

Energy*								
Vienna Lines	<b>337.3</b>	321.0	<b>0.0</b>	0.0	<b>336.3</b>	300.2	<b>8223</b>	8327
Vienna Undertakers	<b>32.5</b>	32.5	<b>0.7</b>	0.5	<b>1.0</b>	1.0	<b>410</b>	418
Participation Management	<b>1.6</b>	1.7	<b>0.0</b>	0.2	<b>0.3</b>	1.0	<b>15</b>	10
Concern consolidated	<b>2067.3</b>	1598.0	<b>1.6</b>	14.5	<b>558.9</b>	526.9	<b>14485</b>	14662

\* Energy Business Year, October 1, 2002 – September 30, 2003 and rump business year January 1, 2002 – September 30, 2002

\*\* incl. those on parental leave, trainees etc.

## Tasks and enterprise structure of the Vienna City Works Holding and its Daughter Firms

### The Company Mother: The tasks of the Vienna City Works Holding plc

- company-overarching personnel administration, wage and salary accounts, pension matters, legal affairs, personnel development and promotion, company organisation, company revision and company communication,
- general business matters, participation management, controlling and tender system, computer and IT services,
- plans for concern strategies

### The Concern daughters

#### Vienna Energy and its four partial enterprises

Vienna Electricity	Vienna Energy Gas Network	Remote heat Vienna	Energy Comfort
Operation of power stations, wind energy and biomass plants as well as distribution networks. At the same time, tele-communication networks for high-qualitative broad cable operation for communication in the internet	Gas supply; Network operation; Distribution installations	Operation remote heat network, burning of house and special waste. A large part of the heat needed is created by the environmentally-friendly power-heat coupling of Vienna electricity as auxiliary product of electricity generation	Energy management; offering of complete solution in energy supply in the form of remote heat, gas, solar technology, wind energy, biomass or heating oil. Optimisation of energy consumption in technologies, buildings and real estate such as administrative buildings, plant sites

### The transport daughter: The Vienna lines

The Vienna lines are an integrated transport business for transport management in Vienna and for the running of five subway lines, 32 tram lines and 80 bus routes as well as for the new construction (for instance of the subway), or respectively, the procurement and maintenance of the transport infrastructure and the vehicles. In 1999, the Vienna lines were hived off as daughter firm of the Vienna City Works Holding plc.

### **Employer and economic factor**

The Vienna lines invested around 336 M. €s alone in the year 2003 into the improvement of infrastructure – the largest part concerns new subway construction – and in new vehicles: investments that benefit mainly Vienna businesses. With more than 8,000 employees they are the largest employer within the City Works Holdings. 720 million travellers use the transport offering of the Vienna lines every year (2003).

### **Vienna Undertakers**

The Vienna undertakers' company is the largest firm of its kind in Austria and moreover counts among the largest undertakers in Europe. It maintains not only branches, also in Lower Austria. The service spectrum of the Vienna undertakers encompasses the organisation of the mourning celebration as well as the help in bureaucratic and insurance matters.

### **Participation management of one hand: The Vienna City Works Participation management Ltd. (BMG)**

The business mission of the BMG is the management of those participations that cannot be attributed to the core areas of the Vienna City Works concerns. The BMG supports the extension of the Vienna City Works to a multi-utility firm by signing responsible at the same time for opening up of new business fields and business creations. The explicit goal of this state company in private legal form is not the withdrawal from the market but the enlargement or respectively the rounding off of the economic position of the Vienna City Works along their entrepreneurial profile: "We explore new markets."

### **Overview of selected participations**

#### **1- Transport sector**

- stock-holding society of the Vienna local railroads

The WLB essentially runs the local rail line Vienna-Baden for personal traffic, bus routes, special drives, the regional as well as supra-regional transport traffic as well as a travel agency.

#### **2- Real estate and facility management**

- STPM Urban Parking Facilities Management Ltd.
- Real estate development Vienna City Works BMG and SORAVIA plc

The society was created for the realisation of the construction project "TownTown" that is being built on parts of the covering of the subway management station facility Erdberg.

#### **3- Energy sector**

- GREENPOWER facilities construction and operations Ltd.

The object of the society founded in November 2001 is the construction and the running of installations for the transformation of energy, in particular the use of

biomass for short and remote distance heating and electricity generation in small block energy plants.

- Import Coal Society Ltd.

The import coal society ltd. is a non-profit-oriented firm that is devoted to the sale and the trade with solid mineral fuels.

#### 4- Telecommunication

- master talk Austria telecom service ltd. & Co. partnership

The company was created for purposes of construction and operation of the digital bundling radio system TETRA. It serves language and data communication and does justice to the highest security and reliability demands of public and private users. In 2002, the society received the prize for the project ADONIS of the Federal Ministry for the Interior. Along with giving out the contract, there was begun with the build-up of the network infrastructure.

- TELERREAL telecommunications facilities ltd.

The enterprise was founded together by the city of Vienna and the Firma Fleck electrical installations ltd. with the goal of building, supervising, renting and leasing of telecommunications facilities.

- United Telecom Austria Participation Ltd.

In the case of this society, it is a matter of a holding company that holds 75% minus one stock in the standard network supplier UTA.

- ViennaIT – the nerve system of the City Works

A 100% daughter business of the Vienna City Works Holding plc. The Vienna IT with its around 200 collaborators acts as central university service provider and service centre. However, business relations are also conducted with Energy Alliance Austria and clients in the environment of the local community of Vienna.

#### Existential provision outside the market: The Vienna Hospital Association

With the hiving off of the municipal hospitals from the immediate city administration, it was made clear that, in contrast to the procedure in the case of the companies of the energy and transport sector, Vienna politics does not want to place this sector into market competition. The hospitals shall remain a company in private legal form. Vienna subsidises this sector regularly from the city budget.

<b>Vienna Hospital Association</b>	<b>Partial firm for health installations /care homes</b>	<b>Partial firm for general hospitals/university clinics</b>	<b>Partial firm for technical, economic and other service facilities</b>	<b>General management</b>
Average systemised beds 14,489	12,283	2,203	-	-
Stationary patients 384,883	290,644	94,239	-	-
Care days 4,699,129	4,020,773	678,356		

One-day care cases 95,436	72,168	23,268		
<b>Collaborators 28,947</b>	<b>22,196</b>	<b>6,051*)</b>	<b>639</b>	<b>61</b>
Material Expenditures in €s	486,098,223	373,254,506	18,480,714	5,978,647
Investment expenditures	64,236,933	21,522,065	6,848,576	2,409,794
Personnel Expenditures	1,036,074,238	256,287,225	31,549,208	3,444,425
Expenditures	1,586,409,394	651,063,796	56,878,498	11,832,866
Revenues	857,970,855	452,796,008	41,342,670	7,267,237

\*) Co-operators incl. federal employees and outside personnel: 9,155.

### **Vienna Living – the outsourced housing administration of the city of Vienna**

With more than 200,000 apartments, the firm has the lion's share of the Vienna apartment market comprising 900,000 apartments. Almost every fourth Vienna apartment is thus a local apartment. This makes "Vienna Living" one of the largest local apartment firms in Europe. Since January 1, 2000, Vienna Living is no longer a department of the magistrate but an "Enterprise of the City of Vienna". Such a firm administers its wealth separately from the remaining wealth of the city. It may therefore claim no money from the tax means of the city, however, it also has nothing to contribute to the general tax funds in return. In terms of the rights and possibilities for local renters and lookers for apartments nothing changes at all.<sup>187</sup>

The company has the task of realising a social rental policy in Vienna and to grant renter participation in rehabilitation and modernisation decisions. Moreover, it administers ca. 48,000 garages and parking lots as well as 6,000 business spaces.<sup>188</sup>

The director of the firm is named upon motion by the magistrate director by the local mayor. The executive management of the firm is under the purview of the executive City Councillor responsible for the branch. In the City Council, before which the firm is accountable, there exist a special subcommittee for the supervision and control over the firm. In the case of certain decisions of the firm (for instance, investments in a certain level), there must be gotten the approval of the subcommittee.

### **Statistical indicators of 2003<sup>189</sup>**

	2003	2002
Apartment holdings (without house administrator apartment and individual apartments)	210,985	211,399
Personnel		
Of which	3,655	
Administrative personnel	629	

<sup>187</sup> <http://www.wien.gv.at/wienerwohnen/wo.htm>.

<sup>188</sup> "Vienna Living. Business Report 2003", City of Vienna, ed., Vienna 2004, p. 32.

<sup>189</sup> All data are from the business report 2003, ed. City of Vienna – Vienna Living, Vienna 2004.



House personnel*	3,026	3,233
Real Assets (real estate and technical equipment), in €s	8,838,976	8,881,517
Debts (Obligations face to credit institutes)	1.303 Bn. €s	1.293 Bn. €s
Revenues in €s (Profits and losses accounting)	723,236	694,303
Business result after subtraction of the material, personnel and other costs	Ca. 50.7 M. €s	Ca. 51.6 N. €s
Interests	- 60,611	- 94,505
Result of normal business operations	- 8,476	- 39,267

\* Without magistrate personnel required for accounting tasks, 111 persons.

The company earns an operative profit that is employed for debt service, however. That means the debts are slowly paid off from the rental and administrative revenues. Sales of apartment only play a subordinate role for the liquidity of the firm. By way of a premature solving out of apartment purchasing grants, it was possible to considerably reduce the debt load. As can be seen, between 2002 and 2003, only about 400 housing units have been sold. Indebtedness can be considered moderate.

Vienna Living is directly subsidised among other things by local personnel being put directly at its disposal.

## 5) Rome: Ruled for almost 13 years by left majorities

### 5-1) Origin and development of the political system of city of Rome, social conditions

Just as Berlin, Rome took over the capital role of a newly founded national state only in 1871. In that year, it became the capital of the Kingdom of Italy proclaimed by Piedmont and Lombardy in the year 1861.<sup>190</sup>

In Italy that defines itself as a central state, there set in, with the crisis and the falling apart of the old political system based on the predominance of the Christian Democratic Party, comprehensive de-centralisation efforts that are comparable with the catch-up de-centralisation in France in the era Mitterrand:<sup>191</sup>

- In 1990, a Law on the autonomy of local self-administration that among other things created nine new metropolitan local authorities
- In 1993, there was introduced by law the direct election of the mayors and of the provincial presidents,
- In 1997, there was limited central city supervision over the communes,
- In 1998, there was decided a law for the de-centralisation of the state administration,
- In 1999, there was passed a new law concerning elections in the regions.

<sup>190</sup> Stübler, Dieter: Italy from 1789 to the Present, Akademie Publishers, Berlin 1987.

<sup>191</sup> The ALG European Service, ed. "EU Capital Study 2003", London 2004, p. 60.

- The **Italian administration**, in other words, has **four levels** and encompasses the following levels that are equipped with their own budgets for the public tasks assigned to them<sup>192</sup>:
- The **Central Level – Government and Ministerial Administration** - with the classical “functions of authority” of the state such as justice, police, finance, administration etc.
- The **regional level – with the institutions regional president, regional government, regional council** – is among other things responsible for EU affairs, civil protection, health protection, transport, social affairs, employment policy, criminal prevention, environment, regional and urban planning. With regard to Rome, the region of Lazio is charged with passing executive rules concerning legal instructions for metropolitan regions.
- The **provinces** have the same institutional structure and similar responsibilities. The province of Rome encompasses the environs of the city of Rome and a few rural areas. Their competences concentrate among other things on environmental questions.
- **Local communities**. In the context of the study presented here, we are only concerned with the competencies of Rome itself that lie in the areas of culture, schools, city planning, sports, local trade, social policy, public works, environment, local police and others.

Rome belongs to the equal-named province and to the region of Lazio. Seen from the outside, there continue to follow from there, in particular in between the regional, the provincial and the communal level, many formal overlapping competencies which remain in need of an explanation, but which can no longer be dealt with in the present study.

### **Rome’s most important administrative and political institutions<sup>193</sup>**

The city of Rome is a local territorial community (Comune di Roma) and is governed by the following institutions:

The Mayor, elected directly for five years (“Sindaco”), who is at the same time also chief of the administration. He is assisted by 15 associates (“Assessori comunali”) who direct the individual branches of the “Giunta Comunale”, i.e. the executive. The executive consists of 19 individual departments (“dipartimenti”) so that each of the associates as a rule also directs only one department of the administration. The legislative level is formed by the “consiglio comunale”, the City Council, which is also directly elected. By its direct election and its determining position in the administration, the mayor’s office has a strong position, which is put into perspective, however, by the fact that in the Italian political system characterised by many smaller parties, he/she can ultimately only get into office by alliance constellations.

Rome is divided into 19 districts, whose mayors are also directly elected and who each call four “Assessori circoscriziali”. The districts are attributed certain tasks that they fulfil under the supervision and direction of the “Giunta comunale”. In there belong among other things: tourism, local sports installations, state renewal programmes as well as children and youth policy.

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<sup>192</sup> Opus cit., pp. 61-62.

<sup>193</sup> Opus cit., p. 62.

## General social and economic conditions

For the year 2003, Rome states its population to be 2.81 M. inhabitants. After years of population decline, the number of inhabitants gradually increases again: From 1991 to 2003, the city lost about 89,000 inhabitants; yet from 2002 to 2003, the number of inhabitants grew by more than 8,000.<sup>194</sup> Rome is, after Milan, the second-largest Italian financial and trade venue with a share of GDP of 6.4%. At the same time, the community in the region Lazio and in the whole of Italy represents the largest agglomeration with 719 inhabitants per sq km.<sup>195</sup>

In Rome, unemployment could be considerably reduced in the years 1999 to 2003: The unemployment quota during this period was reduced from 11.7 percent to 8 percent.<sup>196</sup> At the same time mainly youth unemployment remains an urgent problem. While it is sinking, it lies with 23.1% (1999: 30.4%)<sup>197</sup> still over the national and the regional average.

The Roman economy is marked by modern services, tourism traffic and film-making industry. The industrial location produces textiles, pharmaceuticals, machines, paper and metal ware. The main administrations of many important organisations have their seat in Rome. For instance, the food and agricultural organisation of the United Nations (FAO), the International Funds for agricultural development (IFAD), the World Food Council (WFC) and the World Food Programme (WFP). Rome has three state universities. Rome wants to purposefully extend its role as the headquarters of supranational institutions and strives for becoming the headquarters of the European satellite agency.<sup>198</sup> The “Università degli Studi di Roma *La Sapienza*” is not only one of the oldest (founded in 1303) but with 147,000 students also the largest European university.

To the peculiarities of the city, there belongs its complicated traffic situation.<sup>199</sup> The congestion of the public transport system in rush hours with all its negative concomitant effects is chronic, because parts of the world historical inner city set limits to the expansion of traffic. While the city disposes over a wide-ranging bus system, the subway system is not very well developed, because damage is feared to many historical buildings in the inner city by the building of the tunnels. The whole inner city has been declared a transport-pacified zone; private cars may only pass them from 6 a.m. to 6 p.m. with an exceptional permit.

## 5-2) Political relationships of forces and governmental goals

Since December 1993, Rome is ruled by the representative of the political Left of Italy. In this year, Francesco Rutelli, the mayoral candidate of the Centre-left alliance, beat Gianfranco Fini of the Alleanza Nazionale. Rutelli who back then belonged to the Greens was elected for a second term in office. In the meantime, he belongs to the liberal party, founded in 2002, “la Margherita – Democrazia é Libertà” which also consists of parts of the former Christian Democrats. Since 2001, Rome is ruled by Walter Veltroni (Left Democrats-DS) also supported by a left alliance who imposed

<sup>194</sup> [http://www.romaeconomia.it/attachment/1550391popolazione\\_e\\_famiglie.pdf](http://www.romaeconomia.it/attachment/1550391popolazione_e_famiglie.pdf).

<sup>195</sup> Krüger, Marian; Williges, Frank, “The Financing of European capitals in comparison with Berlin. A taking stock”, Berlin fraction in the Berlin Chamber of Deputies, Berlin, December 2003, p. 43.

<sup>196</sup> [http://www.romaeconomia.it/template\\_portale.php?id\\_portale=2](http://www.romaeconomia.it/template_portale.php?id_portale=2).

<sup>197</sup> Ibid.

<sup>198</sup> Speech of W. Veltroni on the guiding lines of the office period 2001-2006, under [www.comune.roma.it/servizi/sigep/findDelibereConsiglio.jsp](http://www.comune.roma.it/servizi/sigep/findDelibereConsiglio.jsp).

<sup>199</sup> <http://de.wikipedia.org/wiki/Rom>.

himself with 52% as the leading candidate of the Centre-left alliance “Ulivo” against Berlusconi’s former speaker Tajani.<sup>200</sup>

**The relationships of forces in the City parliament – Consiglio Comunale Roma** are rendered by the following table<sup>201</sup>

<b>Party</b>	<b>Number of mandates</b>
<b>Government fractions, of which</b>	<b>37</b>
DS Left Democrats	15
Rome for Veltroni	5
Margherita	8
Rifondazione Com	3
Verdi (Greens)	2
EDEUR	4
“Mixed group”	1
<b>Right-wing opposition fractions, of which</b>	<b>16</b>
Alleanza Nazionale	8
SDI	1
UDC	1
Forza Italia	5
Lista Civici	1
<b>Others</b>	<b>10</b>
Legalita e Giustizia	2
Moderati per Roma	2
House of the Moderates	2
Immigrant groups	4
<b>Total number of seats</b>	<b>63</b>

**At the session of the City Council of June 26, 2001, W. Veltroni presented his guidelines for his session in office 2001 to 2006<sup>202</sup>**

At first, Veltroni stressed the political community to the work of the predecessor administration of Rutelli. In these years, the city had operated a successful switch to a service society. Where it must be said that “the Roman economy grows more quickly today than the economy of the country as a whole [...]. Employment and the number of newly founded firms also grow more quickly than in the country average.”<sup>203</sup> The next “five years had to serve mainly the consolidation of the results reached between 1993 and today, as well as the necessity to impose in Rome, in the future, more respect of the environment, a greater sense of social justice and a stronger respect of the requirements of the daily life of the population of the city.”

In what follows, Veltroni placed the topics Social City Development and Administrative Modernisation into the centre of his guidelines. He himself acknowledged that in the investments in the social infrastructure, there was a

<sup>200</sup> Jungle World, No. 24/2001.

<sup>201</sup>

[http://www.comune.roma.it/was/wps/portal/lut/p/\\_s.7\\_0\\_A/7\\_0\\_21L?menuPage=/Comune\\_Agenzie\\_e-Aziende/Consiglio\\_comunale/Il\\_Consiglio\\_Comunale/](http://www.comune.roma.it/was/wps/portal/lut/p/_s.7_0_A/7_0_21L?menuPage=/Comune_Agenzie_e-Aziende/Consiglio_comunale/Il_Consiglio_Comunale/)

<sup>202</sup> [www.comune.roma.it/servizi/sigep/findDelibereConsiglio.jsp](http://www.comune.roma.it/servizi/sigep/findDelibereConsiglio.jsp).

<sup>203</sup> For instance, the employment quota of the 15-64-year-olds from 1999-2003 in Italy grew by ca. 6%, in Rome, by contrast, by 10%; see on that:

[http://www.romaeconomia.it/template\\_portale.php?id\\_portale=2](http://www.romaeconomia.it/template_portale.php?id_portale=2).

considerable need for catching up. Because of the preparation of the celebrations of the “Holy Year” 2000<sup>204</sup>, a considerable part of the public means had been spent for this purpose. Quite apparently, the left predecessor government was not able to manage the problem of the socio-spatial fragmenting or respectively split of the city. Therefore, the neglect of peripheral city districts with view to the urban upkeep of streets, buildings, leisure areas etc. represents a grave problem in Rome that only worsens by illegal building activity.

“The developmental scheme up to now, meaning the growth of the city around a single noble centre, has to be changed radically.” Therefore, it should be “one of the strategic objectives of our work [...] to shift the peripheries into the centre of the city.” Here it is a matter of short-term, even if very large-scale projects such as a new lighting programme for 380 streets in the peripheral city districts.

On the other hand, long-term projects are designed to achieve the “re-conquest of neglected areas as well as buildings falling into wreckage”: On a city area of 4,800 hectare, where 300,000 people live, there is supposed to take place a large-scale “re-gaining of former wildly cultivated areas”. These measures are to be rounded off by programmes of re-habilitation and extensions of “schools, local community centres, markets, centres for seniors and new sports installations.”

The improvement of the performance of public infrastructure enterprises was to be given unconditional priority by Veltroni in the light of a sequence of problems inherited by his predecessor Rutelli. Thus there existed, after 1999, a so-called official garbage emergency that Rome was only able to overcome in 2003.<sup>205</sup> The modernisation of the equipment of the transport enterprises was apparently neglected, so that here as well, there was need for remedial measures.

**With respect to the public sector, we want to highlight two large investment projects:**

- Due to the transport policy specificities already described, there are promised comprehensive new construction and procurement programmes in this area. Still in the year 2001, 1000 new busses were to be bought and the fleet of the electro-busses (already today the largest in Europe) is supposed to be doubled in size. The largest investments are destined to the subway network. As far as express train and subway are concerned, at least half of the inhabitants are supposed to encounter one station in a distance of not more 500 meters.
- The new construction of 8,000 units for the social apartment sector is also promised. Tax payments for real estate ownership are to be reduced in accordance with a social income scale. This measure is supposed to benefit mainly low-income families with several children.

To a policy of de-centralised city development, there also belongs the goal of building up nine new libraries in the outskirts of the city.

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<sup>204</sup> A tradition founded by Pope Boniface VIII to celebrate a jubilee every 50 years. The last jubilee was the so-called *Great Jubilee* in the year 2000 whose motto was “Christus heri, hodie, semper” (Christ yesterday, today and in all eternity). For the service on World Youth Day alone, two million people came before the gates of the city.

<sup>205</sup> From “Città Visibili Città Vivibili – I Servizi nelle metropolis europee” (Visible city, livable city), research realised by ENPowering, Confservizi Lazio for the Community of Rome, November 2003 online under the address: [http://www.romaeconomia.it/index.php?id\\_voce\\_selez=292](http://www.romaeconomia.it/index.php?id_voce_selez=292).

## Administrative modernisation

As in the other cities analysed, the city government puts its stakes on an administrative modernisation in proximity to the citizens: “The number of necessary certification was cut by half in the course of very few years.” At the centre, there stands a organisational renewal of the city district. Therefore, more personnel is also to be shifted out into the city districts. In Rome, there was started, in the years 2003 and 2004, the realisation of measures for citizens’ budgets at the all-city and the district level.<sup>206</sup> The city administration sees itself as part of the process linking up to the experience of Porto Alegre which in 200 cities in 18 countries internationally has led to the introduction and continued development of participatory kinds of budget drafting.<sup>207</sup>

In March 2002, there was founded the agency of the City of Rome for the control and quality of the local public services.

## Social aspects

The Employment Pact for Rome that was concluded in the past legislative period between the municipal administration and the associations is supposed to be continued. The city does not consider its direct power in employment policy to be very high. Its main goal is defined as “good employment”. This refers mainly to measures for the pushing back of precarious employment relationships, the granting of work-place protection as well as the fight against the “plague of the shadow economy”.

The city administration strives for a social quota for newly-built apartments, because the housing problem as a result of the “large disequilibrium between demand and supply and demand” requires “the constant attention by the local administration”.

The city has introduced a “Card Cultura” that allows discounted access to a “certain number of cultural events organised by the community and that also makes possible a high price rebate at a number of other cultural institutions.”

## 5-3) Principal budgetary data

The Roman budget in its draft of 2004 had a volume of ca. 5.2 Bn. €. After the city had succeeded to drive back its annual financing deficit of ca. 1 Bn. € after 1999, it is now slowly increasing again. The following tables allow an overview:<sup>208</sup>

### Development of the revenues (1998-2005) in M. €

	1998	1999	2000	2001	2002	2003	2004 prognosis	2005 prognosis
Current Receipts	2,703.0	3,116.3	3,419.7	3,246.4	3,444.7	3,152.6	3,163.9	3,026.8
Of which taxes and fees	1,460.5	1,355.6	1,407.8	1,365.1	1,819.2	1,684.6	1,653.4	1,656.1
Of which Transfers	822.6	1,243.4	1,416.1	1,298.6	1,142.5	929.0	899.0	759.1

<sup>206</sup> [http://www.romaeconomia.it/attachment/914982Ricerca\\_Pratiche\\_Partecipative.pdf](http://www.romaeconomia.it/attachment/914982Ricerca_Pratiche_Partecipative.pdf).

<sup>207</sup> <http://www.romaeconomia.it/index.php>

<sup>208</sup> [www.romaeconomia.it/index.php?id\\_voce\\_selez=321](http://www.romaeconomia.it/index.php?id_voce_selez=321).

Of which other revenues	419.9	517.3	595.8	582.7	483.0	539.0	621.5	611.6
Revenues from investment grants	235.6	1,586.8	244.9	172.3	631.7	1,289.2	1,405.7	251.2
Total final receipts	2,938.6	4,703.1	3,664.6	3,418.7	4,076.4	4,441.8	4,569.6	3,278.0

The declared goal of the city government is to achieve more tax justice and at the same time an improvement of the revenues.<sup>209</sup> The ground tax that supplies a considerable part of the tax receipt of the community should be levied by a social scale. Especially families with low incomes are to benefit from this measure. These relief measures are to be financed with the help of the gains from the pursuit of tax evasion.

What is planned is the introduction of a new surcharge for tourists, so that visitors of the city (in the form of a tax or fee) contribute to the upkeep and the care for the city. In addition, there is planned the sale of real estate no longer needed for the functioning of the administration.

#### Development of the expenditures (1998-2005) in M. €s

	1998	1999	2000	2001	2002	2003	2004 prognosis	2005 prognosis
Business expenditures	- 3,477.9	- 3,317.7	- 6,398.0	- 3,224.5	- 3,215.6	- 2,887.8	-2,989.2	-2,735.9
Expenditures for investment	- 564.6	- 1,080.7	-554.9	-340.8	-988.2	- 1,943.8	-2,271.5	-684.2
Total expenditures	- 4,042.5	- 4,398.4	- 6,942.9	- 3,565.3	- 4,193.8	- 4,831.6	- 5,270.7	3,370.1

The Roman budget just as that of Berlin shows a current primary deficit. This structural deficit is apparently being compensated by credits and asset sales.

#### Development of the budget deficit (1998- 2005) in M. €s

	1998	1999	2000	2001	2002	2003	2004 prognosis	2005 prognosis
Difference Incomes/ Expenditures	- 1,104.8	304.7	- 288.3	- 146.6	- 127.4	- 389.8	- 691.1	-142.1

Although the debts are growing, the Roman city government was able to significantly reduce its current budgetary deficit. Despite the growing indebtedness, there is thus also a consolidating tendency in budgetary policy.

<sup>209</sup> Speech by Veltroni, Session of the Community council of June 26, 2001, [http://www.comune.roma.it/was/wps/portal/lut/p/\\_s.7\\_0\\_A/7\\_=\\_21L?menuPage=/Comune\\_Agenzie\\_e\\_Aziende/Consiglio\\_comunale/II\\_Consiglio\\_Comunale/](http://www.comune.roma.it/was/wps/portal/lut/p/_s.7_0_A/7_=_21L?menuPage=/Comune_Agenzie_e_Aziende/Consiglio_comunale/II_Consiglio_Comunale/)

### The development of indebtedness and interest charges (1998-2005) in M. €s

	1998	1999	2000	2001	2002	2003	2004 progn.	2005 progn.
New credits (only at the expense of the community)	1,256.7	444.8	474.8	404.2	376.1	1,250.6	789.3	435.7
Total indebtedness	6,139.0	5,771.1	5,928.6	6,021.3	6,065.8	6,422.9	6,930.1	7,072.2
Net increase of the debts	1,034.4	-367.9	157.5	95.7	44.5	357.1	507.2	142.1
Interest paid	-428.1	-371.1	-360.0	-340.5	325.3	-283.4	-271.1	-281.3

Rome's indebtedness after a short phase of reduction is growing continually again. The expenditures for the preparation of the international big event of the "Holy Jubilee" and the expansion of private investments in my opinion represent the essential reasons for that.

#### 5-4) Public sector: Overview of the enterprises in municipal ownership (state of affairs: 2003)<sup>210</sup>

The City of Rome disposes of a local holding, the "Gruppo Comune di Roma" with 83 participants. The leadership and guidance of the group is the task of the 14<sup>th</sup> department (Dipartimento XIV) of the Roman city administration. The administration in its publication says itself that a unified entrepreneurial leadership represented a structural problem, because the firms are not linked by a "group logic". The "Gruppo Comune di Roma" comprises both enterprises under private law such as plcs and ltds., foundations and institutions of the city of Rome. It represents firms ranging from concerns standing in the international competition like ACEA (water/energy) up to and including the public pharmacies and the libraries in Rome.<sup>211</sup> The city administration divides the enterprises into two main groups:<sup>212</sup> To the first group, there belong those who are traditionally in the sector of local services (mainly transport sector and in the water/energy sector). ACEA was placed on the stock market in 1999. To the second group, there belong firms that take over local service functions, for instance in real estate and facilities management.

On the basis of the structural leadership problems of the "Gruppo Comune di Roma", the city of Rome had taken measures that were supposed to strengthen its political influence and control with respect to the local enterprises.

In the year 2004, the 15<sup>th</sup> division was reorganised by decision of the City Council. It received the task to review all service contracts with the local firms. It is supposed to regularly work out monitoring and controlling reports on the situation of the firms to the political organs of the City of Rome. Every three months, the firms had to report to the division on their economic situation.

<sup>210</sup> Source: Comune di Roma, Dipartimento XV, Direzione e Coordinamento del "Gruppo Comune di Roma" e per le Politiche Economiche e di Sviluppo, to be found under:

[http://www.romaeconomia.it/index.php?id\\_voce\\_selez=511](http://www.romaeconomia.it/index.php?id_voce_selez=511)

<sup>211</sup> Città Visibili Città Vivibili, opus cit.

<sup>212</sup> <http://www.romaeconomia.it/index.php>



For all enterprises, there was adopted a **Corporate Governance Codex** regulating the internal organisation of the society and an ethical code, by which the societies of the “Gruppo Comune di Roma” must abide.

As of December 31, 2003, there were employed in the main firms of the holding 26,352 persons overall. The staffs were reduced from 1996 to 2003 by ca. 2000 employees.

The three largest firms or respectively branches are:

**Trambus** with more than 8,700 co-operators. If one adds the two other **transport firms** ATAC and Met.Ro with 862 or respectively 2570 collaborators, then about 12,100 employees work in the transport sector of the holding.

**AMA** is the **waste disposal enterprise** of the city that with more than 6,400 employees is the second-largest employer within the holding.

With ca. 4,300, the **energy and water company ACEA** of course does not count among the largest employers of the holding; however, with a turnover of ca. 3 Bn. Euros and a net wealth of ca. 1,256 Bn. €s it is the richest company in the holding.

A further participation is the central service provider Multiservizi with ca. 2,500 employees. In the holding, there are integrated mass and market firms as well as a municipal insurance. Part of the holding are the Roman zoo, the local pharmacies and the libraries with their 31 branches.

The city government places the efficiency in the rendering of local services into the foreground. A compensatory role for the labour market cannot be shown. The founding of the “Gruppo comune di Roma”, under the political responsibility of the left city government, took place with the goal “of limiting the damages that go at the expense of the local budget.”<sup>213</sup>

### **Overview on the property relations and tasks of the municipal enterprises**

Just as in Paris, the dominating legal form of the public enterprise sector is the stock-holding company, and there exist strong business legal inter-linkages with private businesses and other territorial authorities.

The energy and water company ACEA was partly-privatised, where the majority participation continues to held by the City of Rome.

In the now following table, the internal property relationships and the tasks transferred from the city to the enterprises are explained.

Enterprise	Legal Form	Owner	Task
ACEA S.p.A. (Società per Azioni,	plc	51% City of Rome 2.95% Unione	Production, transformation,

<sup>213</sup> Speech of Veltroni, session of the Community Council of June 26, 2001,  
[http://www.comune.roma.it/was/wps/wps/portal/lut/p/\\_s.7\\_0-](http://www.comune.roma.it/was/wps/wps/portal/lut/p/_s.7_0-)

[A/7\\_=\\_21L?menuPage=/Comune\\_Agenzie\\_e\\_Aziende/Consiglio\\_comunale/II\\_consiglio\\_comunale/](http://www.comune.roma.it/was/wps/wps/portal/lut/p/_s.7_0-A/7_=_21L?menuPage=/Comune_Agenzie_e_Aziende/Consiglio_comunale/II_consiglio_comunale/)

stock-holding company/plc)		Generale immobiliare S.p.A. 2.72% SUEZ/SA Electrabel, 43.33% stock market	sale of electrical energy and heat, hydro-system, public heating, Renewable energies
Ama S.p.A.	Plc	100% City of Rome	Environment and waste (division and recycling), cleanliness, care of the green areas, care of cemeteries
Atac S.p.A.	Plc	100% City of Rome	Planning and administration of public local transport (analyses, investment plans, qualitative standards, development) Promotion and sale of services (marketing and sale of travel papers, promotion and information)
Trambus S.p.A.	Plc	100% City of Rome	Bus transport, trams
Met.Ro S.p.A.	plc	95.46% City of Rome 3.04 province of Viterbo 1.5% province of Rieti	Metro and train for public personal transport, research and planning in the area of mobility
CO.TRA.L.	plc	53.4094% by the region of Lazio 15.97115% City of Rome; 29.86% province of Rome Rest: spread over local owners	Organisation of public collective personal transport
Società Trasporti Automobilistici S.p.A.	plc	97.8% City of Rome 2.2% ATAC S.p.A.	Planning and research for an improvement of city transport, punishment of traffic infractions
Risorse per Roma	plc	97% City of Rome 1% ACEA S.p.A. 1% AMA S.p.A. 1% ATAC S.p.A.	Real estate development; amelioration and beautification of

			spaces; buying of real estate on the market
Roma Multiservizi	plc	15% City of Rome 36% AMA S.p.A. 39% Manutencoop Bologna S.c.a.r.l. (Itl.), la Veneta Servizi S.r.l. (Itl.)	Facility management in local schools, offices, sights, beaches and public buildings
Bioparco S.p.A.	plc	51% City of Rome; 39% Costa Edutainment S.p.A. 10% Cecchi Gori Holding ltd.	Direction of the zoological garden of Rome
Musica per Roma	plc	95% City of Rome 5% Risorse per Roma	Running of the complex "Parco della Musica"; Marketing of audio-visual material and entry tickets
Centro Agro Alimentaire	plc	31% City of Rome 28.63% Trade Chamber 20% Region Lazio 4.06% Capitalia plc 4.06% B.N.L. Partecipazioni S.p.A. 4.06% Banco Antoniana Popolare Veneta Rest: spread among private investors	Direction/control of public markets
Fiera di Roma S.p.A.	plc	47.7% Camera di Commercio; 27.6% City of Rome 12.4% Region of Lazio 12.4% Agenzia Sviluppo Lazio Rest: spread among private and public actors	Mass, exhibition and congress system, services for the marketing of goods and services at the local national and international level
EUR S.p.A.	plc	10% City of Rome 90% Ministry of the Treasury	Buildings and real estate Initiatives in the congress and exhibition sector and in the artistic, sports and creative

			sector
G.E.M.M.A. Gestione Elaborazioni Misurazioni Monitoraggi per l'Amministrazione	plc	55% ATI 25% Servizi Territoriali S.p.A. 20% City of Rome	Collection and elaboration of data with reference to the construction decree, to the local tax on the municipal construction register
Farmacap	Agenda Speciale	100% City of Rome	Local pharmacies, research in the socio-sanitary and pharmaceutical areas
Palaexpo			
Istituzione Sistema biblioteche	Institution	100% City of Rome	Running of libraries and cultural centres
Agenzia Comunale per le Tossicodipendenze	Institution	100% City of Rome	
Le assicurazioni di Roma	Insurance	76.75% City of Rome 9.3% AMA 9.3% ATAC 4.65 Met.Ro S.p.A.	Insurance in the case of catastrophe, sickness, fire, loss etc.

### Case studies for the organisation of selected sectors of the public sector: transport and disposal sector

#### Organisation of the public transport sector<sup>214</sup>

Important institutions for local transport policy are the region of Lazio, the locality as well as the (public) transport companies. The region of Lazio is responsible for the inter-regional bus traffic and railroads. For that purpose, it concludes service contracts with the companies. Moreover, it has planning and financing functions (regional transport funds, for investments in railroads, into the regional train, the tram, bus traffic and subway traffic).

**In the community of Rome**, there reigns the so-called "*Roman model*" with three levels of competence:

- 1) Political determination of objectives by the City of Rome,
- 2) Planning and control function by an association under private law in municipal ownership, the ATAC plc (management company),
- 3) Operating societies for the sectors bus, subway, state railroad and Co.Tra.L. plc in the ownership of the city. The tasks of the management companies are regulated by service contracts. (Quality of service, determination of fares and rights of users).

#### A look at the enterprise level

- TRAMBUS plc operates busses and trams,

<sup>214</sup> From: "Città visibili Città vivibili", opus cit.

- MET.RO plc operates subway lines within and outside of Rome. Here the City community of Rome participates at 96.46%.
- CO.TRA.L. plc: Compagnia Trasporti Laziali – a regional company for the bus traffic between the cities of the Lazio. The community of Rome participates to 26.5% in the CO.TRA.L.
- FS plc, i.e.. the national railroad society that assures the traffic on six lines of the urban railroads.

### **Liberalisation and regionalisation of the Roman transport market**

In the year 1992 as a result of the reform of the local self-administration (Law 142/1992), the ATAC was transformed from a local unitary enterprise into a legally independent company. The Law 400/1999 makes it an obligation that short-distance traffic should be written out for tender after January 1, 2004. Until this date, all local territorial levels had the right to determine the operators directly. The networks and the whole infrastructure equipment remain the property of the local territorial levels. The relations between the community of Rome and the ATAC plc are regulated by the service contract. While this instrument leaves the plc the autonomy of its decisions as far as production and management, however, it offers it incentives for the improvement of its own productive efficiency and the quality of the service. Moreover, it has been fixed by regional law that at least 35% of the current costs should be covered by revenues from the transport business. At this point, the Roman market for local short-distance traffic seems to be in a transitional phase to a gradual liberalisation, so that, after 2004, the present agents (Trambus plc and Met.Ro plc) will take part in competition to other businesses in procedures with a competitive character (the so-called “competition for the market”).

In the year 2001, the community of Rome has transferred to the ATAC plc, as foreseen in the service contract, 423.9 M. €s overall, of which 241 M. came from the regional transport funds.

As far as the busses are concerned, the costs per km in the period 1995 to 2000 have decreased by 165. In the case of the subway, the current costs between 1995 and 2001 have decreased by only 2 percent.

Finally, the growing efficiency of the bus agents (in particular with respect to bus traffic) has led to a reduction of the subsidies of the community of Rome for the business agents. In between 1995 and 1999, the overall sum of the subsidies to the firms sank by ca. 27% (a reduction by ca. 71.6 M. €s).

### **The waste disposal sector**

Regions, provinces and the local communities realise the instructions of the central state as far as waste disposal is concerned and act in accordance with the tasks they are assigned in an independent or respectively cooperative way. The region Lazio must decide the regional waste management plans and continue to fulfil them. It is responsible for authorisations for differentiated ways of collection, disposal and regaining for public and private agents. The province is responsible for the planning of the differentiated waste collection.

The community of Rome is the owner of the local waste disposal enterprise or respectively regulator of the local garbage market. It controls its disposal firm AMA by way of a service contract and sets tariffs for the users. The contract is valid for three years and is supervised by a special control and coordination commission.

The contract with AMA costs the region of Rome 362 M. €s annually that are completely covered by the revenue from the waste fee tariff TaRi. Since 2003, garbage disposal, financed before by a community tax, is financed by the TaRi that is directly cashed by AMA. This way the polluter pays principle is supposed to be applied more firmly to price setting and stronger cost coverage to be reached. There are envisaged price reductions for families who utilise organic waste for composting in their own gardens.

AMA also transfers certain tasks to third persons that are competition with each other. Moreover, AMA also takes over non-differentiated garbage collection, while differentiated collection is taken over by daughters of AMA and a number of private firms. AMA participates in European and extra-European competitions, this having led to the creation of numerous extraneous firms: AEC in Egypt, AMA Senegal and ITALECO in Sofia.

In order to care for transparency and prevent corruption and environmental criminality, there exists a “waste registry” in Rome where information about the quantitative and qualitative characteristics of the forms of waste is noted. Every year, all businesses charged in one or the other way with the management of urban refuse are required to submit an environmental declaration to the Chamber of Commerce.

### **III- Some conclusions and theses**

The question how left politics can develop power and alternatives counts among the central topics of the scientific publishing work by the Rosa Luxemburg Foundation. The thesis, defended in this context by Michael Brie,<sup>215</sup> Mario Candeias<sup>216</sup> and others that neoliberalism is a relatively stable developmental orientation of capitalist societies creating rules of the game and material constraints that determine action of Left parties, be they in the opposition or in government, will also serve as orientation to the following conclusions.

If, as Michael Brie has noted, neoliberalism enjoys “ideological-cultural legitimacy, a broad social basis, practicability” as well as “effectiveness of action by way of material constraints”<sup>217</sup>, this thesis must also be applied to the public sector. After all, the pushing back of the regional or local government as employer, entrepreneur and proprietor cannot only rely on considerable support by the public, but precisely on compelling material constraints as well.

The shattering by scandals of the legitimacy of the traditional urban political regimes by scandals, both in Berlin and in Paris, led to the ouster of the conservatives that had up to then participated predominantly in governmental power. In Berlin, this switch of government coincided with a complex crisis scenario: the budgetary calamity was linked to a crisis of the public sector and mass unemployment pushed forward by neoliberal policy at the federal level and social impoverishment. At the same time, the city has to deal with the consequences of a shrinking population size

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<sup>215</sup> Michael Brie: “The struggle for a social and democratic Europe – hegemony and entry projects“, theses presented at the Socialist Scholars’ Conference/Global Left Forum in New York, March-April 2005.

<sup>216</sup> Candeias, Mario: “Neoliberalism, high technology, hegemony. Basic outline of a transnational capitalist way of production and life: a critique”, Argument Publishers, Hamburg 2004.

<sup>217</sup> M. Brie, opus cit., p. 3.

and, among the cities being compared, has to make the most public expenditures. If one abstracts from the special Berlin feature of budgetary distress, all cities are struggling more or less with the same financial, social, and economic problems. Such a bundling of problems as in Berlin, however, can be shown nowhere else.

This reference to Berlin's specific nature should introduce a general conclusion for the analysis. The thought of a "switch of policy" that is ever again a central topic of the scientific- political discourse of the Rosa- Luxemburg Foundation may not be put into the absolute if it is to be applied to the comparison between cities.

In all cities analysed, the Left at first adapted its policies to the situation and the problems encountered. It must concentrate on the problems that can be solved by the means of urban politics. If we also understand politics at the same time as the "*construction of solvable problems*"<sup>218</sup>, then the typical left agenda will be that of social city development linked to projects of internal democratisation. Since any big city does not live of itself, but of its supra-regional and international significance, a locational policy linked to long-term role models is one of the central areas of competence, where the Left has to face the competition with other political forces, but may also enter interest alliances with urban society.

The city governments do not dispose of the instruments for a "policy change", meaning a basic socio-political shift of forces in between capital and labour, in between publicly- common weal- oriented and private- commercial interests. Only at the central state level do there exist the legal and political possibilities for intervention in order to reverse the trends of mass unemployment and impoverishment in the cities.

This is not a plea for political resignation and also not for renouncing the responsibilities of left-wing urban politics in the context of a discourse about switch of policy. Precisely metropolises have always been of special significance for the influence of the left in the overall society. In Vienna and Berlin, there had developed historically a strong public sector that was driven further and institutionalised by the social state reforms in economic and labour market policy as well as housing and health policies. In Berlin, this heritage has been squandered to a large extent by the Grand Coalition. In Vienna, the public sector has been reorganised.

Both of these cities, as well as Rome, Paris and London, stand before the challenge of adapting the public sector to the instructions of EU competition law. They basically burn down to demanding, in the production of public goods, as for instance mobility and energy, an entrepreneurial separation in between production, running of the network, and sales and to prohibiting cross-subsidies in between these branches. At the same time, the so-called "Bolkestein directive" is supposed to achieve an opening of the regional service markets for health and social care. The question, how the cities are dealing with this *policy switch from above*, has been investigated in this study taking the example of certain local communal sectors.

EU directives alone do not decide on privatisations. Also under changed general conditions, the ownership role of the municipal government can be maintained. The

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<sup>218</sup> Nissen, Sylke: „Die regierbare Stadt. Metropolenpolitik als Konstruktion lösbarer Probleme“ (The governable city. Metropolis politics as construction of solvable problems. New York, London and Berlin compared), West German Publishers, Wiesbaden, 2002.

place that the public sector occupies in a community, however, depends also on the concrete socio-political interest constellations in the cities.

The public sector itself also represents one of the most influential social interest groups, while other, marginalised parts of the society do not have an institutionalised power to exercise pressure. The public sector is one among several social big powers like, for instance, the trade unions, the economic associations, and the scientific sector that tends to be especially strong due to the accumulation of university and other scientific institutions in metropolises that are characteristic for the political interplay of forces in the metropolitan societies.

Yet policy may not “be restricted...to clearing the obstacles out of the way... of the social big powers. The task of politics, however, precisely has to be to guarantee that the public resources flowing into these areas are coupled with the common weal, i.e. to integrate them in a meaningful way into an overall context.”<sup>219</sup> This insight by the Berlin economic senator Harald Wolf (Left Party.PDS) in which he stressed once more the break with the traditional and ruinously failed old Berlin clientele politics, also holds for other metropolises, because this claim springs from their reality itself, where social balance does not happen by itself. To ever again re-examine the success of re-coupling the public sector to the common weal is a task that can only be solved politically.

It has always been a guiding aspiration of left politics in the metropolises to push back social polarisation and to make possible a self-determined life for people, just as its ambition has been to reach, by way of the public sector and administered prices for general services and social and education policy, noticeable improvements in social justice and to steer against social risks. Under today’s conditions, the maintenance of control capacity of an urban, metropolitan community is one of the central criteria for an effective left policy. There where neoliberal policy, coupled to mismanagement and corruption, took back control potentials from the local state/region, the community has always suffered and conservative regimes have been ousted like in Paris, London, and Berlin.

The switch is possible if the old regime is spent. Coping with its inheritance determines the programme of the new governments. To emphasise this also means taking note of the fact that the contents of the political category “left” is always also determined by social demand. Livingstone’s policy of massive implementation of public-private partnerships would not pass as “left” in Germany. Yet, in this way, real existing needs for the extension of infrastructure in London were satisfied. Delanoë’s enlargement of public service and the broadening of expenditures for social projects correspond better to the German understanding; however, an arbitrary transfer of Paris conditions to German big cities would clearly overdraw their financial possibilities. Yet, in Paris, this policy is feasible and legitimate.

What is “left” is incumbent first of all to the definition by the community and the expectations of the milieus grouped around the left parties. In order to push out conservative city governments, the left must link up directly to these attitudes. Yet it is, as we could determine on the example of the political relationships of forces in

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<sup>219</sup> Hoff, Benjamin-Immanuel; Wolf, Harald (ed.): „Berlin – Innovation für den Sanierungsfall“ (Berlin – innovation for the rehabilitation case), City Research News, vol. 103, Verlag für Sozialwissenschaften, Wiesbaden 2005, p. 9.



London and Paris, no longer the classical/socialist milieus with their topics that ensure majorities for left politics.

Socio-ecological and libertarian orientations, as shown by the growing attraction of the Greens in some of the cities analysed, plays a determining role in the political competition among left parties. Because if, in the sense of Brie's question, it is a matter of looking for a broad, social basis for alternatives to neoliberalism, then one must also note that these milieus, according to their own self-understanding, may tend to the left, however, that they often have only little tolerance for its traditional *Étatism*, meaning that they can only get interested in left-socialist politics by way of social innovations. The integration of these orientations and milieus into the politics of left-socialist parties will have a decisive influence on their socio-political weight and their role in power politics in governmental politics in metropolitan regions.

What role can political parties play in a metropolis? If metropolises, as Hartmut Häußermann has noted<sup>220</sup>, "(are) also future cities that anticipate cultural and social developments", then precisely there, left socialist parties like the PDS have the chance to link with social innovations and socio-innovative milieus. "Everything important that happens is present in the metropolis." This may be the presence of social polarisation that last year led to violent eruptions in the suburbs of Paris as well as of successes of left urban politics: The Vienna Water Charta that is supposed to secure public influence and the non-profit principle for the Vienna Water Works; the gradual implementation of the first citizens' budget of a European capital in Rome; the arduous, yet persistent reestablishment of communal waste management smashed by Maggie Thatcher in London. Yet, precisely in the metropolises, there are also always on the lookout those, who use the crisis of the public sector to appropriate its market shares by way of large privatisation projects.

The productive appropriation of the institutional, cultural, and social contradictions of a metropolis by a political party presupposes at least two things: *First*, the realism of its own policy, meaning that it is able to act under the given circumstances and to link own reference projects with the future of the city; *second*, that it is able to overcome any one-sided understanding of politics encountered last but not least also in Germany that *limits* the creative force of left politics mainly to being a multiplier for extra-parliamentary protest. Put to its head, this approach reduces the role of a left party to the principle of a "reciprocal Leninism" where it becomes the transmission belt for movements which harbours the risk of anything-goes and of clientele politics. This unilateralism is a German specificity for the reason that there are hardly any experiences here with the governmental participation of left-socialist parties.

Mainly however, this understanding of politics does simply not correspond to the realities of urban societies, since influential interests are always institutionalised, for instance, by way of the associations and the trade unions, who despite all their progressivism, have to maintain mainly their own turf. It is therefore also a genuine task of politics by parties *to constitute and institutionalise* politics oriented toward the common weal. Precisely the experiences in Berlin show that privatisations could well be criticised by the PDS while in opposition, but could only be carried out (apartment complexes) or postponed (Vivantes, BVG) when in government.

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<sup>220</sup> Häußermann, Hartmut, „Metropolen im Vergleich. London, Paris, Tokyo, New York und Paris“ (Metropolises in comparison. London, Paris, Tokyo, New York and Paris), Open, distance university of Hagen 2002, p. 23.

In the context of the political budget of problems of the analysed cities, however, there always also belongs the problem of lack of social participation; therefore, an additional standard for a left profile should consist in expanding the possibilities for participation of citizens and citizens' initiatives and in working so that plebiscitary elements in the political system of the cities can be strengthened. To make the overcoming of the cutting off of urban institutions the object of reform projects therefore is a task left politics has to face.

Hooking on to Reißig's thesis that governmental participations for the left as social force should always also be linked with strategic learning processes<sup>221</sup>, some distinctive features of the cities analysed will now be recalled.

### **1) Political profiles of the city governments**

**Berlin:** "The 'grand' policy change", thinks Rolf Reißig, "which mainly, but not only the adherents of the PDS linked with economic upturn, a reduction in unemployment and more social justice, has not come so far."<sup>222</sup> Undoubtedly, the irrefutable requirements of the budgetary calamity, the political discussions and the realisation of a rehabilitation programme of more than 3 billion Euros and the conflicts linked to that, in the last years have required the whole force of the Red-Red coalition and apparently taken the topic of social development of the city off the agenda. The PDS in Berlin has entered the government as a crisis manager and should also be evaluated according to that criterion. The rehabilitation of finances and of the public enterprise sector is a prerequisite for privatisation not becoming a material constraint and Berlin being able to keep, by way of new federal subsidies, its social standards and equipment advantages, namely in the educational, cultural and scientific sector. Yet, this is not natural, because these questions no longer lie in the sovereignty of the local government, but will be decided, in the future, by the Federal Constitutional Court. Here, much more, however, is at issue than just a question of the financial constitution. The question of the policy change must be raised anew in this context, because especially the CDU-ruled federal regions, as legal opponents of Berlin in Karlsruhe, want to push through additional privatisations, mainly in the health and apartment sector. Red-red stands against that.

**London:** The Livingstone administration conducts a growth-oriented policy in a growing city, where people and capital are flowing. It can rely on the outstanding potential of an international financial metropolis. It expands public expenditures and increases parts of the public sector (police, transport surveillance). Its policy is linked to large-scale infrastructure projects that are supposed to adapt transport capacities to growth processes. The massive credits that London takes on for the financing of these large-scale projects deserve further scientific accompaniment, especially with regard to the question of how city interests are upheld vis-à-vis private agents (sanctions) or respectively, how risks for the public authorities are managed (contract design, controlling). In the light of the special structure of London that is neither a unitary community, nor disposes of a city parliament with the competences that are decisive for what happens in other cities, the Mayor of London acquires an unequally higher political significance than in other cities. On the other hand, the Mayor and the GLA group are only actors of all-city policy or addressees for such questions in a limited way. They are responsible in essence for economic promotion, urban development and transport, police and general administrative matters. For a comprehensive analysis of London politics, the districts (boroughs) as agents of

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<sup>221</sup> Reißig, Rolf, "Building bridges", opus cit.

<sup>222</sup> Reißig, opus cit., p. 34.

apartment, social and educational policy should have been included, which was only possible in the framework of the present study to a rather limited extent. On the basis of the numbers quoted, we have to assume that the London boroughs administer one of the largest stocks of social-sector apartments (*council flats*) in Europe. These experiences should be made usable for the German debate on the future of the local housing economy.

**Paris:** Despite a comparatively small budget of ca. 6 billion Euros, the city enjoys considerable financial room for manoeuvre that is used for the expansion of the public sector, for instance, in the pre-school area and for the modernisation of public infrastructures. In only three years (02-04), the personnel of the public service of the city have been increased by 14.8 percent. The new Left city government wagers very strongly on the combination of programmes of social intervention and de-centralisation and citizens' involvement. Compared to the state of decentralisation in Berlin, such projects as the beginning of setting up citizens' offices and district centres have to be understood rather as catch-up developments. Paris does not only profit from the enormous economic power concentrated in the capital region, but also from the administrative division of labour between the French levels of authority which allow it to cope better with its tasks especially in the transport sector of the cities. Paris disposes of a large sector of enterprises in private legal form (*SEM – sociétés d'économie mixte*) that it operates, including private capital and with the participation of other French levels of authority. In contrast to other French communities that have either no or only a limited control over the water and energy sector, Paris disposes here of two enterprises, by which it can influence communal water and long-distance heating supply. Privatisation efforts (wealth privatisation) in this sector cannot be proven at this point.

**Vienna:** Its experiences with the restructuring of the public sector can serve as example. With the Vienna City Works Holding, the energy, transport and real estate sectors of the municipal economy were unified under one enterprise direction. This is linked to the ambition of securing a market-dominating position of firms in public ownership even under conditions of European liberalisation. The competitiveness of these firms has priority, meaning also employment policy is secondary. Competitiveness is understood as the prerequisite for maintaining the firms as instruments of an active investment and price policy of the community. While the health and housing sector are separated out from direct administration and are managed as two city-owned enterprises, they have not been transferred to private legal form or exposed to market competition. A retreat of the state from these areas does not take place. The water sector has been consciously left under direct state administration. By way of the Vienna Water Charta, the Vienna policy has not only dealt a clear refusal to the privatisation of the local water economy. In the "Strategy Plan Vienna in the enlarged Europe", the SPÖ-led Vienna policy furthermore has articulated its interest to act in the network of European cities for maintaining of the European social model and for keeping up municipal services against the negative effects of liberalisation. The Vienna experiences with the reorganisation of the local economy as a whole should therefore absolutely be explored to the benefit of the German debate.

**Rome:** Even though Rome has been ruled for 13 years by representatives of the political left in Italy, this has apparently changed little to the fact that Walter Veltroni (Left Democrats - DS) has inherited from his predecessor Rutelli (Margherita – liberal) a veritable mountain of problems. The social spatial splitting of the city has

obviously been exacerbated by dispersed settlement processes and the neglect of peripheral urban districts. Veltroni's governmental take-over by contrast marks the transition to a polycentric city development that is linked to massive public investment programmes, e.g. the new construction of 8,000 social-sector apartments. It should be stressed that the city government has the goal of realising participative procedures of budget drafting following the example of the citizens' budget of Porto Alegre. Rome profits of a significant reduction in unemployment at the national and regional scale and encourages this tendency by its own trend, for instance, by way of the emphasis on continued education and the pushing back of precarious employment. Rome disposes of a community enterprise group, whose unitary leadership is somewhat problematic apparently. The priorities of the city government for this area consist, on the one hand, in a forced adaptation to the general EU laws. At the same time, it has also tried to maintain the public ownership role also under the conditions of market opening. The enterprises of the transport and waste disposal enterprises are controlled by service contracts. On the other hand, it is a matter of cost reduction and efficiency in the interest of the fee payers. The local enterprise group is not being used as instrument of a labour market policy with the goal of social compensation.

## 2) Key socioeconomic data in comparison

	<b>Berlin</b>	<b>Vienna</b>	<b>Rome</b>	<b>London</b>	<b>Paris</b>
GNP city/ GNP country	3.7	17	6.4	20	10.2
Inhabitants in mio. (*2004)	3.391	1.629	2.656	7.173	2.125
Share of foreigners	13%	16%	6%	-	14%
Average size of household	1.82	1.97	2.69	-	1.91
GNP per head	22,159 €	36,844 €	21,225€	20,246€	19,055€
Unemployment	15%	11%	8%	6%	12%
Unemployment among women	13%	9%	-	5%	11%
Real estate Prices					
- Sq-m prices apartments	1,202 €	1,145 €	-	2,667 €	2,600 €
- Sq-m prices houses	1,759 €	1,170 €		2,904 €	

At this point, we should return once more to the problem of evolution of population addressed in particular with respect to Berlin. In contrast to Berlin, the population sizes of London and Vienna are growing noticeably, and in Rome, the trend of population decline that existed over long years has now reversed itself. The Foundation Development and Peace has referred, for the whole of Europe, to a population prognosis that holds a decline by 114 m to be possible (ask the author: over what time period?, the translator). The effects of this decline on the public service and the public sector must be analysed in order to reach long-term reflections

in social strategy.<sup>223</sup> This circumstance, in my view, underscores the argument that a strategy that is targeted solely at securing existing status will be overtaken in the long term.

### 3) Budgetary scopes of manoeuvre in comparison

	Berlin 2004	Rome 2004	Paris 2004	Vienna 2004	London 2004
Budgetary Expenditures In bn. Euros (* Bn. <b>GSP</b> (?))	22.4	5.2607	6.015	9.305	8.8**
Tax coverage quota as percent of the budget	35.76	31.43	Could not be investigated	41.6	7.8
Credit financing quota in percent of the budget	17.2	15	n.d.	3.9	Could not be Investigated
Interest expenditures/ Debt service in m. €	2,312	271.1	n.d.	412	n.d.
Debts in bn. €s	55.317	6.930	0.994	1.6	Could not be Investigated

\*\* only GLA group, without districts

The existence of a budgetary calamity is without any doubt the distinctive feature of Berlin from the financial point of view, also in the European comparison. None of the cities compared shows such a high debt level and debt burden as Berlin. Therefore, Berlin must also distinguish itself from other cities in its budgetary policy. It significantly reduces expenditures and has little scope for increasing receipts.

Rome, London, and Paris by contrast are increasing their expenditures, in part to a considerable degree. Since 2001, Rome has been increasing its expenditures in a bracket ranging from a 20% increase (2001) to a 9% one (2004). Paris in that context still records a primary excess in its operating budget. Rome, despite growing expenditures and its relatively high indebtedness, controls its primary deficit and employs its additional expenditures mainly for investment. Yet, precisely Rome shows that budgetary cuts are a topic even there. From 2004 to 2005, expenditures are to sink by more than one billion €. London invests considerable means in the improvement its receipts from its own devices (Congestion charge system). In Rome, the introduction of a new tourism charge is planned.

Vienna, by contrast, has subordinated its financial policy to sustainability criteria, meaning that it pursues mainly the goal of keeping the available budgetary scope of manoeuvre particularly large by way of a low interest charge.

<sup>223</sup> Foundation Development and Peace, ed., "Global Trends. Facts – Analyses – Prognoses. 200/2005", S. Fischer Publishers, Frankfurt/M 2003, pp. 77 ff.

#### 4) Facing the inherent contradictions of the public sector

Any strategy that wages on the maintenance of the public sector must acknowledge its inner contradictions and the questions inherent to it.

The future of the public enterprises is finally also decided in the enterprises themselves. Where mismanagement and indebtedness characterise the existence of public firms, commitments and formal promises won't help; only realistic rehabilitation strategies. This is also always linked to interference with the interests of the workforce and the fee payers/clients of the public enterprises. The citizens as fee payers for public services from the pre-school place over water supply to garbage disposal expect moderate and transparent fees. The employees expect employment security and wage increases.

At the same time, there exists, in particular on the left side of the socio-political spectrum, an attitude of expectation that the public service and the public sector as a whole be used as instrument of an active employment policy. None of the cities analysed conducts such a policy. The claims in themselves may be just; their concrete standard, however, has to be the performance of the public sector itself.

What are the particular contradictions inherent to the public sector?

- 1) The **contradiction between interests in employment and collective agreements and entrepreneurial and fee payer interests**. All enterprises are subject to a permanent rationalisation process. The personnel of the enterprises concretely analysed in Berlin, Rome and Vienna is being systematically reduced. As instrument of a social- compensatory labour market policy, these enterprises are apparently out of the question. As a result of the liberalisation of the European service markets, the competition for the lowest costs for the rendering of a service becomes ever harder. Who is to dispose of the rationalisation effects of the enterprises is a political decision. Here politics does not only have to mediate between the needs of the employees and the interests of the whole city, but take decisions as collective agreement partner and employer.
- 2) The harmony between public employment and common weal is not a "nature-grown process" and does not come about by the action of the entrepreneurs themselves. There can also be interest conflicts **between public enterprises and their municipal owner**. In every enterprise, there exist market and management- dependent business risks for which, in the final analysis, the owners, that means, in this case, the cities are liable themselves. Business losses of firms in public ownership that these cannot carry themselves will always be "socialised", because the owner is public. An active realisation of the owner role means limiting risks to the community and in this way the danger of "socialisation of losses".

There is the **contradiction between the efficiency and the competitiveness of the individual firms and other political goals of the city governments**. Whether a local community task is done by a public enterprise or the public service is itself subject of a political decision and the public tasks themselves are subject to historical change. In other words, if the interest is to keep up the stock and to control the public sector, this may well entail separating from individual tasks and assets. This question must always also be considered as

a means and ends conflict. What is decisive is the measure of public influence on the shaping of price policy for public services and goods, on the investment decisions of the firms, the collective agreements and conditions of the employees under personnel law, conditions of access to living space and medical care.

## **5) Production conditions of public goods in comparison: example PPT**

As described in the introduction, it is in any European comparison of the public sector always also a matter of the conditions in which public goods are produced or respectively under which the access for broad strata of the population can be secured. And it is a matter of the degree of liberalisation reached in the individual cities, or respectively the degree of maintenance of public influence on the production of public goods. Due to limits of space, this can only be explored here in a preliminary way, where we limit ourselves to the PPT.

### **Cost coverage degrees for the PPT in the year 2002 in the European comparison<sup>224</sup>**

The Roman city government in the year 2002 has conducted a comprehensive, comparative analysis of the public service sector of selected European cities, with emphasis on transport, waste disposal and culture.<sup>225</sup> However, not all cities could be included to an equal extent, because there are not always data available for all emphases of the investigation for all cities. For instance, here there is missing the PPUT of Vienna. The cost-coverage comparison itself is very complicated and due to different national and local models of accounting is saddled with considerable vagaries and mistakes<sup>226</sup>. Also in Germany, attempts to work out supra-regional cost coverage comparison have up to now failed.

The comparison quoted in the following graph is therefore only suitable to a limited extent for conveying the real degree of cost coverage. For instance, for Berlin, the true degree of cost coverage is claimed by the BVG to lie at about 70 percent.<sup>227</sup>

### **Cost coverage degrees in the European comparison**

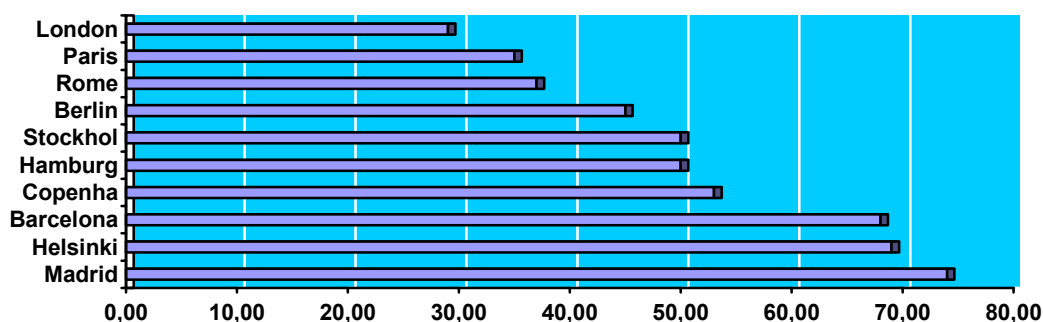
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<sup>224</sup> <http://www.romaeconomia.it/attachment/1981751.6%20Cap%20V%20Tpl.pdf>

<sup>225</sup> „Città visibili Citta vivibili – I servizi nelle metropoli europee”, Ricerca realizzata da ENPowering, Confservizi Lazio per conto del Comune di Roma, November 2003 online under the address: [http://www.romaeconomia.it/index.php?id\\_voce\\_selez=292](http://www.romaeconomia.it/index.php?id_voce_selez=292)

<sup>226</sup> The problem resides mainly in the delimitation of the costs of “pure” transport and the costs for pensions, debt service, certain administrative costs. Moreover, the cost structure is distorted due to leasing.

<sup>227</sup> Source: Personal communication by the press speaker of the BVG, Petra Reetz.



If we take into account the financing modalities of the PPUT, we may nonetheless draw a number of conclusions. The relatively low cost coverage degree in London and Paris is always correlated with the fares. What is much more important, however, is, as shown in the following table,<sup>228</sup> the influence of the across-the-country division of labour in the financing of the PPUT. A lower cost-covering degree for the public good “mobility” may mean that the required financing simply comes from another source. The following table shows the cost distribution between the levels of authority.

	State	Region	Locality
Berlin	-	100	-
London	45	-	55
Paris	30	60	10
Vienna	n.d.	n.d.	n.d.
Rome	-	56.8	43.2

### Degree of liberalisation of the urban transport sector in the European comparison<sup>229</sup>

Liberalisation	Berlin	Rome	Paris	Vienna	London
<b>Subway</b>					
Direct transfer, without tender	•	•	•	•	
Tender (individual Parts)					•
Tender (everything)					
<b>Bus</b>					
Direct transfer/without tender	•		•	•	
Tender (individual parts)		•			•
Tender (everything)					

<sup>228</sup> Città visibili, op. cit.

<sup>229</sup> <http://www.romaeconomia.it/attachment/1981751.6%20Cap%20V%20Tpl.pdf>



Tram					
Direct transfer	•	•	•	•	•

Especially in the bus sector, liberalisation, meaning market opening for private agents, is well advanced; in general, however, public providers still dominate.

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