



# The capabilities of finance ministries: Germany

Julia Fleischer



**Report**  
June 2016

**Overseas Development Institute**

203 Blackfriars Road  
London SE1 8NJ

Tel. +44 (0) 20 7922 0300  
Fax. +44 (0) 20 7922 0399  
E-mail: [info@odi.org.uk](mailto:info@odi.org.uk)

[www.odi.org](http://www.odi.org)  
[www.odi.org/facebook](http://www.odi.org/facebook)  
[www.odi.org/twitter](http://www.odi.org/twitter)

Readers are encouraged to reproduce material from ODI Reports for their own publications, as long as they are not being sold commercially. As copyright holder, ODI requests due acknowledgement and a copy of the publication. For online use, we ask readers to link to the original resource on the ODI website. The views presented in this paper are those of the author(s) and do not necessarily represent the views of ODI.

© Overseas Development Institute 2016. This work is licensed under a Creative Commons Attribution-NonCommercial Licence (CC BY-NC 4.0).

ISSN: 2052-7209

Cover photo: Lucy Peers, [lucypeers.com](http://lucypeers.com)

**Overseas Development Institute**

203 Blackfriars Road  
London SE1 8NJ

Tel. +44 (0) 20 7922 0300  
Fax. +44 (0) 20 7922 0399  
E-mail: [info@odi.org.uk](mailto:info@odi.org.uk)

[www.odi.org](http://www.odi.org)  
[www.odi.org/facebook](http://www.odi.org/facebook)  
[www.odi.org/twitter](http://www.odi.org/twitter)

Readers are encouraged to reproduce material from ODI Reports for their own publications, as long as they are not being sold commercially. As copyright holder, ODI requests due acknowledgement and a copy of the publication. For online use, we ask readers to link to the original resource on the ODI website. The views presented in this paper are those of the author(s) and do not necessarily represent the views of ODI.

© Overseas Development Institute 2016. This work is licensed under a Creative Commons Attribution-NonCommercial Licence (CC BY-NC 4.0).

ISSN: 2052-7209

Cover photo: Zackary Canepari/2010 (Laos, Chiang Saen. A man loads boxes of Chinese manufactures onto a boat travelling down the Mekong River. The goods are bound for sale throughout Indochina.)

# Acknowledgments

This document was peer reviewed by Philipp Krause and an anonymous reviewer, and their time and critical remarks have been gratefully received. The author would like to thank past and current Federal Ministry of Finance staff who gave up their time for informal discussion and consultation. Richard Hughes provided programming support. Julia Hanne oversaw the production of the paper and Deborah Eade provided editorial support. Any errors and/or omissions remain those of the author.

The fieldwork for this paper was carried out between February and October 2013.

# Table of contents

<b>Acknowledgments</b>	<b>1</b>
<b>1 Introduction</b>	<b>4</b>
<b>2 The institutional context</b>	<b>5</b>
<b>3 The external context</b>	<b>14</b>
<b>4 Description of three typical cases</b>	<b>15</b>
<b>5 Comparative analysis</b>	<b>25</b>
<b>6 Conclusions</b>	<b>26</b>
<b>References</b>	<b>27</b>
 <b>Figures</b>	
Figure 1: Simplified organisational chart of the BMF	10
 <b>Tables</b>	
Table 1: Finance ministry's expenditure	10
Table 2: Ratio of Top to Lowest Ranks in the German Finance Ministry	12
Table 3: Remuneration in the German Finance Ministry	13
Table 4: The budget preparation	16
 <b>Boxes</b>	
Box 1. Central finance functions of the BMF	7
Box 2. Formal status of the Minister of Finance	8

# Abbreviations

Abbreviation	Description
BMF	Federal Ministry of Finance
SDP	Social Democratic Party
FDP	Free Democratic Party
ECOFIN	Economic and Financial Affairs Council
EU	European Union
BaFin	Federal Financial Supervisory Authority
GGO	Joint Rules of Procedure of the Federal Ministries
BRH	Federal Court of Auditors
UK	United Kingdom
HM	Her Majesty's (Treasury, UK)
KOF	Konjunkturforschungsstelle
IfW	Institut für Europäische Wirtschaftsförderung
GmbH	Zentrum für Europäische Wirtschaftsforschung
IWH	Institut für Wirtschaftsforschung Halle
RWI	Rheinisch-Westfälisches Institut für Wirtschaftsforschung
IHS	Institut für Höhere Studien
ChefBK	Chef des Bundeskanzleramts
GDP	Gross domestic product

# 1 Introduction

The existing literature on the German Federal Ministry of Finance (BMF) is rather sketchy and reflects successive scholarly debates. First, there was a rather technical debate during the 1960s when the new medium-term financial planning system was established in Germany and several authors analysed the role of the finance ministry in relation to these new planning activities (Naschold et al. 1971; Zunker 1972).

Second, some studies emphasised the role of the BMF in the budgetary process and discussed its competencies in this process from both an institutionalist and a historical perspective (e.g. Sturm 1989). These authors argued that the finance ministry plays a key role in government policy-making in Germany through its responsibilities in the budgetary process and often developed a considerable interest in all kinds of government policies requiring public expenditure (Sturm 1994: 90; Hallerberg 2000; Hallerberg et al. 2007).

Third, increasing European integration motivated some scholars to study the role of the finance ministry in the Monetary Union, especially with regard to monetary policy-making, the interplay with the German Central Bank and the European Central Bank (e.g. Bulmer and Burch 2001; Beichelt 2007). In a similar vein, some authors have explored the role of the finance ministry in coping with the recent financial crisis (Fleischer and Parrado 2010; Korzin 2012a).

Lastly, a handful of recent studies address the internal organisation and decision-making processes inside Germany's finance ministry, often discussing structural innovations such as new horizontal co-ordination mechanisms across different line divisions (Korzin 2012b, 2012c) or the specific role of the Division for General Affairs (*Grundsatzabteilung*) as internal think tank and policy unit to the Finance Minister (Fleischer 2012).

These scholarly perspectives on the German finance ministry discuss to a rather different extent any systematic explanatory features to understand the role and capabilities of the ministry that could be operationalised and applied to other finance ministries. Most authors highlight the relevance of the institutional context, most importantly the interplay of coalition government and party competition with an administrative *Rechtsstaat* tradition.

## 2 The institutional context

### Creation and evolution of the Federal Ministry of Finance

In 1877, a new directorate was established in the Imperial Chancellery (*Reichskanzlei*), responsible for the increasing duties in tax and budgetary policies across the German Empire. Two years later, in July 1879, it was created as Reich Treasury (*Reichsschatzamt*), although the Empire's budget was largely administered and managed by the state (*Länder*) administrations (Pausch 1969).

In 1919, two new ministries succeeded the Reich Treasury, a Reich Ministry of Finance (*Reichsfinanzministerium*), responsible for administering tax and customs as well as expenditure, and a Reich Treasury (*Reichsschatzministerium*), responsible for the Reich properties. In 1923, both were merged into the Reich Ministry of Finance.

In 1949, this was succeeded by the Federal Ministry of Finance (abbreviated as BMF), operating in a parliamentary system with a strong tradition of minimum-winning coalitions, usually between a larger and a smaller coalition party. Moreover, it acts in a federalised system of public expenditure, i.e. Germany is a federal republic comprised of 16 states and public expenditure is divided between the federal and the *Länder* level, also distributing the various types of taxes across the multi-level system and operating a rather complex system of reallocating public revenues and expenditure.

### Important events, transformation and challenges

In organisational terms, the BMF remained fairly stable for several decades, although it underwent a number of comparatively radical changes given the strong stability of portfolio allocation in German central governments. The first structural change occurred in 1969 when the Federal Treasury Ministry (*Bundesschatzministerium*), with its responsibilities for properties, was closed down and some of its duties were transferred to the BMF while the others were transferred to the Federal Ministry for Economic Affairs. Another structural change occurred between May 1971 and December 1972 when the Federal Ministry of Finance was merged with the Federal Ministry of Economic Affairs to become a Federal Ministry of Economics and Finance. This merger aimed to secure partisan control over financial and economic policy after the Federal Minister of Finance Möller (Social Democratic Party, SPD) had resigned and the SPD was reluctant to hand over the ministry to a minister from the Free Democratic Party (FDP) as its coalition partner (Sturm 1994: 84-7).

A similar structural change occurred after the 1998 general election, when the Ministry of Finance was established as a 'second power centre next to the Chancellery' (Geyer et al. 2005: 78). These organisational changes resulted largely from the transfer of formal responsibilities in EU affairs from the Ministry for Economic Affairs and the Foreign Ministry to the Finance Ministry, including for instance the lead role in preparing the Economic and Financial Affairs Council (ECOFIN) and the EU Monetary Committee as well in formulating the Annual Economics Report and liaison of the German Council of Economic Experts (*Sachverständigenrat zur Begutachtung der ökonomischen Entwicklung*, see also case I below) and the Economic Council (*Konjunkturrat*, BKOrgErl 1998). The transfer of EU responsibilities resulted in a substantial shift of the centre of EU economic and fiscal policy co-ordination towards the BMF (Beichelt 2007: 424).



These responsibilities were, however, mainly revoked after the 2005 general election, when the traditional separation of macroeconomic and budgetary policy were restored at federal level.

It is clear, then, that none of these organisational changes was permanent and although some lasted for more than a legislative period and had some influence on the role of the finance ministry during that time, they did not significantly alter the ministry's position or capabilities in government policy-making.

In substantial terms, two budget reforms had an impact on the capabilities of the finance ministry. In 1967, several major innovations were introduced in conjunction with the Act to Promote Economic Stability and Growth (see BMF 2008: 6):

- In their budget management, the Federation and the *Länder* are obliged to take account of the requirements of the overall economic equilibrium (Article 109(2) of the Basic Law). This equilibrium requires stable prices, a high level of employment and an external trade balance, accompanied by steady and adequate economic growth (Section 1 of the Act to Promote Economic Stability and Growth).
- Revenue obtained by borrowing may not exceed the total of investment expenditure provided for in the budget (Article 115 of the Basic Law). Exceptions are permissible to avert a disturbance of the overall economic equilibrium (second half of the second sentence of Article 115(1) of the Basic Law).

The Federation and the *Länder* each base their respective budget management on a financial plan covering a five-year period (Section 50 of the Budgetary Principles Act).

A financial planning council chaired by the Federal Minister of Finance was set up to submit recommendations for co-ordinating the financial plans of the Federation, the *Länder*, the municipalities and the associations of municipalities (Section 51 of the Budgetary Principles Act; see also below).

In 2009, there was a fundamental reform of government borrowing rules whereby federal and state governments were tied to stricter borrowing limits and the requirement for a structurally balanced or almost balanced budget, constitutionally enshrined in the German Basic Law (Art. 115 GG). Exemptions were defined much more narrowly and tied to repayment rules. The reform is also designed to ensure compliance with the medium-term objective for the federal government deficit that is established in the European Stability and Growth Pact. Before the limits become binding, there will be a transitional period extending to 2020 for the *Länder* and to 2016 for the federal government. This new constitutional debt brake shifted the balance of power to some extent, especially with regard to the budgetary policy, providing the Federal Ministry of Finance more formal powers to deal with spending ministries as well as the *Länder* finance ministries.

### Formal functions and powers of the Federal Ministry of Finance

The BMF is in charge of all central finance functions (see Box 1), but is not responsible for macro-economic policy and is therefore less involved in international economic relations, which are handled by the Federal Ministry of Economic Affairs. There have been several attempts to integrate these functions into one ministry but these have never survived for more than one or two legislative periods.

#### Box 1. Central finance functions of the BMF

- Macro-fiscal forecasting and analysis (partly external actors)
- Fiscal policy formulation
- Fiscal risk analysis
- Interface between monetary and fiscal policy
- International economic and financial relations
- Tax policy (strongly involving the Länder)
- Budget preparation
- Treasury and cash management
- Internal control
- Internal audit
- Accounting policy
- Debt management
- Customs administration
- Intergovernmental financial relations
- Regulation of banks and other financial institutions
- Management of public assets, including public enterprises
- Public procurement

*Source: adapted from Allen and Krause 2013*

For some of these central finance functions, the ministry delegates formal authorities to its subordinated federal agencies, e.g. in banking supervision to the Federal Financial Supervisory Authority (BaFin).

The formal powers of the BMF also refer to the finance minister's 'qualified veto' in cabinet (see Box 2; Allen and Kohnert 2013: 7).<sup>1</sup> This stipulation, set out in a by-law regulating the procedures of the federal government, allows for this veto if financial or budgetary issues are concerned. The veto is rarely used, however, because it would be likely damage the balance of power in a cabinet made up of coalition parties. The very fact that the finance minister controls the budget – which is a central interest in all other departments – confers major authority in cabinet (Sturm 1994: 90).

<sup>1</sup> Other authors argue that the veto rights derive from the constitutional departmental principle, referring to the BMF as organ of cabinet (Faber 1973: FN 886; 190-1).

## Box 2. Formal status of the Minister of Finance

'If the Federal Government decides an issue with financial relevance against or without the vote of the Federal Minister of Finance, she may enter an objection. If this objection is entered according to sentence 1 or in statutory cases, the issue has to be voted in a further meeting of the Federal government. The implementation of the issue on which the Federal Minister of Finance entered an objection has to be undone if in the new vote with attendance of the Federal Minister of Finance or her deputy not all Federal Ministers and the Federal Chancellor have voted in favour.'

*Source: Rules of Procedure of the Federal Government (GOBReg)*

Furthermore, the Joint Rules of Procedure of the Federal Ministries (GGO) stress that the BMF must give its consent to all cabinet proposals referring to taxes and other duties, the income or expenditure of the Federation, and the *Länder* or local governments (§ 51; Annex 6.4 GGO 2009; Allen and Kohnert 2013: 7). Thus the power enjoyed by the finance ministry is supported by the fact that it must be consulted at an early stage in the development of policy proposals requiring government expenditure. This formal power is, however, limited by the legal status of the annual budget because this gives other actors formal competencies, most notably parliament and the Court of Auditors. Likewise, additional legal provisions restrain the budget preparation and execution during the fiscal year, such as the Act to Promote Economic Stability and Growth (see above), the Budgetary Principles Act, obliging the Federation and the *Länder* to regulate their budget law in accordance with certain principles, or the Federal Budget Code (Mayntz 1980: 157).

Despite the pervasive role of the finance ministry, it has only limited effectiveness in co-ordinating other departments. In part, this is because of the separation between public expenditure expressed in financial programmes and their respective policy content, i.e. in contrast to other finance ministries such as the HM Treasury in the UK, the German finance ministry still separates formally and organisationally the Budget Division and the Policy Affairs Division.

Although the BMF's formal competencies in scrutinising financial proposals and seeking reductions is not questioned, there is far less recognition of the need for a finance minister to be continuously involved in the formative stage of policies that have financial implications. As a result, the ministry is not as closely concerned with policy development as other finance ministries in Europe such as the HM Treasury in the UK (Johnson 1983: 114). Moreover, the BMF is not responsible for the efficiency and effectiveness of departmental management, which is monitored by the Federal Court of Auditors (BRH).

### The informal view of the finance ministry

Various actors in central government view the informal powers of the finance ministry rather differently – which may also vary across time and issues. First, the Chancellery and the BMF are often seen as the two pivotal actors in government policy-making and their informal role in the core executive has been strengthened during the recent global financial and economic crisis when the Chancellor and the Minister of Finance intensified their collaboration, adjusting executive decision-making processes towards a 'dual centre' (Fleischer 2010).

At the operational level, a key network developed between officials from the Chancellery, the Ministry of Finance, and the German Central Bank (Fleischer and Parrado 2012). These networks were partly formalised by the creation of two inter-

ministerial committees responsible for managing the two newly introduced funds for stabilising the financial market and stimulating the economy. Both committees comprised one administrative state secretary from each from the Ministries of Finance, for Economic Affairs, and of Justice, a division head from the Chancellery, as well as representatives from the Länder, and one representative from the Central Bank serving in advisory capacity. Although the formal exclusion of other ministries from these decisions may be partly explained by the responsibilities of the actors involved in stabilising German banks or deciding on credits for German companies, the apparent spill-over effects of the financial and economic crisis on other policy sectors caused some tensions between the new ‘peripheral’ ministries and the ‘crisis core executive’ (ibid.).

Second, there is considerable variation among spending ministries in their assessment of the informal powers of the finance ministry and its various functions account for rather different perceptions regarding its informal capabilities. Its role as central budget agency provides it with fairly strong informal powers over the spending ministries. In fact, the Budget Division is organised to mirror all spending ministries, contributing its capabilities in preparing their position in the budgetary process. In other areas, such as macroeconomic policy, which are primarily dealt with by the Ministry for Economic Affairs, the finance ministry is often regarded as a relevant but not necessarily the most important informal actor. Moreover, delegated agencies such as the Federal Financial Supervisory Authority are often regarded as more important for the respective external stakeholders (in this example, the banking industry).

Third, external stakeholders such as the German Central Bank or the Federal Court of Auditors see the BMF as a key ministry in central government, particularly regarding currency policy, banking supervision, as well as financial management and accounting. However, this assessment stems mostly from the BMF’s formal powers and its competencies in these issues. The Central Bank in particular also maintains close contact with the Federal Financial Supervisory Authority (see Handke 2013).

Lastly, more ‘distant’ external stakeholders such as economic forecast institutes have quite strong relationships with particular sections inside the finance ministry and regard it as having strong leverage in budgetary policy-making (expert interviews, see case I). These accounts of informal power relate again mainly to formal competencies and less to, for instance, analytical skills or capabilities. In contrast, the economic forecast institutes in particular regard their own staff as better skilled – which is precisely why the finance ministry aims to outsource these analytical tasks (expert interviews, see case I). In turn, the BMF trusts the economic forecast institutes’ capabilities and crosschecks their assessments by relying upon more than one institute at any given time (see case I). In contrast, other external stakeholders such as the banking industry have more ambivalent relations with the BMF, also because of the crucial role of the federal agency BaFin and its engagement with other actors in the policy arena (Handke 2013).

### The organisational configuration: bureaumatic information

Most of the finance ministry's expenditure is on running costs such as staff and administration and only a very small proportion is dedicated to subsidies and investments (see Table 1).

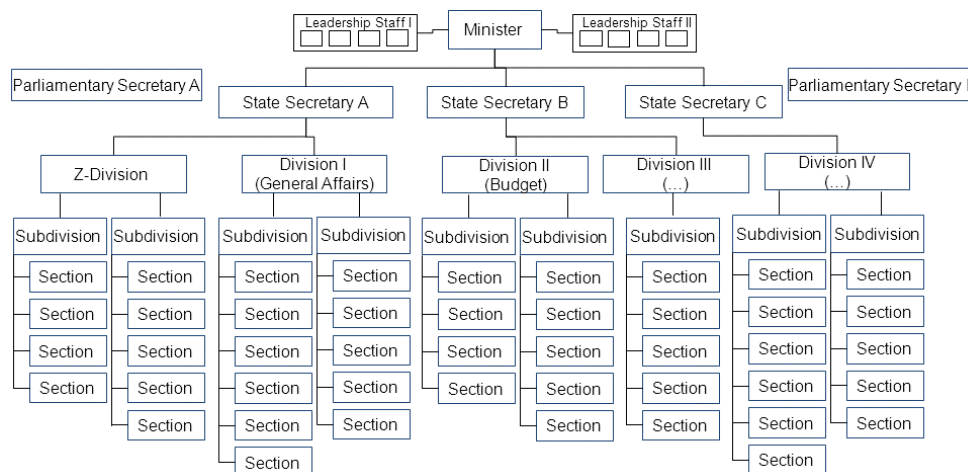
**Table 1: Finance ministry's expenditure**

	2012 (in 1,000 €)	2011 (in 1,000 €)
Staff expenses	206,985	189,800
Administration	66,687	65,638
Subsidies	3,450	2,300
Investments	2,212	2,527
Total	279,334	260,265

Source: Bundesministerium der Finanzen (Federal Ministry of Finance)

The ministry currently comprises nine divisions (directorates general) that include between one and four subdivisions (24 in total) with five to eight sections each (145 in total) (BMF 2013). In addition, the departmental leadership level includes two staff each with four staff sections (see Figure 1).

**Figure 1: Simplified organisational chart of the German Federal Finance Ministry**



Source: Bundesministerium der Finanzen (Federal Ministry of Finance)

The departmental leadership of the BMF comprises Administrative State Secretaries, Parliamentary State Secretaries and staff at the disposal of the minister or the two state secretaries. The number of Administrative State Secretaries in the BMF has gradually increased to the current three, while the number of Parliamentary State Secretaries doubled since their creation in 1967 from one to two. The Administrative State Secretaries are the most senior civil servants in the ministry. They perform a dual role as administrative heads, linking political demands from the top with bureaucratic expertise in the line structure, and act as important policy advisers to

the minister (together with the minister's private office and the leadership staff). More importantly, Administrative State Secretaries and Division Heads are recruited as so-called 'political civil servants' (*politische Beamte*), a special cadre in the federal bureaucracy that dates from 1848 (Fleischer 2012: chap. D.1.4). These political civil servants can at any time be temporarily retired owing to their high-ranking position in the federal bureaucracy, requiring full agreement with the government's goals. All of these appointments must be submitted to the federal government in advance (§ 15 GOBReg 2002). In practice, ministers are particularly involved in the recruitment and promotion of political civil servants in the federal ministries, not only for Administrative State Secretaries, but also division heads (Goetz 1997: 771).

The minister's support staff include the minister's office, a unit for liaison with cabinet and Parliament and a press and information office, accompanied by sections for special issues such as postage stamps. Since 1991, these sections have been organised in a leadership staff (*Leitungsstab*).

As in all other German federal ministries, sections in the line structure undertake the major policy work in the BMF, organised in different divisions (in some other countries called directorates general). The basic structure of these divisions is comparatively stable, resulting in classic siloism and a strong orientation of German ministry officials towards their own line section and division. Moreover, the Division for General Affairs (*Grundsatzabteilung*) serves as an internal think tank for the minister. In 1966, the division was created as the successor for a group on macroeconomic policy that had existed since 1957. It has acted as an internal advisory arrangement for the finance minister ever since, a function equivalent to similar divisions for political planning in other federal ministries (Bebermeyer 1970: 719-20).

In addition, a section for 'special issues' was created at the top departmental level during the late 1970s and between 1982 and 1983. In 1991, another similar unit was created, although integrated into the newly established leadership staff, together with the minister's private office, and other sections responsible for liaison with the cabinet, parliament, and the media. After the resignation of Finance Minister Oskar Lafontaine in 1999, this section was abolished, but re-established in 2005 and remains in place, renamed in 2009 as a section for 'policy and strategy'. The key responsibilities of this section have oscillated over the decades between coalition politics, media strategies, and partisan advice (expert interviews).

It is also relevant to assess the horizontal and vertical fragmentation. The former refers to the internal specialisation inside a government ministry, and thus its capabilities to respond to varying internal and external requests. Vertical fragmentation relates to the number of formal hierarchies inside a bureaucratic organisation, affecting its capacities to freely exchange ideas and fields of consideration for example. One may further distinguish between individual hierarchical levels, e.g. signified by different ranks, and organisational hierarchical levels, i.e. formal units that are subordinated to each other. For the latter, the BMF is a classic bureaucratic organisation with four different organisational levels (leadership, division, subdivision and section level).

Horizontal fragmentation can be analysed via the span of control at different vertical levels in a bureaucratic organisation. The finance ministry has around 1,800 officials, including approximately 1,400 civil servants and 400 public employees (Allen and Kohnert 2013: 6; Federal Budget Plans 2013). At the senior level, the ministry contains 39 officials, i.e. administrative state secretaries, division heads, and subdivision heads. The ratio between the staff at the highest and lowest ranks

(covering the three lowest ranks in the basic service rank, i.e. drivers and other workers, N = 33.5), the span of control is 1:0.86 (see Table 2). If we look only at the higher civil servants, i.e. departmental officials formally involved in policy-making in the line sections (junior policy staff, N = 472.7), the span of control is 1:12.12 and thus much higher (see Table 2). The latter ratio shows the high formal fragmentation and specialisation within the BMF as well as the comparatively high span of control for high-ranking officials managing the administrative apparatus.

**Table 2: Ratio of Top to Lowest Ranks in the German Finance Ministry**

	Three lowest ranks (across all ranks)	Three lowest ranks (policy staff)
Number	39	472.7
Span of control	1 : 0.86	1 : 12.12

Source: author's calculations, Bundesministerium der Finanzen (Federal Ministry of Finance)

The career paths in the finance ministry differ according to the four general career groups in the German civil service: the basic service (*einfacher Dienst*); the intermediate service (*mittlerer Dienst*); the executive service (*gehobener Dienst*); and the higher service (*höherer Dienst*), the latter being widely regarded as the backbone of government policy-making. All four services require a different educational background and each has its own promotion system. Moreover, internal promotion is also dependent on intra-ministerial mobility, i.e. each staff member is expected to change sections at least once every three years in order to be eligible for promotion. The ministry incorporates a mix of legally trained staff members and economists. The latter are particularly often recruited for the Division for General Affairs and for the Division for European Affairs.

More generally, officials seeking internal promotion are required to change their position every three years, including also some sort of rotation with the subordinate agencies. Given the broader internal organisation principles, however, most new entrants enjoy their first promotion from a section official to a deputy section head only after about five to seven years, the next promotion as section head is therefore usually about ten years after being recruited. As a result, most section heads are in their early to mid-forties and most subdivision and division heads are over 50 years of age.

In addition, the German federal bureaucracy is characterised by a comparatively strong partisan politicisation, i.e. ministry officials are allowed to obtain party membership and to engage in party activities. Traditionally, German federal ministries include informal networks of officials belonging to the same political party and party membership is – among other criteria – regarded as relevant for internal promotion. Consequently, young entrants belonging to one of the governing parties may benefit from a quicker promotion than those without or who belong to one of the opposition parties (also known as the ‘chimney effect’).

Due to the lack of information on the career trajectories of finance ministry officials in every rank, some evidence from a larger study on top officials in Germany provides findings that are also valid for the BMF. Very broadly, the way to the top can be achieved via four distinct career paths: (a) an ordinary paced career in a particular ministry, (b) a fast-track career in a particular ministry, (c) a career across the different state levels in Germany, i.e. starting with an administrative position at

local level and/or in a ministry at *Länder* level, and (d) a parachuting into a top position from outside the federal bureaucracy (from the party organisation, the private sector, the media etc.). The first career path is still dominant among top officials in the German federal bureaucracy and is likewise the main career trajectory in the BMF (irrespective of whether officials eventually reach the very top or attain only the level of a subdivision head or section head). The number of officials following the fast-track career type has increased over recent decades, although it is important to note that the fast track does not refer to a specific educational background, selection procedure, set of open positions or the like (such as the fast stream programme in the UK). Rather, these officials pursue a rapid career inside a ministry mainly because of their outstanding skills and because they hold positions that allow close access to the political leadership. Such careers also exist in the BMF, one very prominent example being Jörg Asmussen, formerly an administrative state secretary and a key actor in the managing the acute financial crisis in 2008, who rose through the ranks very quickly following his appointment as a personal assistant in the leadership staff.

Partly deriving from the formal organisational structure and the recruitment and promotion principles operating within the BFM, most ministry officials can be regarded as specialists in their field of expertise, i.e. they are well trained and most often with a background as lawyers or economists with strong knowledge developed over time in a division within the ministry. In contrast, officials in the Division for General Affairs or the sections for general affairs in each of the other line divisions are regarded as more generalist. However, this picture has become blurred over the past ten years, especially since the economists in the Division for EU Affairs and the Division for International Finance are now also often perceived as rather generalist given the nature of their field ('moving target' and regular interactions with officials from other finance ministries).

Finally, the pay scheme for civil servants in the finance ministry follows federal regulations, which means that all ranks receive the same salary as their counterparts in other ministries (see Table 3). For officials who are recruited as public employees (and not as civil servants), however, special provisions may apply, allowing salaries that depart from the official salary level as agreed in negotiations with the public employers' trade unions.

**Table 3: Remuneration in the German Finance Ministry**

	Basic monthly € (net)	% of B 11
Minister	12,860	
B11 Administrative State Secretary	10,353	100
B9 Division Head (Director General)	8,457	82
B6 Subdivision Head	7,206	70
B3 Section Head	6,056	58
A 13 Beginner Higher Service	2,880	28

Source: *Bundesbesoldungsgesetz (Federal Remuneration Act)*



# 3 The external context

In its management of the global financial and economic crisis the BMF has been perceived by external stakeholders, voters, the media, and other actors as rather successful (see Fleischer and Parrado 2010; Kickert 2012, 2013). At the operational level, a key network developed between top officials from the BMF and the German Central Bank, partly formalised by the creation of two inter-ministerial committees responsible for managing the two new funds for stabilising the financial market and stimulating the economy, which included the Ministries of Finance, for Economic Affairs, and of Justice, as well as a division head from the Chancellery, representatives from the *Länder*, and one representative from the Central Bank. As stated previously, this led to some tensions between the new ‘peripheral’ ministries and the ‘crisis core executive.

In addition, the Federal Financial Supervisory Authority, responsible for oversight of the financial sector in Germany, did not become influential in co-ordinating the crisis measures, in part because of a difficult relationship between the Minister of Finance and the agency head. Instead, the Minister of Finance relied heavily on the German Central Bank and its chair, who was also involved in defining the general terms of the law enacted to stabilise the German financial sector. Moreover, a new ‘Financial Market Stabilisation Agency’ was established as public law agency under the legal and functional supervision of the BMF in order to administer the funds.

In addition to the crucial policy advice offered by finance ministry officials, particularly those in the Division for General Affairs, the Division for European Affairs, and the Division for International Finance, external advice was commissioned, principally from law firms that were formulating parts of the bill to stabilise the German financial sector (BTDRs. 16/12547 2009). For the political actors in the ministry, the involvement of private law firms provided valuable expert knowledge that was claimed to be unavailable in the civil service (expert interviews). In addition, these law firms provided ‘co-ordinated knowledge’ by sending teams that included lawyers with different legal specialities – which is more difficult to achieve in the finance ministry, since officials tend to be specialised in their respective division’s domain. Departmental officials, however, were initially concerned that the contracting of private law firms appeared to threaten their monopoly in providing policy advice and resulted in some conflicts between the operational and the departmental leadership levels about basic assumptions and policy goals incorporated in the law as one of the German government’s major responses to the crisis in the financial market.

# 4 Description of three typical cases

## 4.1 Case I: Create the final revenue forecast and spending envelope for next year's budget

### Background and case selection

The creation of the final revenue forecast and spending envelope for next year's budget are two sequences of the budget preparation involving different actors inside and outside the German Federal Ministry of Finance. Whereas the revenue forecast can be regarded as a highly sensitive step of the process (see also the brief mention of the scandal noted above), the creation of the spending envelope is a more technical act following up on political and bureaucratic decisions already taken in the general budget preparation process.

Inside the BMF, the Division for General Affairs and the Budget Division are the two key divisions involved in both processes, in close collaboration with other line divisions, especially the Tax Division. The general form of interaction follows the German *Rechtsstaat* tradition, referring to formal rules governing bureaucratic procedures as well as formal hierarchical relationships between the different units involved in the process.

### Key finance ministry actors in the process

The final revenue forecast is prepared by various sections in the finance ministry, mostly those responsible for tax estimation, tax simulation, and sustainability modelling, located in the Division for General Affairs (I A 4; I A 5; I A 6). Different staff members from these sections are involved, including the three section heads as well as between one and three staff members from each section, adding between nine and twelve ministry officials. Following the general career patterns in the BMF, these officials can be regarded as relatively specialised although the basic orientation of their parent division (Division for General Affairs) is somewhat generalist compared with other parts of the ministry. Their specialism lies in their methodological knowledge and skills and their particular responsibilities in engaging with other actors inside the federal bureaucracy (most notably the Ministry for Economic Affairs) as well as external sources for economic forecasting, academic and other debates (see below).

In more detail, the various sections are responsible for the following areas relevant to the process:

- Networking with academic partners, developing new structures for interacting with external experts.
- Improving the methods, i.e. whether the forecasting methods are appropriate etc., special emphasis on structural deficit, output gaps, implicit public debt.
- Developing micro-economic modelling.
- Linking methodological issues to the sustainability of public finances.

More importantly, these sections do not themselves forecast the revenue but rather assess forecast data that are initially provided by external economic forecasters. These are selected by the Federal Ministry for Economic Affairs in an open bid procedure and included for the period between autumn 2010 and spring 2013 the following research institutes:

- ifo Institut für Wirtschaftsforschung, University of Munich (ifo)
- KOF Konjunkturforschungsstelle, ETH Zurich
- Institut für Weltwirtschaft, University of Kiel (IfW)
- Zentrum für Europäische Wirtschaftsforschung GmbH
- Institut für Wirtschaftsforschung Halle (IWH)
- Kiel Economics Research & Forecasting GmbH & Co. KG
- Rheinisch-Westfälisches Institut für Wirtschaftsforschung (RWI)
- Institut für Höhere Studien (IHS), Vienna

More generally, the budget preparation in Germany unfolds in distinct sequences involving different actors inside and outside the finance ministry (see Table 4). At each step, the line sections mentioned above, particularly in the Division for General Affairs, contribute their analytical and methodological knowledge, e.g. in economic modelling.

**Table 4: The budget preparation**

Month	Step	Main Actor(s)
January	Annual Economic Report with assumptions regarding GDP growth	Lead ministry: Ministry for Economic Affairs
March	Benchmark figures for budget t and financial plan up to t+3	Cabinet
April	New assumptions on GDP growth	Lead ministry: Ministry for Economic Affairs
May	Tax estimate	Working Group 'Tax Estimate' at the Federal Ministry of Finance
July	Cabinet decision on budget t and financial plan up to t+3	Cabinet
October	New assumptions on GDP growth	Lead ministry: Ministry for Economic Affairs
November	Tax estimate; budget adjustment and parliamentary approval	Working Group 'Tax Estimate' and Cabinet

Source: author

## Description and assessment of the process

### Step 1: Benchmark Figures

The Ministry for Economic Affairs takes the lead in issuing the assumptions regarding GDP growth, but the BMF maintains close working contacts and thus usually receives this information a little earlier than the official announcement. The sections in the finance ministry that are responsible for the forecasting (two line sections, comprising around 15 senior civil servants) collect this information and incorporate it into their various budget modelling scenarios, also obtaining additional

data from the *Länder* finance ministries (which is a separate generic process) because the German federal budget is strongly linked to the *Länder* budgets.

The two line sections communicate the forecasting data to all relevant line sections in the finance ministry, particularly in the Division for General Affairs and the Budget Division (which is relevant for the generic process of considering a new budget request, see below). The line sections also prepare a condensed assessment for the Finance Minister and for cabinet in order to prepare the cabinet decision on the benchmark figures (*Eckwertebeschluss*).

This cabinet decision is prepared through the traditional co-ordination mechanisms across central government, i.e. the Ministry of Finance is in close contact with the Federal Chancellery, especially the Division for Financial and Economic Affairs, as well as the office of the ChefBK (Minister of the Federal Chancellery). Very often, the preparation of the cabinet decision on the benchmark figures also involves bilateral consultations with the officials in the Ministry for Economic Affairs responsible for gathering the forecast data.

Moreover, the benchmark figures address not only next year's annual budget but also the medium-term financial plan. The latter is an update of previous versions of the financial plan and is often subject to less controversy between the Ministry for Economic Affairs and the Ministry of Finance than the benchmark figures for the annual budget. One reason why it is less likely to be the cause of controversy is the existence of various formal possibilities to adjust the medium-term financial plan and the annual budget, i.e. whereas the financial plan is negotiated between the finance ministry and the spending ministries and subsequently agreed in cabinet, unlike the annual budget the medium-term financial plan is not subject to parliamentary approval. This means that it can be adjusted within the executive and does not require the approval of the legislative. Furthermore, while the figures in both the financial plan and the annual budget are considered to be politically binding, the former also entails a stronger implicit notion of projection and medium-term planning.

### **Step 2: New assumptions regarding GDP growth**

After the cabinet has decided on the benchmarks for next year's budget, the Ministry for Economic Affairs revises its assumptions regarding GDP growth, again based on the external economic forecast institutes. The two responsible line sections in the finance ministry obtain the data and amend their budget modelling accordingly. The extent of these amendments depends very much on the general economic development.

### **Step 3: Tax estimate**

The tax estimate is formally decided by the so-called Working Group Tax Estimate, an independent advisory group at the BMF. One of the two line sections responsible for forecasting inside the ministry also acts as liaison for the working group. The Working Group comprises officials from the Ministry of Finance, the Ministry for Economic Affairs, the Federal Statistical Agency, the *Länder* Ministries of Finance, and the German Central Bank. In addition, the Working Group includes staff from the selected economic research institutes as well as the members of the German Council of Economic Experts and representatives of the Federal Association of the Municipal Key Associations (i.e. the German District Association, the German City Association, and the German City and County Association).

The Working Group Tax Estimate is the key actor in the forecasting process. The officials from the finance ministry accompany the work of the Working Council and provide methodological support and assessment. The data on the tax estimate are gathered by the various sources represented in the Working Group, most importantly the economic forecasters as well as the representatives from the *Länder* and municipal

administrations (again due to the federal state structure, with apparent interrelations in tax revenue across the different state levels).

In practice, the tax estimate is very much seen as a mutual internal estimate managed by the Ministry of Finance and the Ministry for Economic Affairs, mostly because the other actors in the Working Council operate in a close collaboration with one of the two ministries. As a result, the sections for policy advice and general affairs in both ministries also collaborate on a regular basis. If there are disagreements about the interpretation of components of the tax estimate, these are usually dealt with in the Working Council. In 2002, the Finance Minister announced during the electoral campaign that the federal government would balance its budget by 2004 – although the forecasts available in the ministry suggested otherwise. A subsequent parliamentary enquiry committee dealt intensively with the internal creation process of the tax estimate and reiterated the potential disagreements between the two ministries (BT-Drs. 15/2100).

#### **Step 4: From the cabinet decision on the budget to the presentation of the budget bill to parliament**

The information on the tax estimate together with renewed assumptions regarding GDP are incorporated into the cabinet proposal for a new annual budget bill. Here, the line sections responsible for the forecast assess the externally gathered data. The budget bill, however, is prepared by line sections in the Budget Division together with the staff section responsible for liaison with cabinet and parliament at the top departmental level.

#### **Summary**

To sum up, the creation of the revenue forecast and the next year's spending envelope is a rather complex process **involving many different actors inside and outside central government**. The key actors in the finance ministry provide methodological skills to assess data that are gathered by external economic research institutes.

The internal handling of the process is rather technical and follows the formal procedures that also apply to other processes. Two line sections take the formal lead in handling the forecasting data and involve other line sections in the ministry as co-signing sections if their formal responsibilities are in any way affected. Usually, however, they provide their **competencies as support and service units** for the other line sections in their own Division for General Affairs (especially to the line section for policy advice and general affairs) and in the Budget Division for the handling of the spending ministry's requests (see case II).

The main **challenges** in the process are (a) the methodological currency of the relevant section officials in the finance ministry, (b) the inter-ministerial co-ordination with the Ministry of Economic Affairs and the formal and functional separation of economic forecasting (in the Ministry of Economic Affairs) and applying the information for the budgetary procedure (in the Finance Ministry), and (c) the handling of the various inter-ministerial bodies (in particular the Working Council Tax Estimate), also involving several external experts.

## 4.2 Case II: Consider a new spending request

### Background and case selection

The process for considering a new spending request depends on the specific request and the spending ministry:

- substantial
  - whether the new spending request relates to (newly introduced) legally fixed services (i.e. the government introduced a new policy requiring a certain expenditure)
  - whether the policy requiring the new spending request is incorporated in the coalition agreement
  - whether the new spending request refers to operating or staff costs
- time-related
  - whether the spending request is made before or after the cabinet decision on the benchmarks for the next year's annual budget
  - whether it is issued at the beginning or the end of a legislative period
- whether the spending ministry has performed appropriately in the past (also regarding the medium-term financial plan)
- whether the minister of the spending ministry is a member of the Finance Minister's political party

### Key finance ministry actors in the process

The processes of handling a new spending request by a spending ministry involves staff from (a) counterpart line sections in the Budget Division, i.e. each spending ministry is mirrored by at least one section, larger spending ministries may also be mirrored by two or three sections), (b) the line section for general affairs and policy advice in the Budget Division, and (c) staff units at the leadership level (especially if the Finance Minister has to be involved). The mirror sections in the Budget Division are the most crucial actors in these processes, and aim to address the request at the working level. The size of these mirror sections varies and it makes a difference whether only one section mirrors an entire spending ministry or whether two or three sections mirror the same spending ministry, which adds co-ordination and transaction costs between the mirror sections. Since their formal competencies are allocated according to budget lines and the practical implications are kept to a minimum, there is no potential overlap between new spending requests across the mirror sections.

Next to their general knowledge of the various relevant legal provisions for the budget preparation as well as the specific policy area in which a new spending request is submitted, the negotiating skills of the officials in the finance ministry matter, especially in the mirror sections. All interviewed experts widely regard their tenure in that particular position, i.e. their experience in budget negotiations, as influencing the pace and output of the different sequences of the process.

### Description and assessment of the process

Due to the different processes that apply depending on whether they are made before or after the cabinet decision on the budgetary benchmarks, the generic sequences are treated separately.

#### New spending request before the cabinet decision on benchmarks

##### Step 1: Meeting with the spending ministry to prepare departmental ceilings

In January, the line section in the Budget Division of the BMF responsible for the distinct spending ministry (around six to eight senior civil servants) meets with the budget section(s) of the particular department in order to negotiate the benchmarks or ceilings to be incorporated into the cabinet decision. These negotiations are also

informed by various external data, including the annual economic report on GDP growth and other material that is relevant for that particular portfolio (e.g. unemployment statistics for the Ministry of Labour and Social Affairs).

The new spending request is most often submitted via the spending ministry's draft of the next year's annual budget, which can be submitted to the Federal Ministry of Finance either via the departmental database, which allows spending ministries additional scope for analysis based on their own data, or on a data-storage device following a prescribed layout, stating for instance the budget title and a brief background note. The line section in the finance ministry then assesses the background of the request (e.g. whether it has a legal basis that cannot be ignored) and compares it with its own calculations, especially if the request includes major changes compared to the previous year's departmental expenditure. The line section officials make these calculations. In addition, the line section often requires additional information about the new spending request, i.e. how much expenditure, when it will be spent and on what etc.

After the assessment, the line section negotiates the new spending request with the spending ministry, also taking into account the medium-term horizon. Very often new spending requests are rejected on the basis that the medium-term financial plan does not include the specific spending. In combination with the political objective and the clear instructions given by the political leadership in the finance ministry to follow the medium-term financial planning ('budget consolidation strategy'), the finance ministry section often wins this argument.

#### **Step 2: Seeking alternative departmental expenditure reductions**

The relevant section in the finance ministry often offers the spending ministry the opportunity to reduce expenditure elsewhere in its departmental budget in order to accommodate the new spending request while still complying with the overall medium-term financial planning. For the most part, these attempts to reduce other expenditure are made by the spending ministries, but sometimes the line section in the BMF offers support, provided that the new spending request is regarded as appropriate and reasonable. Accordingly, it reviews the different expenditure lines of the previous year's budgets (looking for unspent items) and checks for instance whether certain legal services may expire throughout the next budget year.

#### **Step 3: Handling unresolved conflicts**

If the spending ministry rejects this compromise or still insists on raising its specific ceiling due to a making new spending request without reducing other expenditure, the process follows the traditional formal bureaucratic procedure, i.e. the budget sections in the spending ministry report the conflict to their superior civil servants and eventually the two administrative state secretaries from the BMF and the respective spending ministry meet in order to find a compromise and prepare the cabinet decision on the departmental budget ceilings.

#### **New spending request after the cabinet decision on benchmarks**

##### **Step 1: Meeting with the spending ministry to meet departmental ceilings**

After the cabinet decision on the benchmarks for the following year's annual budget, the line section in the finance ministry meets with the budget section(s) of the respective spending ministry, usually twice. In addition, officials from the Federal Court of Auditors join the meetings on a guest basis.

##### **Step 2: Seeking alternative departmental expenditure reductions**

Again, new spending requests are generally answered by the BMF following a thorough assessment of the background of the request. If new legal circumstances require the expenditure, it is routinely granted – albeit accompanied by a stronger

assessment of potential expenditure cuts elsewhere in the departmental budget in order to meet the budgetary benchmarks and the medium-term financial plan. Occasionally, the line section in the finance ministry asks the participating officials from the Federal Court of Auditors to provide additional background material and/or assess the request.

If, however, the new spending request is not bound by legal requirements, the finance ministry always requires that expenditure should be reduced in a different budget title of the departmental budget. If this adjustment is made, the BMF approves the request.

Moreover, the cabinet's benchmarking decision may be amended in the meantime (mostly due to changes in projected GDP growth and the tax estimates), the spending ministries may formulate new spending requests in order to meet the new ceiling. In turn, if the departmental ceiling is reduced, the BMF line section asks the spending ministry to identify additional cuts in planned expenditure.

### **Step 3: Handling unresolved conflicts**

If the spending ministry makes a new budgetary request that is neither bound by legal requirements nor backed by cuts in expenditure in another area of the departmental budget, again the formal hierarchical procedure is followed in order to reach a consensus. The line section in the finance ministry informs the division head who informs the administrative state secretary and the minister, and bilateral discussions between the Minister of Finance and the minister of the spending ministry often follow.

Here, the line section in the finance ministry prepares these negotiations with special background notes for the Minister of Finance, gathering information from other line sections inside the ministry (forecasting and other statistical data or information) as well as political and tactical advice (Division for General Affairs but also the various staff units in the departmental leadership).

### **Summary**

To sum up, the handling of a new spending request is a comparatively simple process **involving the Ministry of Finance and the spending ministry**. The key actors inside the finance ministry provide budgetary and negotiation skills in order to assess the spending request, in addition to political knowledge. The final decision on a new spending request, however, is taken in a hierarchical fashion by the most senior staff at the finance ministry, i.e. the administrative state secretary and the minister.

The handling of the process is rather bureaucratic and follows mostly the formal procedures that apply to other processes in inter-ministerial decision-making, but the two actors involved (the finance ministry and the spending ministry) also incorporate other line sections, especially those providing the forecasting and other relevant background data as well as those responsible for tax regulations. The line sections in the Budget Division provide their **competencies as analytical assessment units and negotiators** for handling the spending ministry's requests.

The main **challenges** in the process are (a) the assessment and negotiation skills of the involved section officials in the finance ministry, (b) the intra-ministerial co-ordination involving the various other line sections providing assessment and (legal) advice, and (c) the inter-ministerial co-ordination with the spending ministry.



### 4.3 Case III: Introducing a formal institutional change in the budget process

#### Background and case selection

One of the most recent and crucial institutional changes in Germany's budgetary process was the introduction of a 'top-down mechanism' in the budgetary preparation procedure, relating the spending ministries' budgets to specific benchmarks following the establishment of a constitutional debt brake.

In general, this new element includes the top-down formulation of ceilings on spending ministries' budgets (*Plafonds*) in order to comply with the constitutional debt brake. This change in the budgetary process is also supposed to review the expenditure structure of individual departmental expenditures regularly and more closely than before, which also enables a greater distinction between more and less prioritised policy programs in the federal expenditure.

Under the previous budgetary procedure, all spending ministries were requested to inform the BMF roughly a year before the following fiscal year (i.e. December in t-2 or January in t-1) to estimate their departmental expenditure for the annual budget (t). The new top-down procedure reverses this mechanism. As from 2012, the BMF prepares the cabinet decision on departmental ceiling benchmarks (*Eckwertebeschluss*) in advance and the spending ministries have to comply with them.

#### Key finance ministry actors in the process

Inside the finance ministry, the new-top down procedure was initiated mainly by the section for general affairs in the Budget Division, in close co-operation with the Division for General Affairs and the staff units in the departmental leadership as well as the Federal Chancellery. The general affairs section in the Budget Division can be regarded as an internal think tank exclusively for the Budget Division. At the same time, these sections are traditionally those to whom other ministries and external stakeholders first turn, especially in cases where it is unclear which section in the division is responsible for the particular issue. As such, these sections act as a distributor of additional and new demands, an ambassador for the relevant division, and a think tank. This functional orientation of the general affairs section also shapes its composition, i.e. these section officials are often regarded as more generalist than the line officials in other sections of the Budget Division (and other divisions), who are mostly perceived as specialists in their respective area of expertise.

This reflects a rather typical process for establishing a new procedure whereby line sections are widely regarded as the 'initiating backbones' of executive politics. However, the broader policy decision to reverse the budgetary process and initiate a ceiling on spending ministries' expenditure must be seen within the more general debates on budgetary reform and the constitutional debt brakes, also linked to the German federal state structure and the type of party government at the federal level.

#### Description and assessment of the process

##### Step 1: Drafting institutional changes, considering the status quo and potential resistance

The line section responsible for General Affairs inside the Budget Division (II A 1) initiated the introduction of the new top-down procedure in the budgetary process. With fairly strong backing from the Minister of Finance (and some formal support from the staff sections at the departmental leadership level), the section drafted a procedural guide to how to apply the new constitutional debt brake in the budgetary process. The procedures were driven by legal provisions, most importantly the constitutional departmental principle which provides spending ministries in

Germany considerable autonomy in policy-making and limits the finance ministry's competencies to interfere in intra-departmental matters, including the formulation of departmental expenditure. The line section also took into account provisions laid down in existing laws and by-laws guiding the budgetary procedure, such as the Budgetary Principles Act, the Federal Budget Code, and additional administrative regulations.

At the same time, the initiating line section regarded the pre-existing formal and informal rules of the budgetary process as well as the experiences of interactions between the spending ministries and the finance ministry as highly relevant in establishing a new procedural rule in the budgetary process. In other words, one of the key objectives in initiating the procedural change was as far as possible to maintain the institutional status quo.

### **Step 2: Discussing the draft inside the ministry and with the Chancellery**

After internal discussions and drafts of the potential bureaucratic procedure for the new top-down process in formulating spending departments' expenditure ceilings, in which the line sections interacted regularly with the departmental leadership, the draft was shared and discussed with the corresponding section in the Federal Chancellery.

In this process, it was not only somewhat technical and bureaucratic considerations that had to be taken into account, i.e. the existing legal provisions as well as the personnel capacities in the spending ministries and the corresponding line sections in the finance ministry's Budget Division, but also political considerations and requirements. More generally, the line section benefited from the fact that the constitutional debt brake could be used as a general argument to reverse one of the key mechanisms of the budgetary process. As one official figuratively expressed it 'the new procedure changes the actor inviting to the dance'. This means that an expenditure ceiling established before departmental expenditure is determined brings the BMF more upfront in the subsequent budgetary negotiations with the spending ministries. More importantly, it underlines the interdependencies between different spending ministries' expenditures and thus ultimately strengthens the BMF's position in the budgetary process because the cabinet decision on the expenditure ceilings imposes a discipline on ministers and spending ministries in estimating their expenditure.

One crucial component of the draft for the new procedural rule was to allow for a 'learning by doing' element in the process, i.e. the line section proposed a three-year trial process whereby after each year the experiences both of the line sections in the Budget Division responsible for the spending ministries and of the budget sections of the spending ministries are reviewed. They may share their experiences, which thus allows for minor adjustments to the bureaucratic procedure as necessary. From the perspective of officials in the finance ministry, the new procedure has been widely accepted by the spending ministries and the experiences have been quite positive. At the same time this component must also be regarded as a sort of 'bureaucratic concession' to the spending ministries. In other words, the constitutional departmental principle provides spending ministries considerable 'formal inertia' and thus the general opportunity to report and discuss experiences in a rolling process over the following three years can be understood as a compromise that takes potential resistance on the part of spending ministries into account.

### Summary

To sum up, the initiation of a procedural change in the previous budgetary process is a process **involving few actors in the BMF**. The key actors in the finance ministry provide policy, legal, and negotiation skills. The internal handling of the process follows the formal procedures that also apply to other processes. One line section takes the formal lead in drafting the proposed change and involves other line sections in the ministry as well as the Chancellery.

The main **challenges** in the process are (a) the legal competencies to assess potential repercussions with legal regulations, (b) the intra-ministerial co-ordination with the departmental leadership, and (c) the handling of the inter-ministerial co-ordination with the Chancellery and the spending ministries, informing and offering guidance on the correct application of the new procedures.

# 5 Comparative analysis

**Table 5: Comparative analysis**

	Case I	Case II	Case III
Inputs	Ministry of Economic Affairs Division for General Affairs External Forecast Institutes	Budget Division Spending ministry	Division for General Affairs
Competency	support and service	analytical assessment negotiation skills	legal assessment negotiation skills
Challenges	methodological up-to-dateness inter-ministerial co-ordination management of inter-ministerial bodies	assessment and negotiation skills intra-ministerial co-ordination inter-ministerial co-ordination	intra-ministerial co-ordination inter-ministerial co-ordination

Source: author

- New spending requests and new procedural rules for the budgetary process are more dependent on the internal capabilities of the finance ministry than the revenue forecasting, which depends heavily on external experts (forecasting institutions)
- Relevance of institutional context and institutional capacities (e.g. federal state structure and accompanying formal provisions regarding the federal budget, but also type of party government and the constitutional triad of the departmental principle, the cabinet principle, and the chancellor principle)
- Formal and informal status of BMF officials relies upon formal (institutional) rules and subsequent capabilities and on keeping ahead with regard to the relevant (budgetary) information
- Importance and effects of a functional separation of the Division for General Affairs and the Budget Division (also in comparison to other countries)

# 6 Conclusions

This paper offers a general overview of the institutional and human capabilities of Germany's Federal Ministry of Finance, including its formal functions and informal status in central government as well as its organisational configuration. More importantly, it provides empirical evidence by comparing three generic processes involving these institutional and human capabilities that enable it to act as Germany's central budget agency. These three processes include (a) the creation of the final revenue forecast and spending envelope for the next year's budget, (b) the consideration and handling of new spending requests from spending ministries, and (c) the introduction of a new formal procedural component into the budget preparation process, i.e. the establishment of the administrative process (top-down procedure) to comply with the new ceiling scheme on departmental spending as a consequence of establishing a constitutional debt brake.

The three main conclusions from this analysis are:

- The BMF functions within strong formal provisions for intra- and inter-ministerial co-ordination, which are followed (and monitored) by all actors.
- The finance ministry's organisational configuration is crucial, not only in terms of size and staff numbers but also with regard to horizontal fragmentation (e.g. the formal distinction between a budget division and a division for general affairs) and vertical fragmentation.
- The strong formal competencies and capabilities of the finance ministry, especially in relation to the budget procedure, ensures its primary role in central government – but up-to-date knowledge is (explicitly) not provided by the ministry but is outsourced (e.g. forecasting).

# References

- Allen, Richard and Kohnert, Peter (2013) 'Anatomy of a Finance Ministry', in Cangiano, Marco, Curristine, Teresa and Lazare, Michel (eds), *Public Financial Management in the 21st Century*. Washington, DC: International Monetary Fund.
- Allen, Richard and Krause, Philipp (2013) 'Role, Responsibilities and Structure of Central Finance Agencies', in Allen, Richard, Hemming, Richard and Potter, Barry (eds) *Handbook of Public Financial Management*, Basingstoke: Palgrave Macmillan.
- Bebermeyer, Hartmut (1970) 'Das politische Planungssystem der Bundesregierung: Entwicklung und Stand der institutionellen Voraussetzungen und Instrumentarien', in Jochimsen, Reimut (ed.) *Theorie und Praxis der Infrastrukturpolitik*. Berlin: Duncker & Humblot, pp. 713-732.
- Beichelt, Timm (2007) 'Over-efficiency in German EU policy coordination', *German Politics* 16(4): 421-433.
- Bundesministerium der Finanzen (BMF) (2008) 'The Budget System of the Federal Republic of Germany', Berlin.
- (2013) 'Organisational chart, January 2013' Berlin.
- Bundestagsdrucksache (BT-Drs.) 15/2100: Beschlussempfehlung und Bericht des 1. Untersuchungsausschusses nach Artikel 44 des Grundgesetzes, 24.11.2003, Berlin.
- Bulmer, Simon and Burch, Martin (2001) 'The "Europeanisation" of Central Government: the UK and Germany in historical institutionalist perspective', in Schneider, Gerald and Aspinwall, Mark (eds) *The Rules of Integration: Institutional Approaches to the Study of Europe*. Manchester: Manchester University Press, pp. 73-96.
- Eschenburg, Theodor (1954) 'Die Richtlinien der Politik im Verfassungsrecht und in der Verfassungswirklichkeit', *Die Öffentliche Verwaltung* 7(7): 193-202.
- Faber, Heiko (1973) *Das Organisationsrecht der Planung*. Konstanz: University of Konstanz.
- Fleischer, Julia (2010) 'A dual centre? Executive politics under the second Grand Coalition in Germany', *German Politics* 19(3-4): 353-368.
- (2012) 'Policy Advice and Institutional Politics: A Comparative Analysis of Germany and Britain'. PhD dissertation, Potsdam: Universitätsverlag.
- Fleischer, Julia and Parrado, Salvador (2010) 'Power distribution in ambiguous times: the effects of the financial crisis on executive decision-making in Germany and Spain', *dms – der moderne staat* 2: 361-376.

- Geyer, Matthias, Kurbjuweit, Dirk and Schnibben, Cordt (2005) *Operation Rot-Grün. Geschichte eines politischen Abenteuers*. München: Deutsche Verlags-Anstalt.
- Goetz, Klaus H. (1997) 'Acquiring political craft: training grounds for top officials in the German core executive', *Public Administration* 75(4): 753-775.
- Hallerberg, Mark (2000) 'The Importance of Domestic Political Institutions: Why and How Belgium and Italy Qualified for EMU'. Discussion Paper No. B 10/2000. Bonn: Zentrum für Europäische Integrationsforschung (ZEI). See [http://www.zei.de/download/zei\\_wp/B00-10.pdf](http://www.zei.de/download/zei_wp/B00-10.pdf).
- Hallerberg, Mark, Strauch, Rolf, von Hagen, Jürgen (2007) 'The design of fiscal rules and forms of governance in European Union countries', *European Journal of Political Economy* 23(2): 338-359.
- Handke, Stefan (2013) 'Die Mühen der Ebene(n): Die Koordination von Akteuren mit verschiedenen Handlungslogiken'. Paper presented at the Annual Meeting of the Standing Group on Public Policy and Administration of the German Political Science Association, DATES, Bamberg.
- Hintze, Otto (1970) 'Die Entstehung der modernen Staatsministerien', in Oestreich, Gerhard (ed.) *Otto Hintze – Gesammelte Abhandlungen, Band 1: Staat und Verfassung*. 3<sup>rd</sup> edn. Göttingen: PUBLISHER, pp 275-320.
- Johnson, Nevil (1983) *State and Government in the Federal Republic of Germany: The Executive at Work*. 2<sup>nd</sup> edn. Oxford: Pergamon Press.
- Kickert, Walter (2012) 'State responses to the fiscal crisis in Britain, Germany and the Netherlands', *Public Management Review* 14(3): 299-309.
- (2013) 'How the German government responded to the financial, economic and fiscal crises', *Public Money & Management* 33(4): 291-296.
- Korzin, Martina (2012a) 'The Analysis of Institutional Change within Governmental Organizations: The Establishment of Horizontal Coordinating Mechanisms'. Paper presented at the ECPR Graduate Conference, 4-6 July, Bremen.
- (2012b) 'Change and Continuity within Governmental Organizations: Organizational Innovation within the German Ministry of Finance'. Paper presented at the 22<sup>nd</sup> IPSA World Congress of Political Science, 8-12 July, Madrid.
- (2012c) 'Governmental Organizations as Pragmatic Actors? A Comparative Analysis of Organizational Adaptations within the Danish and German Ministries of Finance'. Paper presented at the FoJuS Annual Conference, 6-7 December, PLACE.
- Mayntz, Renate and Scharpf, Fritz W. (1975) *Policy-making in the German Federal Bureaucracy*. Amsterdam: Elsevier.
- Mayntz, Renate (1980) 'Executive Leadership in Germany: Dispersion of Power or "Kanzlerdemokratie"?', in Rose, Richard and Suleiman, Ezra N. (eds) *Presidents and Prime Ministers*. Washington, DC: American Enterprise Institute for Public Policy Research, pp. 139-170.
- Naschold, Frieder, Seuster, Dietrich, Väth, Werner, and Zipfel, Oskar (1971) *Untersuchung zur mehrjährigen Finanzplanung des Bundes. Gutachten für die*

*Projektgruppe Regierungs- und Verwaltungsreform beim BundesMinister des Innern*, December 1971, Bonn.

Pausch, Alfons (1969) *Geschichte, Leistungen und Aufgaben eines zentralen Staatsorganes*. Köln-Marienburg: O. Schmidt.

Scheuner, Ulrich (1966) 'Politische Koordination in der Demokratie', in Bracher, Karl Dietrich, Dawson, Christopher, Geiger, Willi and Smend, Rudolf (eds) *Die moderne Demokratie und ihr Recht*. Tübingen: Mohr, pp. 899-922.

Sturm, Roland (1989) *Haushaltspolitik in westlichen Demokratien: ein Vergleich des haushaltspolitischen Entscheidungsprozesses in der Bundesrepublik Deutschland, Frankreich, Großbritannien, Kanada und den U.S.A.*. Baden-Baden: Nomos.

— (1994) 'The Chancellor and the Executive', in Padgett, Stephen (ed.) *From Adenauer to Kohl. The Development of the German Chancellorship*. London: Hurst & Company, pp. 78-105.

Zunker, Albrecht (1972) *Finanzplanung und Bundeshaushalt: Zur Koordinierung und Kontrolle durch das Bundesfinanzministerium*. Frankfurt/Main: Metzner.



ODI is the UK's leading independent think tank on international development and humanitarian issues.

Readers are encouraged to reproduce material from ODI Reports for their own publications, as long as they are not being sold commercially. As copyright holder, ODI requests due acknowledgement and a copy of the publication. For online use, we ask readers to link to the original resource on the ODI website. The views presented in this paper are those of the author and do not necessarily represent the views of ODI.  
© Overseas Development Institute 2015.  
This work is licensed under a Creative Commons Attribution-NonCommercial Licence (CC BY-NC 3.0).

All ODI Reports are available from [www.odi.org](http://www.odi.org)

Cover design: Lucy Peers, [lucypeers.com](http://lucypeers.com)



**Overseas Development Institute**

203 Blackfriars Road

London SE1 8NJ

Tel +44 (0)20 7922 0300

Fax +44 (0)20 7922 0399

**[odi.org](http://odi.org)**

# Acknowledgments

This document was peer reviewed by Philipp Krause and an anonymous reviewer, and their time and critical remarks have been gratefully received. The author would like to thank past and current Federal Ministry of Finance staff who gave up their time for informal discussion and consultation. Richard Hughes provided programming support. Julia Hanne oversaw the production of the paper and Deborah Eade provided editorial support. Any errors and/or omissions remain those of the author.

The fieldwork for this paper was carried out between February and October 2013.

# Table of contents

<b>Acknowledgments</b>	<b>1</b>
<b>1 Introduction</b>	<b>4</b>
<b>2 The institutional context</b>	<b>5</b>
<b>3 The external context</b>	<b>14</b>
<b>4 Description of three typical cases</b>	<b>15</b>
<b>5 Comparative analysis</b>	<b>25</b>
<b>6 Conclusions</b>	<b>26</b>
<b>References</b>	<b>27</b>
 <b>Figures</b>	
Figure 1: Simplified organisational chart of the BMF	10
 <b>Tables</b>	
Table 1: Finance ministry's expenditure	10
Table 2: Ratio of Top to Lowest Ranks in the German Finance Ministry	12
Table 3: Remuneration in the German Finance Ministry	13
Table 4: The budget preparation	16
 <b>Boxes</b>	
Box 1. Central finance functions of the BMF	7
Box 2. Formal status of the Minister of Finance	8

# Abbreviations

Abbreviation	Description
BMF	Federal Ministry of Finance
SDP	Social Democratic Party
FDP	Free Democratic Party
ECOFIN	Economic and Financial Affairs Council
EU	European Union
BaFin	Federal Financial Supervisory Authority
GGO	Joint Rules of Procedure of the Federal Ministries
BRH	Federal Court of Auditors
UK	United Kingdom
HM	Her Majesty's (Treasury, UK)
KOF	Konjunkturforschungsstelle
IfW	Institut für Europäische Wirtschaftsförderung
GmbH	Zentrum für Europäische Wirtschaftsforschung
IWH	Institut für Wirtschaftsforschung Halle
RWI	Rheinisch-Westfälisches Institut für Wirtschaftsforschung
IHS	Institut für Höhere Studien
ChefBK	Chef des Bundeskanzleramts
GDP	Gross domestic product

# 1 Introduction

The existing literature on the German Federal Ministry of Finance (BMF) is rather sketchy and reflects successive scholarly debates. First, there was a rather technical debate during the 1960s when the new medium-term financial planning system was established in Germany and several authors analysed the role of the finance ministry in relation to these new planning activities (Naschold et al. 1971; Zunker 1972).

Second, some studies emphasised the role of the BMF in the budgetary process and discussed its competencies in this process from both an institutionalist and a historical perspective (e.g. Sturm 1989). These authors argued that the finance ministry plays a key role in government policy-making in Germany through its responsibilities in the budgetary process and often developed a considerable interest in all kinds of government policies requiring public expenditure (Sturm 1994: 90; Hallerberg 2000; Hallerberg et al. 2007).

Third, increasing European integration motivated some scholars to study the role of the finance ministry in the Monetary Union, especially with regard to monetary policy-making, the interplay with the German Central Bank and the European Central Bank (e.g. Bulmer and Burch 2001; Beichelt 2007). In a similar vein, some authors have explored the role of the finance ministry in coping with the recent financial crisis (Fleischer and Parrado 2010; Korzin 2012a).

Lastly, a handful of recent studies address the internal organisation and decision-making processes inside Germany's finance ministry, often discussing structural innovations such as new horizontal co-ordination mechanisms across different line divisions (Korzin 2012b, 2012c) or the specific role of the Division for General Affairs (*Grundsatzabteilung*) as internal think tank and policy unit to the Finance Minister (Fleischer 2012).

These scholarly perspectives on the German finance ministry discuss to a rather different extent any systematic explanatory features to understand the role and capabilities of the ministry that could be operationalised and applied to other finance ministries. Most authors highlight the relevance of the institutional context, most importantly the interplay of coalition government and party competition with an administrative *Rechtsstaat* tradition.

## 2 The institutional context

### Creation and evolution of the Federal Ministry of Finance

In 1877, a new directorate was established in the Imperial Chancellery (*Reichskanzlei*), responsible for the increasing duties in tax and budgetary policies across the German Empire. Two years later, in July 1879, it was created as Reich Treasury (*Reichsschatzamt*), although the Empire's budget was largely administered and managed by the state (*Länder*) administrations (Pausch 1969).

In 1919, two new ministries succeeded the Reich Treasury, a Reich Ministry of Finance (*Reichsfinanzministerium*), responsible for administering tax and customs as well as expenditure, and a Reich Treasury (*Reichsschatzministerium*), responsible for the Reich properties. In 1923, both were merged into the Reich Ministry of Finance.

In 1949, this was succeeded by the Federal Ministry of Finance (abbreviated as BMF), operating in a parliamentary system with a strong tradition of minimum-winning coalitions, usually between a larger and a smaller coalition party. Moreover, it acts in a federalised system of public expenditure, i.e. Germany is a federal republic comprised of 16 states and public expenditure is divided between the federal and the *Länder* level, also distributing the various types of taxes across the multi-level system and operating a rather complex system of reallocating public revenues and expenditure.

### Important events, transformation and challenges

In organisational terms, the BMF remained fairly stable for several decades, although it underwent a number of comparatively radical changes given the strong stability of portfolio allocation in German central governments. The first structural change occurred in 1969 when the Federal Treasury Ministry (*Bundesschatzministerium*), with its responsibilities for properties, was closed down and some of its duties were transferred to the BMF while the others were transferred to the Federal Ministry for Economic Affairs. Another structural change occurred between May 1971 and December 1972 when the Federal Ministry of Finance was merged with the Federal Ministry of Economic Affairs to become a Federal Ministry of Economics and Finance. This merger aimed to secure partisan control over financial and economic policy after the Federal Minister of Finance Möller (Social Democratic Party, SPD) had resigned and the SPD was reluctant to hand over the ministry to a minister from the Free Democratic Party (FDP) as its coalition partner (Sturm 1994: 84-7).

A similar structural change occurred after the 1998 general election, when the Ministry of Finance was established as a 'second power centre next to the Chancellery' (Geyer et al. 2005: 78). These organisational changes resulted largely from the transfer of formal responsibilities in EU affairs from the Ministry for Economic Affairs and the Foreign Ministry to the Finance Ministry, including for instance the lead role in preparing the Economic and Financial Affairs Council (ECOFIN) and the EU Monetary Committee as well in formulating the Annual Economics Report and liaison of the German Council of Economic Experts (*Sachverständigenrat zur Begutachtung der ökonomischen Entwicklung*, see also case I below) and the Economic Council (*Konjunkturrat*, BKOrgErl 1998). The transfer of EU responsibilities resulted in a substantial shift of the centre of EU economic and fiscal policy co-ordination towards the BMF (Beichelt 2007: 424).

These responsibilities were, however, mainly revoked after the 2005 general election, when the traditional separation of macroeconomic and budgetary policy were restored at federal level.

It is clear, then, that none of these organisational changes was permanent and although some lasted for more than a legislative period and had some influence on the role of the finance ministry during that time, they did not significantly alter the ministry's position or capabilities in government policy-making.

In substantial terms, two budget reforms had an impact on the capabilities of the finance ministry. In 1967, several major innovations were introduced in conjunction with the Act to Promote Economic Stability and Growth (see BMF 2008: 6):

- In their budget management, the Federation and the *Länder* are obliged to take account of the requirements of the overall economic equilibrium (Article 109(2) of the Basic Law). This equilibrium requires stable prices, a high level of employment and an external trade balance, accompanied by steady and adequate economic growth (Section 1 of the Act to Promote Economic Stability and Growth).
- Revenue obtained by borrowing may not exceed the total of investment expenditure provided for in the budget (Article 115 of the Basic Law). Exceptions are permissible to avert a disturbance of the overall economic equilibrium (second half of the second sentence of Article 115(1) of the Basic Law).

The Federation and the *Länder* each base their respective budget management on a financial plan covering a five-year period (Section 50 of the Budgetary Principles Act).

A financial planning council chaired by the Federal Minister of Finance was set up to submit recommendations for co-ordinating the financial plans of the Federation, the *Länder*, the municipalities and the associations of municipalities (Section 51 of the Budgetary Principles Act; see also below).

In 2009, there was a fundamental reform of government borrowing rules whereby federal and state governments were tied to stricter borrowing limits and the requirement for a structurally balanced or almost balanced budget, constitutionally enshrined in the German Basic Law (Art. 115 GG). Exemptions were defined much more narrowly and tied to repayment rules. The reform is also designed to ensure compliance with the medium-term objective for the federal government deficit that is established in the European Stability and Growth Pact. Before the limits become binding, there will be a transitional period extending to 2020 for the *Länder* and to 2016 for the federal government. This new constitutional debt brake shifted the balance of power to some extent, especially with regard to the budgetary policy, providing the Federal Ministry of Finance more formal powers to deal with spending ministries as well as the *Länder* finance ministries.

### Formal functions and powers of the Federal Ministry of Finance

The BMF is in charge of all central finance functions (see Box 1), but is not responsible for macro-economic policy and is therefore less involved in international economic relations, which are handled by the Federal Ministry of Economic Affairs. There have been several attempts to integrate these functions into one ministry but these have never survived for more than one or two legislative periods.

#### Box 1. Central finance functions of the BMF

- Macro-fiscal forecasting and analysis (partly external actors)
- Fiscal policy formulation
- Fiscal risk analysis
- Interface between monetary and fiscal policy
- International economic and financial relations
- Tax policy (strongly involving the Länder)
- Budget preparation
- Treasury and cash management
- Internal control
- Internal audit
- Accounting policy
- Debt management
- Customs administration
- Intergovernmental financial relations
- Regulation of banks and other financial institutions
- Management of public assets, including public enterprises
- Public procurement

*Source: adapted from Allen and Krause 2013*

For some of these central finance functions, the ministry delegates formal authorities to its subordinated federal agencies, e.g. in banking supervision to the Federal Financial Supervisory Authority (BaFin).

The formal powers of the BMF also refer to the finance minister's 'qualified veto' in cabinet (see Box 2; Allen and Kohnert 2013: 7).<sup>1</sup> This stipulation, set out in a by-law regulating the procedures of the federal government, allows for this veto if financial or budgetary issues are concerned. The veto is rarely used, however, because it would be likely damage the balance of power in a cabinet made up of coalition parties. The very fact that the finance minister controls the budget – which is a central interest in all other departments – confers major authority in cabinet (Sturm 1994: 90).

<sup>1</sup> Other authors argue that the veto rights derive from the constitutional departmental principle, referring to the BMF as organ of cabinet (Faber 1973: FN 886; 190-1).



## Box 2. Formal status of the Minister of Finance

'If the Federal Government decides an issue with financial relevance against or without the vote of the Federal Minister of Finance, she may enter an objection. If this objection is entered according to sentence 1 or in statutory cases, the issue has to be voted in a further meeting of the Federal government. The implementation of the issue on which the Federal Minister of Finance entered an objection has to be undone if in the new vote with attendance of the Federal Minister of Finance or her deputy not all Federal Ministers and the Federal Chancellor have voted in favour.'

*Source: Rules of Procedure of the Federal Government (GOBReg)*

Furthermore, the Joint Rules of Procedure of the Federal Ministries (GGO) stress that the BMF must give its consent to all cabinet proposals referring to taxes and other duties, the income or expenditure of the Federation, and the *Länder* or local governments (§ 51; Annex 6.4 GGO 2009; Allen and Kohnert 2013: 7). Thus the power enjoyed by the finance ministry is supported by the fact that it must be consulted at an early stage in the development of policy proposals requiring government expenditure. This formal power is, however, limited by the legal status of the annual budget because this gives other actors formal competencies, most notably parliament and the Court of Auditors. Likewise, additional legal provisions restrain the budget preparation and execution during the fiscal year, such as the Act to Promote Economic Stability and Growth (see above), the Budgetary Principles Act, obliging the Federation and the *Länder* to regulate their budget law in accordance with certain principles, or the Federal Budget Code (Mayntz 1980: 157).

Despite the pervasive role of the finance ministry, it has only limited effectiveness in co-ordinating other departments. In part, this is because of the separation between public expenditure expressed in financial programmes and their respective policy content, i.e. in contrast to other finance ministries such as the HM Treasury in the UK, the German finance ministry still separates formally and organisationally the Budget Division and the Policy Affairs Division.

Although the BMF's formal competencies in scrutinising financial proposals and seeking reductions is not questioned, there is far less recognition of the need for a finance minister to be continuously involved in the formative stage of policies that have financial implications. As a result, the ministry is not as closely concerned with policy development as other finance ministries in Europe such as the HM Treasury in the UK (Johnson 1983: 114). Moreover, the BMF is not responsible for the efficiency and effectiveness of departmental management, which is monitored by the Federal Court of Auditors (BRH).

### The informal view of the finance ministry

Various actors in central government view the informal powers of the finance ministry rather differently – which may also vary across time and issues. First, the Chancellery and the BMF are often seen as the two pivotal actors in government policy-making and their informal role in the core executive has been strengthened during the recent global financial and economic crisis when the Chancellor and the Minister of Finance intensified their collaboration, adjusting executive decision-making processes towards a 'dual centre' (Fleischer 2010).

At the operational level, a key network developed between officials from the Chancellery, the Ministry of Finance, and the German Central Bank (Fleischer and Parrado 2012). These networks were partly formalised by the creation of two inter-

ministerial committees responsible for managing the two newly introduced funds for stabilising the financial market and stimulating the economy. Both committees comprised one administrative state secretary from each from the Ministries of Finance, for Economic Affairs, and of Justice, a division head from the Chancellery, as well as representatives from the Länder, and one representative from the Central Bank serving in advisory capacity. Although the formal exclusion of other ministries from these decisions may be partly explained by the responsibilities of the actors involved in stabilising German banks or deciding on credits for German companies, the apparent spill-over effects of the financial and economic crisis on other policy sectors caused some tensions between the new ‘peripheral’ ministries and the ‘crisis core executive’ (ibid.).

Second, there is considerable variation among spending ministries in their assessment of the informal powers of the finance ministry and its various functions account for rather different perceptions regarding its informal capabilities. Its role as central budget agency provides it with fairly strong informal powers over the spending ministries. In fact, the Budget Division is organised to mirror all spending ministries, contributing its capabilities in preparing their position in the budgetary process. In other areas, such as macroeconomic policy, which are primarily dealt with by the Ministry for Economic Affairs, the finance ministry is often regarded as a relevant but not necessarily the most important informal actor. Moreover, delegated agencies such as the Federal Financial Supervisory Authority are often regarded as more important for the respective external stakeholders (in this example, the banking industry).

Third, external stakeholders such as the German Central Bank or the Federal Court of Auditors see the BMF as a key ministry in central government, particularly regarding currency policy, banking supervision, as well as financial management and accounting. However, this assessment stems mostly from the BMF’s formal powers and its competencies in these issues. The Central Bank in particular also maintains close contact with the Federal Financial Supervisory Authority (see Handke 2013).

Lastly, more ‘distant’ external stakeholders such as economic forecast institutes have quite strong relationships with particular sections inside the finance ministry and regard it as having strong leverage in budgetary policy-making (expert interviews, see case I). These accounts of informal power relate again mainly to formal competencies and less to, for instance, analytical skills or capabilities. In contrast, the economic forecast institutes in particular regard their own staff as better skilled – which is precisely why the finance ministry aims to outsource these analytical tasks (expert interviews, see case I). In turn, the BMF trusts the economic forecast institutes’ capabilities and crosschecks their assessments by relying upon more than one institute at any given time (see case I). In contrast, other external stakeholders such as the banking industry have more ambivalent relations with the BMF, also because of the crucial role of the federal agency BaFin and its engagement with other actors in the policy arena (Handke 2013).

### The organisational configuration: bureaumatic information

Most of the finance ministry's expenditure is on running costs such as staff and administration and only a very small proportion is dedicated to subsidies and investments (see Table 1).

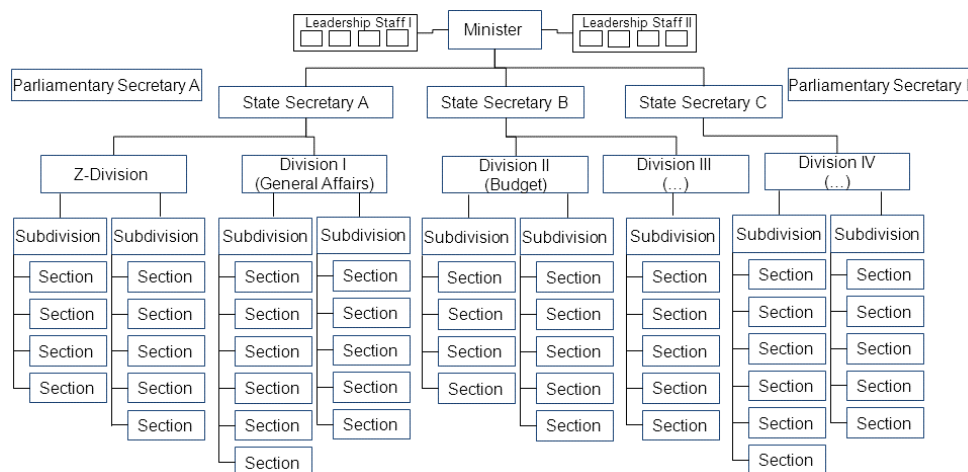
**Table 1: Finance ministry's expenditure**

	2012 (in 1,000 €)	2011 (in 1,000 €)
Staff expenses	206,985	189,800
Administration	66,687	65,638
Subsidies	3,450	2,300
Investments	2,212	2,527
Total	279,334	260,265

Source: Bundesministerium der Finanzen

The ministry currently comprises nine divisions (directorates general) that include between one and four subdivisions (24 in total) with five to eight sections each (145 in total) (BMF 2013). In addition, the departmental leadership level includes two staff each with four staff sections (see Figure 1).

**Figure 1: Simplified organisational chart of the German Federal Finance Ministry**



Source: Bundesministerium der Finanzen

The departmental leadership of the BMF comprises Administrative State Secretaries, Parliamentary State Secretaries and staff at the disposal of the minister or the two state secretaries. The number of Administrative State Secretaries in the BMF has gradually increased to the current three, while the number of Parliamentary State Secretaries doubled since their creation in 1967 from one to two. The Administrative State Secretaries are the most senior civil servants in the ministry. They perform a dual role as administrative heads, linking political demands from the top with bureaucratic expertise in the line structure, and act as important policy advisers to

the minister (together with the minister's private office and the leadership staff). More importantly, Administrative State Secretaries and Division Heads are recruited as so-called 'political civil servants' (*politische Beamte*), a special cadre in the federal bureaucracy that dates from 1848 (Fleischer 2012: chap. D.1.4). These political civil servants can at any time be temporarily retired owing to their high-ranking position in the federal bureaucracy, requiring full agreement with the government's goals. All of these appointments must be submitted to the federal government in advance (§ 15 GOBReg 2002). In practice, ministers are particularly involved in the recruitment and promotion of political civil servants in the federal ministries, not only for Administrative State Secretaries, but also division heads (Goetz 1997: 771).

The minister's support staff include the minister's office, a unit for liaison with cabinet and Parliament and a press and information office, accompanied by sections for special issues such as postage stamps. Since 1991, these sections have been organised in a leadership staff (*Leitungsstab*).

As in all other German federal ministries, sections in the line structure undertake the major policy work in the BMF, organised in different divisions (in some other countries called directorates general). The basic structure of these divisions is comparatively stable, resulting in classic siloism and a strong orientation of German ministry officials towards their own line section and division. Moreover, the Division for General Affairs (*Grundsatzabteilung*) serves as an internal think tank for the minister. In 1966, the division was created as the successor for a group on macroeconomic policy that had existed since 1957. It has acted as an internal advisory arrangement for the finance minister ever since, a function equivalent to similar divisions for political planning in other federal ministries (Bebermeyer 1970: 719-20).

In addition, a section for 'special issues' was created at the top departmental level during the late 1970s and between 1982 and 1983. In 1991, another similar unit was created, although integrated into the newly established leadership staff, together with the minister's private office, and other sections responsible for liaison with the cabinet, parliament, and the media. After the resignation of Finance Minister Oskar Lafontaine in 1999, this section was abolished, but re-established in 2005 and remains in place, renamed in 2009 as a section for 'policy and strategy'. The key responsibilities of this section have oscillated over the decades between coalition politics, media strategies, and partisan advice (expert interviews).

It is also relevant to assess the horizontal and vertical fragmentation. The former refers to the internal specialisation inside a government ministry, and thus its capabilities to respond to varying internal and external requests. Vertical fragmentation relates to the number of formal hierarchies inside a bureaucratic organisation, affecting its capacities to freely exchange ideas and fields of consideration for example. One may further distinguish between individual hierarchical levels, e.g. signified by different ranks, and organisational hierarchical levels, i.e. formal units that are subordinated to each other. For the latter, the BMF is a classic bureaucratic organisation with four different organisational levels (leadership, division, subdivision and section level).

Horizontal fragmentation can be analysed via the span of control at different vertical levels in a bureaucratic organisation. The finance ministry has around 1,800 officials, including approximately 1,400 civil servants and 400 public employees (Allen and Kohnert 2013: 6; Federal Budget Plans 2013). At the senior level, the ministry contains 39 officials, i.e. administrative state secretaries, division heads, and subdivision heads. The ratio between the staff at the highest and lowest ranks

(covering the three lowest ranks in the basic service rank, i.e. drivers and other workers, N = 33.5), the span of control is 1:0.86 (see Table 2). If we look only at the higher civil servants, i.e. departmental officials formally involved in policy-making in the line sections (junior policy staff, N = 472.7), the span of control is 1:12.12 and thus much higher (see Table 2). The latter ratio shows the high formal fragmentation and specialisation within the BMF as well as the comparatively high span of control for high-ranking officials managing the administrative apparatus.

**Table 2: Ratio of Top to Lowest Ranks in the German Finance Ministry**

	Three lowest ranks (across all ranks)	Three lowest ranks (policy staff)
Number	39	472.7
Span of control	1 : 0.86	1 : 12.12

Source: Bundesministerium der Finanzen

The career paths in the finance ministry differ according to the four general career groups in the German civil service: the basic service (*einfacher Dienst*); the intermediate service (*mittlerer Dienst*); the executive service (*gehobener Dienst*); and the higher service (*höherer Dienst*), the latter being widely regarded as the backbone of government policy-making. All four services require a different educational background and each has its own promotion system. Moreover, internal promotion is also dependent on intra-ministerial mobility, i.e. each staff member is expected to change sections at least once every three years in order to be eligible for promotion. The ministry incorporates a mix of legally trained staff members and economists. The latter are particularly often recruited for the Division for General Affairs and for the Division for European Affairs.

More generally, officials seeking internal promotion are required to change their position every three years, including also some sort of rotation with the subordinate agencies. Given the broader internal organisation principles, however, most new entrants enjoy their first promotion from a section official to a deputy section head only after about five to seven years, the next promotion as section head is therefore usually about ten years after being recruited. As a result, most section heads are in their early to mid-forties and most subdivision and division heads are over 50 years of age.

In addition, the German federal bureaucracy is characterised by a comparatively strong partisan politicisation, i.e. ministry officials are allowed to obtain party membership and to engage in party activities. Traditionally, German federal ministries include informal networks of officials belonging to the same political party and party membership is – among other criteria – regarded as relevant for internal promotion. Consequently, young entrants belonging to one of the governing parties may benefit from a quicker promotion than those without or who belong to one of the opposition parties (also known as the ‘chimney effect’).

Due to the lack of information on the career trajectories of finance ministry officials in every rank, some evidence from a larger study on top officials in Germany provides findings that are also valid for the BMF. Very broadly, the way to the top can be achieved via four distinct career paths: (a) an ordinary paced career in a particular ministry, (b) a fast-track career in a particular ministry, (c) a career across the different state levels in Germany, i.e. starting with an administrative position at

local level and/or in a ministry at *Länder* level, and (d) a parachuting into a top position from outside the federal bureaucracy (from the party organisation, the private sector, the media etc.). The first career path is still dominant among top officials in the German federal bureaucracy and is likewise the main career trajectory in the BMF (irrespective of whether officials eventually reach the very top or attain only the level of a subdivision head or section head). The number of officials following the fast-track career type has increased over recent decades, although it is important to note that the fast track does not refer to a specific educational background, selection procedure, set of open positions or the like (such as the fast stream programme in the UK). Rather, these officials pursue a rapid career inside a ministry mainly because of their outstanding skills and because they hold positions that allow close access to the political leadership. Such careers also exist in the BMF, one very prominent example being Jörg Asmussen, formerly an administrative state secretary and a key actor in the managing the acute financial crisis in 2008, who rose through the ranks very quickly following his appointment as a personal assistant in the leadership staff.

Partly deriving from the formal organisational structure and the recruitment and promotion principles operating within the BFM, most ministry officials can be regarded as specialists in their field of expertise, i.e. they are well trained and most often with a background as lawyers or economists with strong knowledge developed over time in a division within the ministry. In contrast, officials in the Division for General Affairs or the sections for general affairs in each of the other line divisions are regarded as more generalist. However, this picture has become blurred over the past ten years, especially since the economists in the Division for EU Affairs and the Division for International Finance are now also often perceived as rather generalist given the nature of their field ('moving target' and regular interactions with officials from other finance ministries).

Finally, the pay scheme for civil servants in the finance ministry follows federal regulations, which means that all ranks receive the same salary as their counterparts in other ministries (see Table 3). For officials who are recruited as public employees (and not as civil servants), however, special provisions may apply, allowing salaries that depart from the official salary level as agreed in negotiations with the public employers' trade unions.

**Table 3: Remuneration in the German Finance Ministry**

	Basic monthly € (net)	% of B 11
Minister	12,860	
B11 Administrative State Secretary	10,353	100
B9 Division Head (Director General)	8,457	82
B6 Subdivision Head	7,206	70
B3 Section Head	6,056	58
A 13 Beginner Higher Service	2,880	28

Source: Bundesministerium der Finanzen

# 3 The external context

In its management of the global financial and economic crisis the BMF has been perceived by external stakeholders, voters, the media, and other actors as rather successful (see Fleischer and Parrado 2010; Kickert 2012, 2013). At the operational level, a key network developed between top officials from the BMF and the German Central Bank, partly formalised by the creation of two inter-ministerial committees responsible for managing the two new funds for stabilising the financial market and stimulating the economy, which included the Ministries of Finance, for Economic Affairs, and of Justice, as well as a division head from the Chancellery, representatives from the *Länder*, and one representative from the Central Bank. As stated previously, this led to some tensions between the new ‘peripheral’ ministries and the ‘crisis core executive.

In addition, the Federal Financial Supervisory Authority, responsible for oversight of the financial sector in Germany, did not become influential in co-ordinating the crisis measures, in part because of a difficult relationship between the Minister of Finance and the agency head. Instead, the Minister of Finance relied heavily on the German Central Bank and its chair, who was also involved in defining the general terms of the law enacted to stabilise the German financial sector. Moreover, a new ‘Financial Market Stabilisation Agency’ was established as public law agency under the legal and functional supervision of the BMF in order to administer the funds.

In addition to the crucial policy advice offered by finance ministry officials, particularly those in the Division for General Affairs, the Division for European Affairs, and the Division for International Finance, external advice was commissioned, principally from law firms that were formulating parts of the bill to stabilise the German financial sector (BTDRs. 16/12547 2009). For the political actors in the ministry, the involvement of private law firms provided valuable expert knowledge that was claimed to be unavailable in the civil service (expert interviews). In addition, these law firms provided ‘co-ordinated knowledge’ by sending teams that included lawyers with different legal specialities – which is more difficult to achieve in the finance ministry, since officials tend to be specialised in their respective division’s domain. Departmental officials, however, were initially concerned that the contracting of private law firms appeared to threaten their monopoly in providing policy advice and resulted in some conflicts between the operational and the departmental leadership levels about basic assumptions and policy goals incorporated in the law as one of the German government’s major responses to the crisis in the financial market.

# 4 Description of three typical cases

## 4.1 Case I: Create the final revenue forecast and spending envelope for next year's budget

### Background and case selection

The creation of the final revenue forecast and spending envelope for next year's budget are two sequences of the budget preparation involving different actors inside and outside the German Federal Ministry of Finance. Whereas the revenue forecast can be regarded as a highly sensitive step of the process (see also the brief mention of the scandal noted above), the creation of the spending envelope is a more technical act following up on political and bureaucratic decisions already taken in the general budget preparation process.

Inside the BMF, the Division for General Affairs and the Budget Division are the two key divisions involved in both processes, in close collaboration with other line divisions, especially the Tax Division. The general form of interaction follows the German *Rechtsstaat* tradition, referring to formal rules governing bureaucratic procedures as well as formal hierarchical relationships between the different units involved in the process.

### Key finance ministry actors in the process

The final revenue forecast is prepared by various sections in the finance ministry, mostly those responsible for tax estimation, tax simulation, and sustainability modelling, located in the Division for General Affairs (I A 4; I A 5; I A 6). Different staff members from these sections are involved, including the three section heads as well as between one and three staff members from each section, adding between nine and twelve ministry officials. Following the general career patterns in the BMF, these officials can be regarded as relatively specialised although the basic orientation of their parent division (Division for General Affairs) is somewhat generalist compared with other parts of the ministry. Their specialism lies in their methodological knowledge and skills and their particular responsibilities in engaging with other actors inside the federal bureaucracy (most notably the Ministry for Economic Affairs) as well as external sources for economic forecasting, academic and other debates (see below).

In more detail, the various sections are responsible for the following areas relevant to the process:

- Networking with academic partners, developing new structures for interacting with external experts.
- Improving the methods, i.e. whether the forecasting methods are appropriate etc., special emphasis on structural deficit, output gaps, implicit public debt.
- Developing micro-economic modelling.
- Linking methodological issues to the sustainability of public finances.



More importantly, these sections do not themselves forecast the revenue but rather assess forecast data that are initially provided by external economic forecasters. These are selected by the Federal Ministry for Economic Affairs in an open bid procedure and included for the period between autumn 2010 and spring 2013 the following research institutes:

- ifo Institut für Wirtschaftsforschung, University of Munich (ifo)
- KOF Konjunkturforschungsstelle, ETH Zurich
- Institut für Weltwirtschaft, University of Kiel (IfW)
- Zentrum für Europäische Wirtschaftsforschung GmbH
- Institut für Wirtschaftsforschung Halle (IWH)
- Kiel Economics Research & Forecasting GmbH & Co. KG
- Rheinisch-Westfälisches Institut für Wirtschaftsforschung (RWI)
- Institut für Höhere Studien (IHS), Vienna

More generally, the budget preparation in Germany unfolds in distinct sequences involving different actors inside and outside the finance ministry (see Table 4). At each step, the line sections mentioned above, particularly in the Division for General Affairs, contribute their analytical and methodological knowledge, e.g. in economic modelling.

**Table 4: The budget preparation**

Month	Step	Main Actor(s)
January	Annual Economic Report with assumptions regarding GDP growth	Lead ministry: Ministry for Economic Affairs
March	Benchmark figures for budget t and financial plan up to t+3	Cabinet
April	New assumptions on GDP growth	Lead ministry: Ministry for Economic Affairs
May	Tax estimate	Working Group 'Tax Estimate' at the Federal Ministry of Finance
July	Cabinet decision on budget t and financial plan up to t+3	Cabinet
October	New assumptions on GDP growth	Lead ministry: Ministry for Economic Affairs
November	Tax estimate; budget adjustment and parliamentary approval	Working Group 'Tax Estimate' and Cabinet

Source: author

## Description and assessment of the process

### Step 1: Benchmark Figures

The Ministry for Economic Affairs takes the lead in issuing the assumptions regarding GDP growth, but the BMF maintains close working contacts and thus usually receives this information a little earlier than the official announcement. The sections in the finance ministry that are responsible for the forecasting (two line sections, comprising around 15 senior civil servants) collect this information and incorporate it into their various budget modelling scenarios, also obtaining additional

data from the *Länder* finance ministries (which is a separate generic process) because the German federal budget is strongly linked to the *Länder* budgets.

The two line sections communicate the forecasting data to all relevant line sections in the finance ministry, particularly in the Division for General Affairs and the Budget Division (which is relevant for the generic process of considering a new budget request, see below). The line sections also prepare a condensed assessment for the Finance Minister and for cabinet in order to prepare the cabinet decision on the benchmark figures (*Eckwertebeschluss*).

This cabinet decision is prepared through the traditional co-ordination mechanisms across central government, i.e. the Ministry of Finance is in close contact with the Federal Chancellery, especially the Division for Financial and Economic Affairs, as well as the office of the ChefBK (Minister of the Federal Chancellery). Very often, the preparation of the cabinet decision on the benchmark figures also involves bilateral consultations with the officials in the Ministry for Economic Affairs responsible for gathering the forecast data.

Moreover, the benchmark figures address not only next year's annual budget but also the medium-term financial plan. The latter is an update of previous versions of the financial plan and is often subject to less controversy between the Ministry for Economic Affairs and the Ministry of Finance than the benchmark figures for the annual budget. One reason why it is less likely to be the cause of controversy is the existence of various formal possibilities to adjust the medium-term financial plan and the annual budget, i.e. whereas the financial plan is negotiated between the finance ministry and the spending ministries and subsequently agreed in cabinet, unlike the annual budget the medium-term financial plan is not subject to parliamentary approval. This means that it can be adjusted within the executive and does not require the approval of the legislative. Furthermore, while the figures in both the financial plan and the annual budget are considered to be politically binding, the former also entails a stronger implicit notion of projection and medium-term planning.

### **Step 2: New assumptions regarding GDP growth**

After the cabinet has decided on the benchmarks for next year's budget, the Ministry for Economic Affairs revises its assumptions regarding GDP growth, again based on the external economic forecast institutes. The two responsible line sections in the finance ministry obtain the data and amend their budget modelling accordingly. The extent of these amendments depends very much on the general economic development.

### **Step 3: Tax estimate**

The tax estimate is formally decided by the so-called Working Group Tax Estimate, an independent advisory group at the BMF. One of the two line sections responsible for forecasting inside the ministry also acts as liaison for the working group. The Working Group comprises officials from the Ministry of Finance, the Ministry for Economic Affairs, the Federal Statistical Agency, the *Länder* Ministries of Finance, and the German Central Bank. In addition, the Working Group includes staff from the selected economic research institutes as well as the members of the German Council of Economic Experts and representatives of the Federal Association of the Municipal Key Associations (i.e. the German District Association, the German City Association, and the German City and County Association).

The Working Group Tax Estimate is the key actor in the forecasting process. The officials from the finance ministry accompany the work of the Working Council and provide methodological support and assessment. The data on the tax estimate are gathered by the various sources represented in the Working Group, most importantly the economic forecasters as well as the representatives from the *Länder* and municipal

administrations (again due to the federal state structure, with apparent interrelations in tax revenue across the different state levels).

In practice, the tax estimate is very much seen as a mutual internal estimate managed by the Ministry of Finance and the Ministry for Economic Affairs, mostly because the other actors in the Working Council operate in a close collaboration with one of the two ministries. As a result, the sections for policy advice and general affairs in both ministries also collaborate on a regular basis. If there are disagreements about the interpretation of components of the tax estimate, these are usually dealt with in the Working Council. In 2002, the Finance Minister announced during the electoral campaign that the federal government would balance its budget by 2004 – although the forecasts available in the ministry suggested otherwise. A subsequent parliamentary enquiry committee dealt intensively with the internal creation process of the tax estimate and reiterated the potential disagreements between the two ministries (BT-Drs. 15/2100).

#### **Step 4: From the cabinet decision on the budget to the presentation of the budget bill to parliament**

The information on the tax estimate together with renewed assumptions regarding GDP are incorporated into the cabinet proposal for a new annual budget bill. Here, the line sections responsible for the forecast assess the externally gathered data. The budget bill, however, is prepared by line sections in the Budget Division together with the staff section responsible for liaison with cabinet and parliament at the top departmental level.

#### **Summary**

To sum up, the creation of the revenue forecast and the next year's spending envelope is a rather complex process **involving many different actors inside and outside central government**. The key actors in the finance ministry provide methodological skills to assess data that are gathered by external economic research institutes.

The internal handling of the process is rather technical and follows the formal procedures that also apply to other processes. Two line sections take the formal lead in handling the forecasting data and involve other line sections in the ministry as co-signing sections if their formal responsibilities are in any way affected. Usually, however, they provide their **competencies as support and service units** for the other line sections in their own Division for General Affairs (especially to the line section for policy advice and general affairs) and in the Budget Division for the handling of the spending ministry's requests (see case II).

The main **challenges** in the process are (a) the methodological currency of the relevant section officials in the finance ministry, (b) the inter-ministerial co-ordination with the Ministry of Economic Affairs and the formal and functional separation of economic forecasting (in the Ministry of Economic Affairs) and applying the information for the budgetary procedure (in the Finance Ministry), and (c) the handling of the various inter-ministerial bodies (in particular the Working Council Tax Estimate), also involving several external experts.

## 4.2 Case II: Consider a new spending request

### Background and case selection

The process for considering a new spending request depends on the specific request and the spending ministry:

- substantial
  - whether the new spending request relates to (newly introduced) legally fixed services (i.e. the government introduced a new policy requiring a certain expenditure)
  - whether the policy requiring the new spending request is incorporated in the coalition agreement
  - whether the new spending request refers to operating or staff costs
- time-related
  - whether the spending request is made before or after the cabinet decision on the benchmarks for the next year's annual budget
  - whether it is issued at the beginning or the end of a legislative period
- whether the spending ministry has performed appropriately in the past (also regarding the medium-term financial plan)
- whether the minister of the spending ministry is a member of the Finance Minister's political party

### Key finance ministry actors in the process

The processes of handling a new spending request by a spending ministry involves staff from (a) counterpart line sections in the Budget Division, i.e. each spending ministry is mirrored by at least one section, larger spending ministries may also be mirrored by two or three sections), (b) the line section for general affairs and policy advice in the Budget Division, and (c) staff units at the leadership level (especially if the Finance Minister has to be involved). The mirror sections in the Budget Division are the most crucial actors in these processes, and aim to address the request at the working level. The size of these mirror sections varies and it makes a difference whether only one section mirrors an entire spending ministry or whether two or three sections mirror the same spending ministry, which adds co-ordination and transaction costs between the mirror sections. Since their formal competencies are allocated according to budget lines and the practical implications are kept to a minimum, there is no potential overlap between new spending requests across the mirror sections.

Next to their general knowledge of the various relevant legal provisions for the budget preparation as well as the specific policy area in which a new spending request is submitted, the negotiating skills of the officials in the finance ministry matter, especially in the mirror sections. All interviewed experts widely regard their tenure in that particular position, i.e. their experience in budget negotiations, as influencing the pace and output of the different sequences of the process.

### Description and assessment of the process

Due to the different processes that apply depending on whether they are made before or after the cabinet decision on the budgetary benchmarks, the generic sequences are treated separately.

#### New spending request before the cabinet decision on benchmarks

##### Step 1: Meeting with the spending ministry to prepare departmental ceilings

In January, the line section in the Budget Division of the BMF responsible for the distinct spending ministry (around six to eight senior civil servants) meets with the budget section(s) of the particular department in order to negotiate the benchmarks or ceilings to be incorporated into the cabinet decision. These negotiations are also

informed by various external data, including the annual economic report on GDP growth and other material that is relevant for that particular portfolio (e.g. unemployment statistics for the Ministry of Labour and Social Affairs).

The new spending request is most often submitted via the spending ministry's draft of the next year's annual budget, which can be submitted to the Federal Ministry of Finance either via the departmental database, which allows spending ministries additional scope for analysis based on their own data, or on a data-storage device following a prescribed layout, stating for instance the budget title and a brief background note. The line section in the finance ministry then assesses the background of the request (e.g. whether it has a legal basis that cannot be ignored) and compares it with its own calculations, especially if the request includes major changes compared to the previous year's departmental expenditure. The line section officials make these calculations. In addition, the line section often requires additional information about the new spending request, i.e. how much expenditure, when it will be spent and on what etc.

After the assessment, the line section negotiates the new spending request with the spending ministry, also taking into account the medium-term horizon. Very often new spending requests are rejected on the basis that the medium-term financial plan does not include the specific spending. In combination with the political objective and the clear instructions given by the political leadership in the finance ministry to follow the medium-term financial planning ('budget consolidation strategy'), the finance ministry section often wins this argument.

#### **Step 2: Seeking alternative departmental expenditure reductions**

The relevant section in the finance ministry often offers the spending ministry the opportunity to reduce expenditure elsewhere in its departmental budget in order to accommodate the new spending request while still complying with the overall medium-term financial planning. For the most part, these attempts to reduce other expenditure are made by the spending ministries, but sometimes the line section in the BMF offers support, provided that the new spending request is regarded as appropriate and reasonable. Accordingly, it reviews the different expenditure lines of the previous year's budgets (looking for unspent items) and checks for instance whether certain legal services may expire throughout the next budget year.

#### **Step 3: Handling unresolved conflicts**

If the spending ministry rejects this compromise or still insists on raising its specific ceiling due to a making new spending request without reducing other expenditure, the process follows the traditional formal bureaucratic procedure, i.e. the budget sections in the spending ministry report the conflict to their superior civil servants and eventually the two administrative state secretaries from the BMF and the respective spending ministry meet in order to find a compromise and prepare the cabinet decision on the departmental budget ceilings.

#### **New spending request after the cabinet decision on benchmarks**

##### **Step 1: Meeting with the spending ministry to meet departmental ceilings**

After the cabinet decision on the benchmarks for the following year's annual budget, the line section in the finance ministry meets with the budget section(s) of the respective spending ministry, usually twice. In addition, officials from the Federal Court of Auditors join the meetings on a guest basis.

##### **Step 2: Seeking alternative departmental expenditure reductions**

Again, new spending requests are generally answered by the BMF following a thorough assessment of the background of the request. If new legal circumstances require the expenditure, it is routinely granted – albeit accompanied by a stronger

assessment of potential expenditure cuts elsewhere in the departmental budget in order to meet the budgetary benchmarks and the medium-term financial plan. Occasionally, the line section in the finance ministry asks the participating officials from the Federal Court of Auditors to provide additional background material and/or assess the request.

If, however, the new spending request is not bound by legal requirements, the finance ministry always requires that expenditure should be reduced in a different budget title of the departmental budget. If this adjustment is made, the BMF approves the request.

Moreover, the cabinet's benchmarking decision may be amended in the meantime (mostly due to changes in projected GDP growth and the tax estimates), the spending ministries may formulate new spending requests in order to meet the new ceiling. In turn, if the departmental ceiling is reduced, the BMF line section asks the spending ministry to identify additional cuts in planned expenditure.

### **Step 3: Handling unresolved conflicts**

If the spending ministry makes a new budgetary request that is neither bound by legal requirements nor backed by cuts in expenditure in another area of the departmental budget, again the formal hierarchical procedure is followed in order to reach a consensus. The line section in the finance ministry informs the division head who informs the administrative state secretary and the minister, and bilateral discussions between the Minister of Finance and the minister of the spending ministry often follow.

Here, the line section in the finance ministry prepares these negotiations with special background notes for the Minister of Finance, gathering information from other line sections inside the ministry (forecasting and other statistical data or information) as well as political and tactical advice (Division for General Affairs but also the various staff units in the departmental leadership).

### **Summary**

To sum up, the handling of a new spending request is a comparatively simple process **involving the Ministry of Finance and the spending ministry**. The key actors inside the finance ministry provide budgetary and negotiation skills in order to assess the spending request, in addition to political knowledge. The final decision on a new spending request, however, is taken in a hierarchical fashion by the most senior staff at the finance ministry, i.e. the administrative state secretary and the minister.

The handling of the process is rather bureaucratic and follows mostly the formal procedures that apply to other processes in inter-ministerial decision-making, but the two actors involved (the finance ministry and the spending ministry) also incorporate other line sections, especially those providing the forecasting and other relevant background data as well as those responsible for tax regulations. The line sections in the Budget Division provide their **competencies as analytical assessment units and negotiators** for handling the spending ministry's requests.

The main **challenges** in the process are (a) the assessment and negotiation skills of the involved section officials in the finance ministry, (b) the intra-ministerial co-ordination involving the various other line sections providing assessment and (legal) advice, and (c) the inter-ministerial co-ordination with the spending ministry.

### 4.3 Case III: Introducing a formal institutional change in the budget process

#### Background and case selection

One of the most recent and crucial institutional changes in Germany's budgetary process was the introduction of a 'top-down mechanism' in the budgetary preparation procedure, relating the spending ministries' budgets to specific benchmarks following the establishment of a constitutional debt brake.

In general, this new element includes the top-down formulation of ceilings on spending ministries' budgets (*Plafonds*) in order to comply with the constitutional debt brake. This change in the budgetary process is also supposed to review the expenditure structure of individual departmental expenditures regularly and more closely than before, which also enables a greater distinction between more and less prioritised policy programs in the federal expenditure.

Under the previous budgetary procedure, all spending ministries were requested to inform the BMF roughly a year before the following fiscal year (i.e. December in t-2 or January in t-1) to estimate their departmental expenditure for the annual budget (t). The new top-down procedure reverses this mechanism. As from 2012, the BMF prepares the cabinet decision on departmental ceiling benchmarks (*Eckwertebeschluss*) in advance and the spending ministries have to comply with them.

#### Key finance ministry actors in the process

Inside the finance ministry, the new-top down procedure was initiated mainly by the section for general affairs in the Budget Division, in close co-operation with the Division for General Affairs and the staff units in the departmental leadership as well as the Federal Chancellery. The general affairs section in the Budget Division can be regarded as an internal think tank exclusively for the Budget Division. At the same time, these sections are traditionally those to whom other ministries and external stakeholders first turn, especially in cases where it is unclear which section in the division is responsible for the particular issue. As such, these sections act as a distributor of additional and new demands, an ambassador for the relevant division, and a think tank. This functional orientation of the general affairs section also shapes its composition, i.e. these section officials are often regarded as more generalist than the line officials in other sections of the Budget Division (and other divisions), who are mostly perceived as specialists in their respective area of expertise.

This reflects a rather typical process for establishing a new procedure whereby line sections are widely regarded as the 'initiating backbones' of executive politics. However, the broader policy decision to reverse the budgetary process and initiate a ceiling on spending ministries' expenditure must be seen within the more general debates on budgetary reform and the constitutional debt brakes, also linked to the German federal state structure and the type of party government at the federal level.

#### Description and assessment of the process

##### Step 1: Drafting institutional changes, considering the status quo and potential resistance

The line section responsible for General Affairs inside the Budget Division (II A 1) initiated the introduction of the new top-down procedure in the budgetary process. With fairly strong backing from the Minister of Finance (and some formal support from the staff sections at the departmental leadership level), the section drafted a procedural guide to how to apply the new constitutional debt brake in the budgetary process. The procedures were driven by legal provisions, most importantly the constitutional departmental principle which provides spending ministries in

Germany considerable autonomy in policy-making and limits the finance ministry's competencies to interfere in intra-departmental matters, including the formulation of departmental expenditure. The line section also took into account provisions laid down in existing laws and by-laws guiding the budgetary procedure, such as the Budgetary Principles Act, the Federal Budget Code, and additional administrative regulations.

At the same time, the initiating line section regarded the pre-existing formal and informal rules of the budgetary process as well as the experiences of interactions between the spending ministries and the finance ministry as highly relevant in establishing a new procedural rule in the budgetary process. In other words, one of the key objectives in initiating the procedural change was as far as possible to maintain the institutional status quo.

### **Step 2: Discussing the draft inside the ministry and with the Chancellery**

After internal discussions and drafts of the potential bureaucratic procedure for the new top-down process in formulating spending departments' expenditure ceilings, in which the line sections interacted regularly with the departmental leadership, the draft was shared and discussed with the corresponding section in the Federal Chancellery.

In this process, it was not only somewhat technical and bureaucratic considerations that had to be taken into account, i.e. the existing legal provisions as well as the personnel capacities in the spending ministries and the corresponding line sections in the finance ministry's Budget Division, but also political considerations and requirements. More generally, the line section benefited from the fact that the constitutional debt brake could be used as a general argument to reverse one of the key mechanisms of the budgetary process. As one official figuratively expressed it 'the new procedure changes the actor inviting to the dance'. This means that an expenditure ceiling established before departmental expenditure is determined brings the BMF more upfront in the subsequent budgetary negotiations with the spending ministries. More importantly, it underlines the interdependencies between different spending ministries' expenditures and thus ultimately strengthens the BMF's position in the budgetary process because the cabinet decision on the expenditure ceilings imposes a discipline on ministers and spending ministries in estimating their expenditure.

One crucial component of the draft for the new procedural rule was to allow for a 'learning by doing' element in the process, i.e. the line section proposed a three-year trial process whereby after each year the experiences both of the line sections in the Budget Division responsible for the spending ministries and of the budget sections of the spending ministries are reviewed. They may share their experiences, which thus allows for minor adjustments to the bureaucratic procedure as necessary. From the perspective of officials in the finance ministry, the new procedure has been widely accepted by the spending ministries and the experiences have been quite positive. At the same time this component must also be regarded as a sort of 'bureaucratic concession' to the spending ministries. In other words, the constitutional departmental principle provides spending ministries considerable 'formal inertia' and thus the general opportunity to report and discuss experiences in a rolling process over the following three years can be understood as a compromise that takes potential resistance on the part of spending ministries into account.



### Summary

To sum up, the initiation of a procedural change in the previous budgetary process is a process **involving few actors in the BMF**. The key actors in the finance ministry provide policy, legal, and negotiation skills. The internal handling of the process follows the formal procedures that also apply to other processes. One line section takes the formal lead in drafting the proposed change and involves other line sections in the ministry as well as the Chancellery.

The main **challenges** in the process are (a) the legal competencies to assess potential repercussions with legal regulations, (b) the intra-ministerial co-ordination with the departmental leadership, and (c) the handling of the inter-ministerial co-ordination with the Chancellery and the spending ministries, informing and offering guidance on the correct application of the new procedures.

# 5 Comparative analysis

**Table 5: Comparative analysis**

	Case I	Case II	Case III
Inputs	Ministry of Economic Affairs Division for General Affairs External Forecast Institutes	Budget Division Spending ministry	Division for General Affairs
Competency	support and service	analytical assessment negotiation skills	legal assessment negotiation skills
Challenges	methodological up-to-dateness inter-ministerial co-ordination management of inter-ministerial bodies	assessment and negotiation skills intra-ministerial co-ordination inter-ministerial co-ordination	intra-ministerial co-ordination inter-ministerial co-ordination

Source: author

- New spending requests and new procedural rules for the budgetary process are more dependent on the internal capabilities of the finance ministry than the revenue forecasting, which depends heavily on external experts (forecasting institutions)
- Relevance of institutional context and institutional capacities (e.g. federal state structure and accompanying formal provisions regarding the federal budget, but also type of party government and the constitutional triad of the departmental principle, the cabinet principle, and the chancellor principle)
- Formal and informal status of BMF officials relies upon formal (institutional) rules and subsequent capabilities and on keeping ahead with regard to the relevant (budgetary) information
- Importance and effects of a functional separation of the Division for General Affairs and the Budget Division (also in comparison to other countries)

# 6 Conclusions

This paper offers a general overview of the institutional and human capabilities of Germany's Federal Ministry of Finance, including its formal functions and informal status in central government as well as its organisational configuration. More importantly, it provides empirical evidence by comparing three generic processes involving these institutional and human capabilities that enable it to act as Germany's central budget agency. These three processes include (a) the creation of the final revenue forecast and spending envelope for the next year's budget, (b) the consideration and handling of new spending requests from spending ministries, and (c) the introduction of a new formal procedural component into the budget preparation process, i.e. the establishment of the administrative process (top-down procedure) to comply with the new ceiling scheme on departmental spending as a consequence of establishing a constitutional debt brake.

The three main conclusions from this analysis are:

- The BMF functions within strong formal provisions for intra- and inter-ministerial co-ordination, which are followed (and monitored) by all actors.
- The finance ministry's organisational configuration is crucial, not only in terms of size and staff numbers but also with regard to horizontal fragmentation (e.g. the formal distinction between a budget division and a division for general affairs) and vertical fragmentation.
- The strong formal competencies and capabilities of the finance ministry, especially in relation to the budget procedure, ensures its primary role in central government – but up-to-date knowledge is (explicitly) not provided by the ministry but is outsourced (e.g. forecasting).

# References

- Allen, Richard and Kohnert, Peter (2013) 'Anatomy of a Finance Ministry', in Cangiano, Marco, Curristine, Teresa and Lazare, Michel (eds), *Public Financial Management in the 21st Century*. Washington, DC: International Monetary Fund.
- Allen, Richard and Krause, Philipp (2013) 'Role, Responsibilities and Structure of Central Finance Agencies', in Allen, Richard, Hemming, Richard and Potter, Barry (eds) *Handbook of Public Financial Management*, Basingstoke: Palgrave Macmillan.
- Bebermeyer, Hartmut (1970) 'Das politische Planungssystem der Bundesregierung: Entwicklung und Stand der institutionellen Voraussetzungen und Instrumentarien', in Jochimsen, Reimut (ed.) *Theorie und Praxis der Infrastrukturpolitik*. Berlin: Duncker & Humblot, pp. 713-732.
- Beichelt, Timm (2007) 'Over-efficiency in German EU policy coordination', *German Politics* 16(4): 421-433.
- Bundesministerium der Finanzen (BMF) (2008) 'The Budget System of the Federal Republic of Germany', Berlin.
- (2013) 'Organisational chart, January 2013' Berlin.
- Bundestagsdrucksache (BT-Drs.) 15/2100: Beschlussempfehlung und Bericht des 1. Untersuchungsausschusses nach Artikel 44 des Grundgesetzes, 24.11.2003, Berlin.
- Bulmer, Simon and Burch, Martin (2001) 'The "Europeanisation" of Central Government: the UK and Germany in historical institutionalist perspective', in Schneider, Gerald and Aspinwall, Mark (eds) *The Rules of Integration: Institutional Approaches to the Study of Europe*. Manchester: Manchester University Press, pp. 73-96.
- Eschenburg, Theodor (1954) 'Die Richtlinien der Politik im Verfassungsrecht und in der Verfassungswirklichkeit', *Die Öffentliche Verwaltung* 7(7): 193-202.
- Faber, Heiko (1973) *Das Organisationsrecht der Planung*. Konstanz: University of Konstanz.
- Fleischer, Julia (2010) 'A dual centre? Executive politics under the second Grand Coalition in Germany', *German Politics* 19(3-4): 353-368.
- (2012) 'Policy Advice and Institutional Politics: A Comparative Analysis of Germany and Britain'. PhD dissertation, Potsdam: Universitätsverlag.
- Fleischer, Julia and Parrado, Salvador (2010) 'Power distribution in ambiguous times: the effects of the financial crisis on executive decision-making in Germany and Spain', *dms – der moderne staat* 2: 361-376.

- Geyer, Matthias, Kurbjuweit, Dirk and Schnibben, Cordt (2005) *Operation Rot-Grün. Geschichte eines politischen Abenteuers*. München: Deutsche Verlags-Anstalt.
- Goetz, Klaus H. (1997) 'Acquiring political craft: training grounds for top officials in the German core executive', *Public Administration* 75(4): 753-775.
- Hallerberg, Mark (2000) 'The Importance of Domestic Political Institutions: Why and How Belgium and Italy Qualified for EMU'. Discussion Paper No. B 10/2000. Bonn: Zentrum für Europäische Integrationsforschung (ZEI). See [http://www.zei.de/download/zei\\_wp/B00-10.pdf](http://www.zei.de/download/zei_wp/B00-10.pdf).
- Hallerberg, Mark, Strauch, Rolf, von Hagen, Jürgen (2007) 'The design of fiscal rules and forms of governance in European Union countries', *European Journal of Political Economy* 23(2): 338-359.
- Handke, Stefan (2013) 'Die Mühen der Ebene(n): Die Koordination von Akteuren mit verschiedenen Handlungslogiken'. Paper presented at the Annual Meeting of the Standing Group on Public Policy and Administration of the German Political Science Association, DATES, Bamberg.
- Hintze, Otto (1970) 'Die Entstehung der modernen Staatsministerien', in Oestreich, Gerhard (ed.) *Otto Hintze – Gesammelte Abhandlungen, Band 1: Staat und Verfassung*. 3<sup>rd</sup> edn. Göttingen: PUBLISHER, pp 275-320.
- Johnson, Nevil (1983) *State and Government in the Federal Republic of Germany: The Executive at Work*. 2<sup>nd</sup> edn. Oxford: Pergamon Press.
- Kickert, Walter (2012) 'State responses to the fiscal crisis in Britain, Germany and the Netherlands', *Public Management Review* 14(3): 299-309.
- (2013) 'How the German government responded to the financial, economic and fiscal crises', *Public Money & Management* 33(4): 291-296.
- Korzin, Martina (2012a) 'The Analysis of Institutional Change within Governmental Organizations: The Establishment of Horizontal Coordinating Mechanisms'. Paper presented at the ECPR Graduate Conference, 4-6 July, Bremen.
- (2012b) 'Change and Continuity within Governmental Organizations: Organizational Innovation within the German Ministry of Finance'. Paper presented at the 22<sup>nd</sup> IPSA World Congress of Political Science, 8-12 July, Madrid.
- (2012c) 'Governmental Organizations as Pragmatic Actors? A Comparative Analysis of Organizational Adaptations within the Danish and German Ministries of Finance'. Paper presented at the FoJuS Annual Conference, 6-7 December, PLACE.
- Mayntz, Renate and Scharpf, Fritz W. (1975) *Policy-making in the German Federal Bureaucracy*. Amsterdam: Elsevier.
- Mayntz, Renate (1980) 'Executive Leadership in Germany: Dispersion of Power or "Kanzlerdemokratie"?', in Rose, Richard and Suleiman, Ezra N. (eds) *Presidents and Prime Ministers*. Washington, DC: American Enterprise Institute for Public Policy Research, pp. 139-170.
- Naschold, Frieder, Seuster, Dietrich, Vöth, Werner, and Zipfel, Oskar (1971) *Untersuchung zur mehrjährigen Finanzplanung des Bundes. Gutachten für die*

*Projektgruppe Regierungs- und Verwaltungsreform beim BundesMinister des Innern*, December 1971, Bonn.

Pausch, Alfons (1969) *Geschichte, Leistungen und Aufgaben eines zentralen Staatsorganes*. Köln-Marienburg: O. Schmidt.

Scheuner, Ulrich (1966) 'Politische Koordination in der Demokratie', in Bracher, Karl Dietrich, Dawson, Christopher, Geiger, Willi and Smend, Rudolf (eds) *Die moderne Demokratie und ihr Recht*. Tübingen: Mohr, pp. 899-922.

Sturm, Roland (1989) *Haushaltspolitik in westlichen Demokratien: ein Vergleich des haushaltspolitischen Entscheidungsprozesses in der Bundesrepublik Deutschland, Frankreich, Großbritannien, Kanada und den U.S.A.*. Baden-Baden: Nomos.

— (1994) 'The Chancellor and the Executive', in Padgett, Stephen (ed.) *From Adenauer to Kohl. The Development of the German Chancellorship*. London: Hurst & Company, pp. 78-105.

Zunker, Albrecht (1972) *Finanzplanung und Bundeshaushalt: Zur Koordinierung und Kontrolle durch das Bundesfinanzministerium*. Frankfurt/Main: Metzner.

ODI is the UK's leading independent think tank on international development and humanitarian issues.

Readers are encouraged to reproduce material from ODI Reports for their own publications, as long as they are not being sold commercially. As copyright holder, ODI requests due acknowledgement and a copy of the publication. For online use, we ask readers to link to the original resource on the ODI website. The views presented in this paper are those of the author and do not necessarily represent the views of ODI.  
© Overseas Development Institute 2015.  
This work is licensed under a Creative Commons Attribution-NonCommercial Licence (CC BY-NC 3.0).

All ODI Reports are available from [www.odi.org](http://www.odi.org)

Cover design: Lucy Peers, [lucypeers.com](http://lucypeers.com)



**Overseas Development Institute**

203 Blackfriars Road

London SE1 8NJ

Tel +44 (0)20 7922 0300

Fax +44 (0)20 7922 0399

**[odi.org](http://odi.org)**