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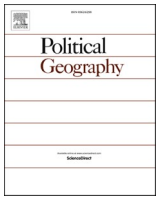

Full Length Article

The rural consolidation state. A critical examination of municipal consolidation strategies in Bavaria (Germany)

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A B S T R A C T

This paper examines the effects of austerity policies on financially weak rural municipalities in Germany, focusing on debt support programmes that make financial aid conditional on municipal efforts to increase revenues and cut expenditures. These programmes effectively enforce austerity at the municipal level. Drawing on Streeck's concept of the consolidation state and austerity urbanism literature, we develop the concept of the rural consolidation state to analyse the specific challenges rural municipalities face under austerity. To this end, we identify five characteristics that shape the possibilities and limitations of fiscal consolidation for rural municipalities. Based on a case study of Bavaria's debt support programme, *Stabilisierungshilfen* (stabilisation aid), we find that austerity operates differently in rural settings than in cities, often leading to distinct forms of discontent and embitterment in the countryside.

1. Introduction

With right-wing populist election successes and social polarisation (Hübscher et al., 2023), a broad literature has emerged on "left behind" places (Furlong, 2019; Pike et al., 2024), places that do not matter (e.g. Rodríguez-Pose, 2018) and processes of peripheralisation (e.g. Leibert & Golinski, 2016), which politically and geographically also suggests regional embitterment (e.g. Hannemann et al., 2024), a lack of political trust (Stroppe, 2023) and geographies of discontent (Urso et al., 2023). The referenced political geography approaches conceptualise public finance as a dimension that can improve understanding of the underlying complex causal structure of uneven spatial development. We take these modelling approaches as a starting point to shed light on the role of public finances, focusing on structurally weak rural areas under pressure from austerity. We refer to austerity as "an economic and social reform agenda premised upon fiscal constraint and deficit reduction, reduced state expenditure, shrinking government achieved via privatisation, and significant cuts to social welfare" (Davidson & Ward, 2018b, p. 8). Following this definition, however, our attention is directed towards the municipal level, arguing that the specific challenges faced by small, rural municipalities in implementing austerity policies differ significantly from those encountered by larger cities. Specifically, our aim is to work out the concept of a *rural consolidation state* in order to unveil the effects of the prevailing austerity policy using the example of rural municipalities in Germany.

In our paper, we build on the argument that austerity has always been prevalent as a common-sense approach (Hall & O'Shea, 2013) – not solely in times of crisis. Instead of identifying austerity historically as a recurring political recipe that addresses the symptoms rather than the disease (Konzelmann, 2014, p. 735), we aim to elaborate how austere policies have been imposed at all spatial scales, including the less-recognised levels of rural villages and small towns. For this observation, we introduce the concept of the rural consolidation state. In our paper, we argue rural areas under austere pressure are characterised by five elements: uneven development, political marginalisation, infrastructural challenges, limited administrative capacity and community capitalism.

This paper employs the case study of Bavaria – a German federal state with strong spatial disparities in terms of debt and structural strength – to analyse the distinctive characteristics shaping the design of debt support programmes in rural municipalities. To achieve this objective, we examine the debt support programme, *stabilisation aid* (*Stabilisierungshilfen*), which has distributed over a billion euros to Bavarian municipalities since 2012. Our research aims to explore how the conditionality of stabilisation aid manifests in these specific rural contexts. Therefore, we build on theoretical insights from financialisation research and critical geography. Firstly, the provision of debt support to financially weak municipalities has been shaped against the backdrop of the increasing financialisation of the economy, which has expanded into areas of state sovereignty. We refer to Streeck's (2014, 2015) argument that the states had to signal their creditworthiness and thus a new form of statehood, *the consolidation state*, emerged. Secondly, the perspective of *austerity urbanism* (Davies & Blanco, 2017; Peck, 2012) offers valuable insights into the scalar relationships within the nation state. This

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approach revolves around the delegation of responsibilities and the shifting to lower scales of costs that emerge from neoliberal deregulation and liberalisation. Given the shortcomings of these two theoretical approaches – the non-engagement with scale by Streeck's consolidation state and the focus on urban areas by austerity urbanism – we aim to establish a conceptual framework for understanding the notion of a rural consolidation state.

This paper is structured as follows. Section 2 presents our theoretical argument based on Streeck's consolidation state and austerity urbanism, leading to consideration of the rural consolidation state. Section 3 provides a comprehensive overview of public finances in small municipalities and offers a historically informed perspective on the implementation of debt support programmes at the municipal level in Germany. Section 4 focuses on our case study of Bavaria, where we present our empirical findings from 129 Bavarian municipalities that have received stabilisation aid and 15 interviews conducted during two field trips. Section 5 critically reflects on the concept of the rural consolidation state and its implications, while Section 6 concludes with concerns about the populist risks associated with austerity.

2. From Streeck's consolidation state and austerity urbanism to the rural consolidation state

This section sets out the conceptual background, with its origins located in the global financial crisis (GFC) of 2007. This crisis affected almost all financial institutions (Krugman, 2009). Confronted with imminent insolvencies, national governments around the globe rescued most of the banks through large-scale bailouts, resulting in a sharp rise in public debt (Helleiner, 2014). For some EU countries like Spain, Greece or Portugal, the (re-)financing of sovereign bonds became increasingly expensive or even impossible (Lapavitsas, 2012). However, as Mullis et al. (2016, p. 52) argue, this crisis has been used to switch cause and effect: the public debt crisis resulting from the economic downturn and the bank bailouts were turned into a crisis of poor fiscal governance, highlighting that "austerity programmes are class-based interpretations of the fiscal crisis of the state" (Peet, 2011, p. 396). Subsequently, austerity policies emerged as "the dominant global wisdom for addressing the 'problem of public debt'" (Clarke & Newman, 2012, p. 300). These policies were imposed across wide segments of society, aiming to bolster "investor confidence in the government's ability to manage its finances" (Konzelmann, 2014, p. 703) but leading to severe economic and social consequences (Hadjimichalis, 2018).

Conceptually, this shift towards austere policies was captured by Streeck (2014) as a reconfiguration of the state. According to him, post-war Western states transitioned through three distinct stages. The first stage was the *tax state*, roughly spanning from the 1950s to the late 1970s, where state functions were predominantly financed through tax revenues, allowing governments to fulfil their social, economic and administrative responsibilities. As tax-based financing became politically and economically constrained, states entered the stage of the *debt state*, from the late 1970s until the Global Financial Crisis, turning towards borrowing as a central fiscal strategy. This shift gave the financial markets significant influence over the state. Following the GFC, the mounting pressure of debt led to the third configuration of the state, the *consolidation state*. Characterised by austerity measures, this stage aims to signal creditworthiness to banks through strict budget discipline (Streeck, 2014, p. 96). This reconfiguration of public finance strategies underscores the growing influence of financial market forces on public governance, leading to "deep changes in political institutions and social structures" (Streeck, 2017, p. 148). Austerity is hence part of a broader political project that is transforming the state and society in the long term. Streeck (2017, p. 148) particularly highlights that this transformation to a consolidation state involves dismantling of welfare state structures and the privatisation of public services, illustrating how these shifts align with the broader aims of austerity policies.

While Streeck (2015, p. 21) identifies the causes for the development of the consolidation state at national and European level, further insights into the austere effects of this configuration of the state are barley illustrated in a scalar-sensitive form. A closer look at the role of scale is, however, essential (Pike et al., 2018, p. 121), as local governments manage key public services (Donald et al., 2014, pp. 5–6). For a more nuanced understanding of the restructuring of scales in the aftermath of the GFC, we complement the concept of the consolidation state with insights from research on austerity urbanism (Peck, 2012, 2014). Austerity urbanism offers a multidisciplinary lens to examine urban governance under austerity. The approach distinguishes between two interlinked and mutually influencing dimensions of urban austerity. Firstly, its fiscal dimension aims to achieve a lean state through staff cuts and underinvestment in public infrastructure (Theodore, 2020, p. 6). Secondly, its scalar dimension impacts on the municipal level through the erosion of local administrative capacities and the downward shifting of costs (Gray & Barford, 2018, pp. 544–545) – a process termed "austere federalism" by Peck (2012, p. 632). This leads to an asymmetric burden on municipalities, which is likely to widen the gap between economically strong and weak municipalities. As to the force behind this austerity-driven restructuring, Streeck (2017, p. 146) points to "the pressure exerted by the global financial industry on states to restore their creditworthiness through renewed and even greater efforts to consolidate public finances". To signal solvency, some national governments have imposed stringent limits on new public debt, such as debt brakes in Germany (Belina & Petzold, 2020, p. 203). This leads to a budgetary effect in that states tend to continuously reduce the proportion of discretionary and flexible expenditure (Streeck & Mertens, 2010, p. 12), thereby further restricting the scope for public spending.

Not only, but especially in the German context, these shifts are reflected in the reduced capacity of higher levels of government to provide municipalities with the necessary funds for ongoing operations and investments (Hesse & Starke, 2023, p. 13). Furthermore, these processes are also manifested in the delegation of additional tasks to local governments without adequate funding (Brand & Steinbrecher, 2017, p. 436). In other words, the consolidation state means that municipalities receive less funding while being required to manage more and more tasks. However, the poor financial situation of many municipalities – which are already overindebted and structurally underfunded – has itself led to growing concerns in the banking sector regarding their creditworthiness (Person & Geißler, 2020, p. 208). Within the financial markets, regulatory measures, such as Basel III, linked municipal lending to a theoretical default risk, thereby making credit provision to municipalities less attractive (Heinelt & Stolzenberg, 2014, p. 232). Consequently, the financial markets sought "to be assured that public debt is under political control" (Streeck, 2015, p. 10). In response, some federal states introduced debt support programmes (see Table 1), which provided temporary financial grants but at the same time required municipalities to implement consolidation measures. Conditional aid of this sort permanently implements austerity measures, as cuts and increases of taxes and fees may not be reversed. The combination of temporary aid and permanent consolidation, as reflected in debt support programmes, is referred to as "enduring politics of austerity" (Theodore, 2020, p. 4).

A central theme within the research field of austerity urbanism is widespread cost-cutting through reductions in public services and staff cuts, as cities frequently slash spending on discretionary and non-essential services to balance their budgets (Davidson & Ward, 2018a; Peck, 2012). Another significant dimension involves the privatisation and outsourcing of public services as a cost-saving strategy. This process ranges from contracting out essential functions such as waste collection, to the sale of public assets including real estate and critical infrastructure (Donald et al., 2014, p. 5). Collectively, these austere practices illustrate the transformation of urban governance, with profound implications for social equity and service delivery at the local level.

Our paper focuses on smaller municipalities, mostly in rural areas in Germany, as we believe that existing research – predominantly centred

Table 1
Overview of municipal consolidation and debt support programmes from 2010 to 2012, authors' presentation (Stolzenberg, 2018, p. 128; Boettcher et al., 2018; Person & Geißler, 2020; Zabler, 2021, pp. 56–59).

German state (debt support programme)	*Duration*	*Volume in millions of €*	*Source of funds*	*Terms of access*	*Aim*
North Rhine-Westphalia (*Stärkungspakt Stadtfinanzen*)	2011/2-2020	5850	Federal state and municipalities	Over-indebtedness	Municipal budget balancing
Lower Saxony (*Zukunftsvertrag*)	2012–2030	1260	Federal state and municipalities	Fiscal strength and cash loans	Debt reduction; Municipal mergers
Saxony-Anhalt (STARK II)	2010–2016	513	Federal state	Funding list; Maturity of loans	Debt reduction
Schleswig-Holstein (*Kommunalhaushalts-konsolidierungsgesetz*)	2012–2018	750	Federal state and municipalities	Budget deficit	Budget stabilisation
Bavaria (*Stabilisierungshilfen*)	2012-today	1131	Federal state and municipalities	Structural and financial weakness	Debt reduction; since 2019 also reduction of investment backlogs
Saarland (*Kommunaler Entlastungsfonds*)	2012–2019	120	Federal state	Budget deficit	Debt reduction
Mecklenburg-Western Pomerania (*Konsolidierungszuweisungen*)	2012–2020	100	Federal state	None	Municipal budget balancing
Hesse (*Kommunaler Schutzschirm*)	2012–2020	3200	Federal state	Cash loans and budget deficit	Debt reduction
Rhineland-Palatinate (*Kommunaler Entschuldungsfonds*)	2012–2026	3825	Federal state and municipalities	Cash loans	Debt reduction

on cities as the "leading and bleeding edge of austerity's 'extreme economy'" (Peck, 2012, p. 626) – has limitations in addressing also rural realities (May et al., 2020, pp. 409–410). Therefore, our study sets out to establish a conceptual framework for understanding the notion of a rural consolidation state. It does so by analysing the specific difficulties that austerity measures entail for rural municipalities. To identify the characteristics of the rural consolidation state, we adopt a non-essentialist understanding of rural areas, viewing them not as fixed or inherently distinct spaces, but as relational constructs shaped through their interaction with urban contexts. This perspective, which aligns with the Thünen Institute's definition (Küpper, 2016, pp. 4–5; see Fig. 2), emphasises that rural areas are the outcome of structural power relations, processes of exclusion, resource distribution, and identity construction that operate across the urban–rural continuum (Woods, 2011, p. 15).

(1) *Uneven development*: The economic structure of rural municipalities differs significantly from urban regions. This can be explained, for example, by the agglomeration effects of cities, namely economies of scale, specialised labour markets and dense supplier networks, all of which contribute to higher productivity (Harvey, 1985, p. 15). These advantages arise in cities due to the spatial concentration of firms and people, which fosters close interactions, efficient resource sharing and faster knowledge exchange, and leads to uneven spatial development (Harvey, 1985, p. 24). Analogously, rural municipalities often face challenges such as a limited workforce and less access to business networks, resulting in lower municipal tax revenues. Consequently, rural municipalities have diminished prospects for fiscal consolidation through local (business) taxation.

(2) *Political marginalisation*: Rural municipalities are disadvantaged by the paradigm shift in spatial planning (Brenner, 2004), which involves a transition from *spatial Keynesianism*, a planning system based on interregional redistribution, to a *rescaled competition state regime*. The latter involves location-specific programmes aimed at increasing competitiveness. This spatial strategy includes infrastructure projects in cities and metropolitan regions aimed at improving positioning in global competition between regions (Öjehag-Pettersson, 2024). These growth-oriented regional policies (Barlösius, 2009, p. 23) drive the centralisation of productivity, innovation and infrastructure in urban hubs. This goes hand in hand with a gradual decline (Royer & Leibert, 2024, p. 223) and political marginalisation of rural areas (Rodríguez-Pose, 2018). Whereas cities are "critical actors in setting the tone for national and international politics" (Davies & Blanco, 2017, p. 1533), small municipalities often lack sufficient political influence at the federal state level and are thus disproportionately affected by especially harsh consolidation measures (Brand, 2013, p. 90).

(3) *Infrastructural challenges*: Rural municipalities are often defined by structural characteristics such as small and declining populations due to outmigration to urban centres (Cilek et al., 2025) and a low population density. Furthermore, they are frequently distinguished by a substantial number of smaller village districts. These structural differences cause higher municipal costs for the provision of infrastructure and public services per person than in densely populated areas. Austere pressure leads to increased precarisation of rural infrastructure (Barlösius et al., 2011), which can result in the reduction or even shutdown of services (Naumann & Reichert-Schick, 2015, p. 1). Moreover, the consolidation of infrastructure involves escalating costs for residents, as fees increase.

(4) *Administrative capacity*: Small municipalities are faced with staffing challenges. Hence, they frequently lack full-time staff, which hinders the attainment of consolidation success through staff cuts. Additionally, staff within such municipalities tend to be "generalists rather than specialists" (Raffer et al., 2021). This attribute renders them less suitable to meet the substantial demands associated with complex funding programmes and infrastructure projects (Laboa & Adua, 2011, p. 422). The consolidation of municipalities through measures such as staff reductions or the cessation of staff training programmes can exacerbate existing disparities in staff qualifications, leading to further limitations in administrative capacity.

(5) *Community capitalism*: Finally, social structures in rural municipalities are characterised by a greater willingness to volunteer and self-organise (Paarlberg et al., 2022). This social potential represents a valuable resource for rural communities and their development (Lundgren & Nilsson, 2023). This implies that in rural areas, many services of general interest, such as youthwork, culture and fire services, are mostly provided on a voluntary basis. However, these services tend to be less permanent than professionalised services. The viability of this community capitalism (van Dyk, 2018) also relies on municipal support and infrastructure, which are susceptible to cuts due to austerity policies. Consequently, rural communities are particularly vulnerable to cuts in this area.

The rural consolidation state manifests in various ways, depending on federal structures, systems of municipal finances, political traditions and levels of social engagement. The following section explains the

German federal system of public finances as background for section 4, which examines the specific case of Bavaria to illustrate how these dynamics unfold within the German context.

3. The German federal system of public finances in small municipalities in times of scarcity

As our analysis focuses on the scalar dimension of fiscal consolidation in Germany, the following section provides an overview of German federalism, focusing on municipal budgets and debt support programmes since the 2010s.

Germany's federal system is characterised by three levels of governance, encompassing the federal government, federal states and districts (urban and rural) (see Fig. 1). The latter category is further subdivided into municipalities. Each level has access to specific sources of revenue and is entrusted with distinct responsibilities. At the municipal level, a particularly significant distinction is made between mandatory and voluntary tasks within the framework of local self-government which is guaranteed by the German constitution (Art. 28 (2)). The mandatory component encompasses domains such as school education, infrastructure and fire services, wherein municipalities retain discretion over the organisation and quality of services of general interest. In contrast, the voluntary domain covers areas such as culture, sports, youthwork and tourism, where municipalities exercise discretion over the extent to which they engage. Hence, the principle of municipal autonomy in Germany attains its most pronounced expression in the domain of voluntary tasks. The primary financial resources of the municipalities are drawn from tax revenues (43 % of total revenue), transfers from the federal states and the municipal fiscal equalisation system (40 %) and fees (7 %) (Bundesministerium der Finanzen, 2024, p. 1). Municipalities exercise autonomy in determining the tax rates on business and property, while in the realm of shared taxes (Value Added Tax (VAT) and Personal Income Tax (PIT)), they receive a proportionate share of the tax revenue.

The most significant municipal tax is business tax (20 % of total revenue) (Bundesministerium der Finanzen, 2024, p. 1), although its role is considerably less pronounced in small, rural municipalities: per capita business tax revenue in municipalities with fewer than 1000 inhabitants is € 330, compared to € 801 in towns with between 50,000 and 100,000 inhabitants (Statistisches Bundesamt, 2022, p. 12). Conversely, these municipalities derive significant revenue from shared taxes, notably from PIT, and transfers. This implies that smaller municipalities are only able to consolidate to a limited extent through tax increases on business and therefore have less autonomy.

Despite the extent of financial flows within the federal system, many municipalities encounter budgetary constraints. Following the GFC and the resulting slump in tax revenues, debt support programmes to help particularly financially weak municipalities were set up in nine of the 16 German federal states. In addition to the municipal financial equalisation scheme, the respective municipalities typically receive capped financial funds. Extensive debt support programmes were implemented in North Rhine-Westphalia, Rhineland-Palatinate and in Hesse, – all German states with very high municipal debt. Despite its relatively low overall level of debt, Bavaria launched a voluminous debt support programme, which we examine in greater detail in our case study (Section 4). The programmes are generally financed only by state resources or by combined state and municipal funds. Furthermore, they pursue different objectives, ranging from debt reduction to consolidation and the terms of access (see Table 1).

The provision of debt support to municipalities is predicated on the condition that they demonstrate a credible commitment to consolidation. This objective of mitigating the consequences of moral hazard is realised through the ratification of a consolidation agreement between the federal state and the municipality, which delineates the designated municipal cuts and revenue increases. From the perspective of (institutional) economics, moral hazard refers to the problem that the state rewards highly indebted municipalities for their failed budgetary policy by granting them debt support, while financially successful municipalities are left with nothing (Allers, 2015). Due to the soft budget constraint (Pettersson-Lidbom, 2007), new debt becomes more likely, as municipalities may rely on a bail-out in case of need (Baskaran, 2017). This dilemma – on the one hand local government's need for help, on the other hand rewarding supposedly slack public finances – gives rise to the linking of debt support to harsh consolidation measures.

4. The rural consolidation state in action: evidence from Bavaria

In the following, we delineate the various consolidation strategies in rural areas, drawing on our analysis of stabilisation aid in Bavaria. Therefore, we introduce the programme and outline our methodology in Sections 4.1 and 4.2. In Section 4.3, we present empirical findings across the three dimensions of retrenchment via taxes and fees (1), downsizing and decline in public administration and infrastructure (2) and cutbacks of services and subsidies (3). The objective of this section is to illustrate the rural consolidation state in action using the example of Bavaria.

4.1. Stabilisation aid in Bavaria: an overview

Compared to other German federal states, Bavaria's municipalities show a very low level of debt. Moreover, Bavaria has been identified as one of the nationwide leaders regarding structural indicators such as unemployment, tax revenues, personal income and investment. For instance, real investment in Bavaria amounts to around € 750 per capita, a figure that is substantially higher than the average of approximately € 450 for the territorial federal states. Furthermore, Bavaria's investment in school construction is six times that of North Rhine-Westphalia (Nees & Scholz, 2022, pp. 22–24). It is perhaps unsurprising that the Bavarian government has emphasised that the state is "strong everywhere" and that this strength is also evident in rural areas (Bayerisches Staatsministerium der Finanzen und für Heimat, 2015). Nonetheless, there are significant spatial disparities in Bavaria (Dudek & Kallert, 2017), which are also evident in the widely varying municipal levels of financial strength and debt. Consequently, in 2012 Bavaria initiated stabilisation aid to support structurally weak municipalities in financial trouble. From 2012 to 2022, a total of € 1.131 billion was used for stabilisation aid for municipalities, including around € 122 million for 16 districts, and thus explicitly for budget consolidation and debt reduction. While 37 % of these funds were provided by the Bavarian state, 63 % came from an advance deduction in the municipal financial equalisation scheme – the main burden of consolidating financially weak municipalities therefore remains with the Bavarian municipalities themselves. The geographical distribution of stabilisation aid reflects the spatial disparities in Bavaria: Fig. 2 depicts a map of the state in the southeast of Germany. The 193 participating municipalities (between 2012 and 2022 out of a total of 2056 Bavarian municipalities) are concentrated in the northern and eastern peripheries of Bavaria in rural areas; only very few municipalities located near to the urban centres or in the relatively rich south of Bavaria (see: Dudek & Kallert, 2017, p. 23) joined the programme. In the map, we distinguish between municipalities with fewer than 3000 inhabitants (63 % of all participating municipalities) and those with more than 3000 inhabitants including Fürth, the only major city with more than 50,000 inhabitants. Additionally, the map indicates the degree of rurality as provided by the Thünen-Institute (2024). It becomes evident that most municipalities receiving stabilisation aid are situated in rural or highly rural regions.

The basic prerequisite for receiving aid is a budget consolidation concept (*Haushaltskonsolidierungskonzept*; HKK) including the financial planning for a period of at least three years. Accordingly, a ten-point catalogue lists suitable measures for fiscal consolidation, including a ban on reappointments and promotions, a review of measures for all disposable expenses and loss-making municipal facilities (e.g. swimming pools), the reduction of all voluntary tasks, privatisation of assets and an

Fig. 1. Overview of German federalism and public finances (Source: the authors; Bullerjahn & Thöne, 2020, p. 11).

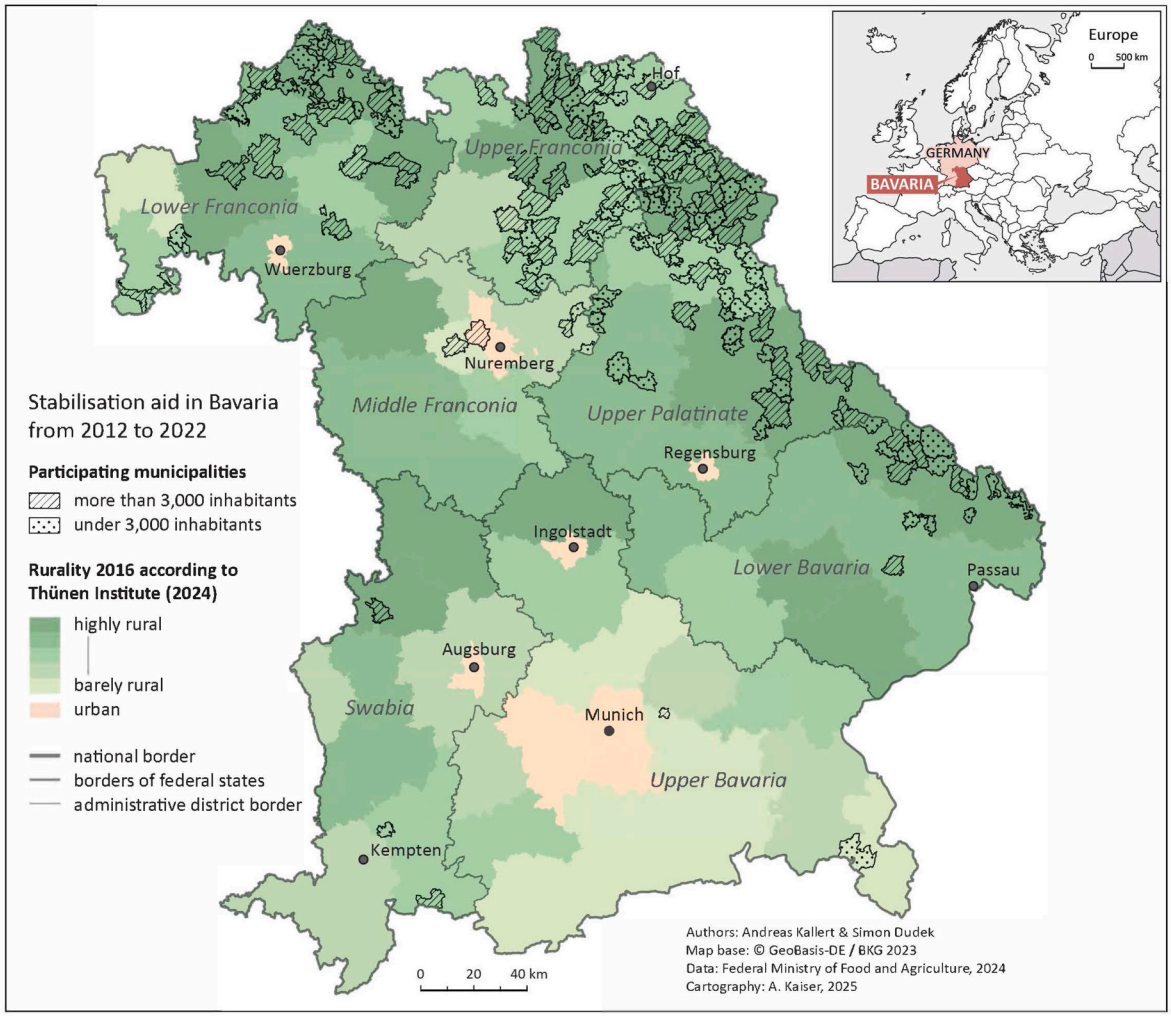

Fig. 2. The spatial distribution of stabilisation aid in Bavaria from 2012 to 2022.

increase in taxes for business and property (Bayerisches Staatsministerium der Finanzen, 2012, appendix). This consolidation is also made more difficult by a special feature of stabilisation aid in Bavaria: in contrast to other federal states where financial help is granted for periods of ten years and more, debt support in Bavaria is approved annually, which makes municipal budget planning considerably more difficult.

4.2. Methodological approach

Methodologically, our research is based firstly on the municipalities' HKK and secondly on a total of 15 interviews conducted during two field research trips. The HKK had to be individually requested from the municipalities, resulting in a final dataset of 129 from 193 participating municipalities. As the municipalities are required to prepare and continually update the HKK on an annual basis, our text corpus comprises 406 documents (HKK, 10-point catalogue, application documents, tables) covering the period from 2012 to 2023.

These documents were analysed in two steps. Firstly, all available 2300 consolidation measures were collected and categorised into policy domains (e.g. finance, administration, childcare, schooling, social services, transport, economy) and measures (e.g. reduction of services and subsidies, closures, reorganisation, job cuts, increase in charges). Secondly, a discourse analysis (Fairclough & Fairclough, 2012) of the 406 documents was conducted on the municipal documents to identify reasons, imaginaries and strategies for dealing with consolidation at a local level. The perspectives thus gained were supplemented by two case studies in selected peripheral municipalities in northern Bavaria, where 15 interviews were held with stakeholders (e.g. from local politics, administration, business, civil society). These two small municipalities, each with fewer than 4000 inhabitants, are located in rural areas, have long been structurally and financially weak, and are subject to a harsh consolidation process. We chose municipalities A. and N.[1] as they have been the recipients of prolonged stabilisation aid and are characterised by high levels of municipal debt. The interviews addressed a number of key issues, including the general situation in the municipality, the stabilisation aid, financial weakness and its consequences, (social) infrastructure and business environment, socio-political discussions, and local political and civil society strategies for dealing with the financial situation. We transcribed, anonymised and subjected the interviews to critical discourse analysis using the MAXQDA tool. The analysis of both the interviews and the documents is based on a heuristically developed code system, which encompasses, inter alia, consolidation measures, strategies for dealing with them and the structural characteristics of small, rural municipalities.

This extensive empirical material allows us to demonstrate both the extent and focus of consolidation and, conversely, the specific conditions and consequences of financial weakness in small municipalities, concretising our concept of the rural consolidation state. In order to achieve this, we have systematised the austerity management approach.

Overmans and Noordegraaf (2014, p. 101) define austerity management as "executive and managerial responses, aimed at restoring the fiscal balance, against the background of increasing demands for (public) services and (political and public) expectations of organisational performance". They distinguish between responses that focus on stability or change and those that primarily stress fiscal or organisational measures. Hence, four strategies deployed by public administrations can be identified: decline, cutbacks, retrenchment and downsizing (see Table 2).

The distinction between the respective strategies is not always clear-cut, insofar as the closure of a facility (e.g. a library) falls under the category of "decline", but at the same time usually also involves job losses and therefore "downsizing". However, the austerity management approach, complemented by our theoretical findings concerning the consequences of consolidation (Section 2), facilitates the systematic analysis of subsequent consolidations in Bavaria.

Table 2
Overview of austerity management strategies. Source: Overmans & Noordegraaf (2014), pp. 101f.

	Stability	Change
Fiscal measures	Cutbacks (e.g. termination of subsidies)	Retrenchment (introducing and raising taxes and fees)
Organisational measures	Decline (e.g. closing facilities, lowering maintenance levels)	Downsizing (optimising and merging organisational parts, job losses)

4.3. Empirical findings on consolidation in Bavarian rural municipalities

In our analysis of the data collected on Bavarian municipalities under financial pressure as a result of stabilisation aid, we identify three dimensions of consolidation in small municipalities: firstly, retrenchment via the improvement of revenues through municipal taxes and fees; secondly, the downsizing and decline in public administrations and infrastructures; and thirdly, cutbacks especially in the area of voluntary tasks. Our analysis of the individual consolidation measures shows a total consolidation volume of € 138 million in the 129 municipalities from 2012 to 2023, which is an underestimate due to previous consolidation and often unquantified measures. It is also important to note that postponed investments de facto form a component of all consolidation concepts. However, these delayed investments are not quantified in financial terms and therefore cannot be included in the evaluation, despite their significant impact on expenditure. Nevertheless, due to the large number of cases, it is feasible to draw conclusions about consolidation in Bavarian municipalities.

Generally, the distribution of consolidation measures as a proportion of the overall municipal consolidation of all 129 municipalities analysed is illustrated in Fig. 3. It is evident that revenue increases via business and property taxes (21 %), fees (24 %) and other taxes (2 %) account for approximately 47 % of total consolidation amounting to € 138 million, while reducing expenses contribute 53 %. The most significant factors on the side of expenses are reorganisation and optimisation (16 %), restrictions on services and subsidies (12 %), and the reduction of public facilities and sale of land and premises (10 %).

The distribution of consolidation measures provides an initial insight into the rural consolidation state. A more detailed examination, incorporating the findings of the interviews during our field research, is provided in the following.

4.3.1. Dimension I: retrenchment via fees and taxes

In Germany, municipalities have no direct influence on large parts of their revenue, such as fiscal transfers from the federal states and from the municipal financial equalisation scheme, or participation in VAT and income tax (see Fig. 1). Hence, on the revenue side, a municipality has three main methods of retrenchment at its disposal for generating new resources (Overmans & Noordegraaf, 2014, p. 105): it can increase its taxes on business and property, it can introduce or hike other taxes (e.g. on dogs, tourism, second homes) and it can also boost fees.

In the case of Bavaria, it can be observed that increases in fees, rents and leases account for almost a quarter of overall consolidation, representing the most significant consolidation measure. This is particularly evident in the context of increases in water and wastewater charges and cemetery fees. The combination of a low population density and a large area of land increases infrastructure costs, and this must be passed on to residents in order to cover the costs as a prerequisite for receiving stabilisation aid, as stated in the 10-point catalogue. This is recorded in the HKK of one municipality, which has increased its cemetery fees by up to

[1] In the following, all municipalities are abbreviated for reasons of anonymisation.

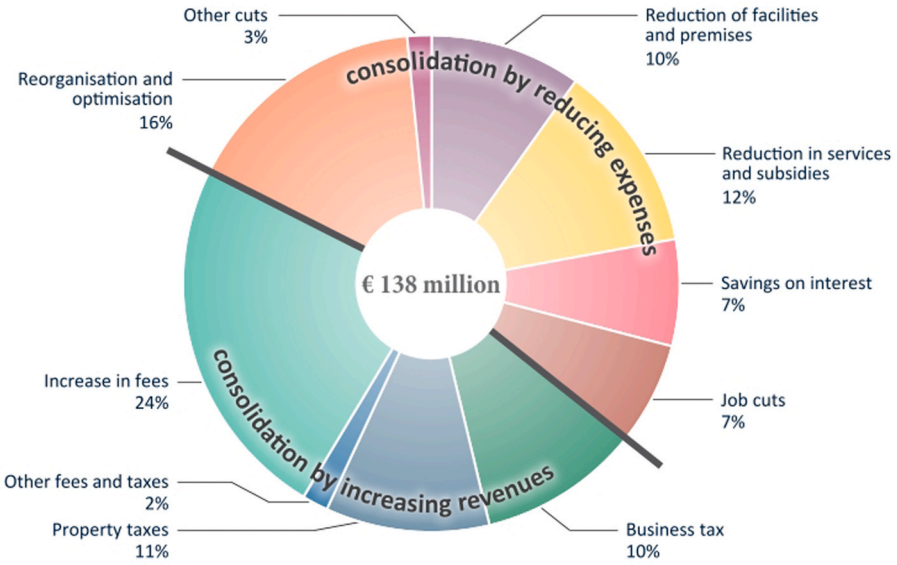

Fig. 3. Distribution of consolidation measures in Bavarian municipalities receiving stabilisation aid. Source: HKK of 129 municipalities.

380 % despite "massive resistance and criticism from the population".[2] Furthermore, the municipality notes that covering the costs of cemeteries is extremely difficult, "especially in a large municipality like S. with a large number of villages" (S., HKK, 2023, p. 9). Other measures include fee increases for sports facilities, libraries and daycare centres. In some cases, these retrenchments have resulted in the "highest rates for municipal daycare centres in the entire district" (L., HKK, 2013, p. 9). In summary, consolidation through fee increases places a significant burden on residents, who bear the majority of the consolidation costs in these rural areas. Furthermore, these measures often penalise those who volunteer, as is evidenced by the following interview:

"And from us associations, we do voluntary work, and it is taken from us (…). And you think, we do so much for the village, why isn't the municipality more lenient?" (Interview #11 in N.)

On the revenue side, it is also noteworthy that property tax (11 %) and business tax (10 %) contribute almost equally to consolidation, although the national average of municipal revenue from business tax exceeds that from property tax by a factor of 3.5 (Bundesministerium der Finanzen, 2022, p. 1). This is also since the majority of the municipalities affected are economically weak, which results in the basis for business tax increases being low. As one municipality (L., HKK, 2013/4, p. 30) notes, "revenues from business tax are rather volatile due to local and regional economic fluctuations in rural areas". Furthermore, many municipalities fear that companies will move away if there is a significant increase in business tax (Interview #6 in A.; H., HKK, 2015, p. 47). Consequently, residents are once again subjected to a significant financial burden through property tax "reaching the burden limit for citizens" (B., HKK, 2017, p. 7) and the "pain threshold" (B., HKK, 2022, p. 8), whereas businesses tend to be less affected. The neoliberal logic of competition and the state's interest in itself (Offe, 1972), including the municipal state (Kallert & Dudek, 2024), structurally privilege (mobile) capital over residents who cannot simply relocate due to higher taxes. Nevertheless, in contrast to the neoliberal state at international level, which is characterised by tax-cutting competition, the municipal level is also characterised by tax increases, including on capital. Furthermore, the imposition of high fees and taxes deters both companies and people, thereby increasing the risk that the costs of municipal services will be spread across an even smaller number of people in the future. These public services are discussed in the following section.

4.3.2. Dimension II: downsizing and decline in public administration and infrastructure

On the expenditure side, organisational measures dominate with public administration and infrastructure at the top of the consolidation list. The postponement of investments in technical and social infrastructure leads to significant and pervasive deficiencies. This decline is accompanied by lower maintenance standards and presents a considerable challenge to the development of rural areas, as the following quote illustrates:

"So this stupid Enquete Commission [*Bavarian Enquete Commission for Equivalent Living Conditions* consisting of politicians and experts], well, I brought them to A., I told them to go there with their equivalent living conditions. (…) I can no longer renovate a road network according to the specifications because I simply can't get the money." (Interview #6 in A.)

Even roads that are in a "desolate, unacceptable condition" cannot be repaired because more frequented places have priority, as people would otherwise "break their ankles" (Interview #6 in A.). One mayor describes the situation in his municipality as a "struggle for survival" in which only "life-sustaining measures" are left (Interview #13 in N.).

The potholes in the streets, the vacant and decaying houses are omnipresent:

"The old town is bleeding out more and more and is also decaying in my eyes. (…) And yes, when you walk through the town and see how everything is really, I'll say it, deliberately rotting away (…). It really hurts my soul." (Interview #1 in A.)

These significant shortcomings are not solely attributable to financial constraints; they are also perceived to be a direct consequence of the harsh conditions for receiving stabilisation aid. One interviewee emphasises the "converse conclusion" of getting this support: since you are supposed to cut spending, investments are withdrawn or not made at all (Interview #9 in N.). Under the conditions of stabilisation aid, only investments that are essential and cannot be postponed are permitted. Therefore, village development support, including addressing the numerous vacant properties, is unfeasible. One local municipality describes this problem:

"It is extremely regrettable that the regional Government of Upper Franconia is currently prohibiting our municipality from accessing funding programmes that specifically exist for financially troubled municipalities. (…) If not with a 90 % subsidy, when else are these vacant

[2] In the following, all German quotations have been translated into English by the authors.

properties to be put to permanent, sustainable and economic use? The consolidation requirements are absolutely sending out the wrong signal here." (B., HKK, 2023, pp. 5-6).

Furthermore, another municipality points out that the implementation of necessary village development measures is impeded by the constraints of austere policies and the conditions of stabilisation aid (A., HKK, 2020, p. 3). In addition to the aforementioned impediments to investment in village development, there have also been job losses and merging of organisational departments in public administration and in the municipal building facilities (*Bauhof*). Approximately 7 % of the total consolidation sum is being saved through staff cuts. The reduction in personnel has resulted in a weakening of the municipality's capacity to plan and maintain infrastructure, thereby making it more challenging to secure funding, which is a time-consuming and bureaucratic process. It is noteworthy that the *Bauhof* is a primary focus for downsizing, as there are few other full-time administrative personnel in the often very small municipalities. On the one hand, stabilisation aid is vital for the survival of troubled municipalities, but on the other hand, it may limit the scope for necessary investment, raising questions about the purpose of the aid in the first place. "It is really a choice between plague and cholera. It's too little to live and too much to die." (Interview #14 in N.) In conjunction with the implementation of increased taxation and fees, the postponement of investment and the associated deficiencies in infrastructure may result in a further decline in the ability of municipalities within the programme to compete with other municipalities to attract businesses and new residents.

4.3.3. Dimension III: cutbacks of services and subsidies

The third dimension is the reduction of services and subsidies. These cutbacks contribute a total of approximately 12 % to overall consolidation. One of the reasons for this focus is that "all opportunities for self-help" must be exhausted in order to receive stabilisation aid (Bayerisches Staatsministerium der Finanzen, 2012, p. 4). This explicitly includes "the listing and critical review of all voluntary tasks" (Bayerisches Staatsministerium der Finanzen, 2012, Annex, 2), a requirement that can even result in "the implementation of the directive to 'cancel all voluntary tasks'" (W., 10-point catalogue 2014, p. 5). In the majority of cases, this pertains to services and subsidies in the domains of sport, culture and youthwork, which are either reduced or cut, including facilities such as swimming pools. One municipality highlights the limitations of these cutbacks: "The potential for reducing municipal services is constrained by the fact that a swimming pool can only be closed once" (B., HKK, 2022, p. 5). Nonetheless, reductions in services extend to essential areas such as transportation and local administration. For instance, street lighting hours are often shortened to reduce electricity costs, and expenditure on specialised literature and training courses is frequently axed. In an administration where generalists are the norm, such cutbacks heighten the possibility that the municipality will face challenges in maintaining competitiveness for business investment and securing funding.

The cultural sector is most affected by such cutbacks, accounting for approximately 30 % of this total cutback dimension. This includes reductions and cancellations of subsidies for cultural events such as village festivals, as well as funding for cultural institutions such as museums and libraries. Cutbacks in culture, along with youth and family work, have a particularly detrimental impact in areas characterised by a high level of voluntary work within numerous non-profit associations, particularly in rural communities, which are often exposed, as shown, to fee increases. Furthermore, the Bavarian state government has not set a "concrete limit" (Interview #6 in A.) for the extent of the cuts within voluntary tasks, thereby reinforcing austerity policy. The individual measures, such as the withdrawing of association subsidies or the shortening of library opening hours, are not particularly relevant in quantitative terms. However, each individual measure makes it easier to demonstrate the required willingness to consolidate, which is also a prerequisite for receiving aid. As one interviewee noted: "In Upper Franconia there is a very silly saying: you can save yourself to death. And that is clearly supported by the stabilisation aid." (Interview #11 in N.). As services are gradually cut, austerity becomes an everyday experience for residents:

"What else should we cut? We are supposed to cut voluntary tasks, markets, festivals and other forms of support. What should make life worth living? Should we cancel and just look at the piggy bank?" (Interview #6 in A.).

This permanent austerity creates regional embitterment and a sense of neglect by federal and state policymakers; as one respondent put it, "N. doesn't even exist on the map. (…) Nobody thinks about us" (Interview #15 in N.).

There is a clear awareness of the financial weakness of municipalities among the general population, whether in everyday life or in local politics. The spatial inequality is particularly apparent when compared with other, non-poor municipalities:

"That's why I know the big difference between a municipality that has money and a municipality that has no money. And it was a completely different life. (…) In Allgäu [a rural region in the affluent south of Bavaria] I was totally amazed. (…) we drove through the streets and were like, wow, there are no vacant properties here, no potholes. (…) Everything felt like it was painted gold and we felt so strange." (Interview #11 in N.)

This sense of alienation is indicative of a spatial humiliation that is perpetuated by a perceived "clientele policy for the big city" (Interview #5 in A.), which further contributes to regional embitterment. There is a risk that all legal requirements cannot be met due to the implementation of extreme austerity measures, which can lead to frustration and resignation posing a "threat to our democracy" (N., HKK, 2023, p. 2). Consequently, no one should be surprised "if more and more people give up, get fed up with it or simply vote for the [German right-wing populist party] AfD" (Interview #13 in N.).

Municipal authorities, including mayors and local council members, play a pivotal role in this regard, as they bear the responsibility of determining and implementing local cutbacks resulting "from unpopular decisions that are no longer acceptable to the population" (Interview #13 in N.). Along with these austerity policies, municipalities face new tasks (daycare centres, refugee accommodation, etc.), rendering the local self-government enshrined in the German constitution a mere "platitude" (Interview #6 in A.), as one mayor put it. Austere federalism exerts its influence on municipalities:

"We in the municipality are the last in the chain. (…) We can then only pass it on to the citizens once and for all. And we, or rather the local politicians of course, get the whipping for it. (…) The lowest ones are then hit." (Interview #6 in A.)

The field of voluntary tasks is of particular importance in rural areas, where local politics are largely characterised by volunteers and there is a de facto absence of professional offers for sport, culture or youthwork. Instead, the majority of these voluntary tasks are carried out by volunteers in associations. Nevertheless, municipalities may provide financial support to volunteers in the form of expense allowances, grants to associations, assistance from the *Bauhof* or other means. Cutbacks of such voluntary tasks are associated with a reduction in the quality of life of residents when youth clubs are closed, sport clubs limit their activities or local festivals cannot take place. Consequently, financial constraints can become a pervasive aspect of people's daily lives. Even young children are affected by the austerity measures in their daycare centre routine:

"And my son is now four years old and he has already said that this is the stupid *Konsoldoof* [synthesis of consolidation and silly (*doof*)]. He hears that at kindergarten, because then the children want something and then the kindergarten nurses say 'Konsoldoof' so flippantly." (Interview #6 in A.)

We can conclude that the cutbacks are quantitatively insignificant but have a profoundly negative impact on the local community. However, there is also another side to the coin: the benefits and lack of alternatives to stabilisation aid are often highlighted both in the HKK and

in the interviews. The stabilisation aid is considered "a blessing, of course. Anything else would really be a lie." (Interview #14 in N.) Concurrently, the consolidation of municipal finances in the course of receiving stabilisation aid is regarded as positive by some municipalities. To illustrate this point, the budget consolidation concept alone demonstrates to a municipality that it should "utilise revenue opportunities to the maximum extent possible and limit expenditure to the bare minimum" (F., HKK, 2022, p. 13). In the following section we discuss how the rural consolidation state unfolds within the German context using the example of Bavaria.

5. Discussion: the rural consolidation state – findings from Bavaria

The three dimensions of consolidation shown in the previous section exhibit varying degrees of intensity in municipalities receiving stabilisation aid. On the one hand, this is linked to the amount of financial vulnerability exhibited by municipalities, ranging from a temporary need for support to structural and longstanding weakness. On the other hand, there is considerable variety in the capacities of the municipalities to deal with the consequences of austerity. Coping strategies with retrenchment, downsizing, decline and cutbacks may be developed by committed local politicians, or by civil society stepping in to address the gaps left by consolidation. Our case studies demonstrate a highly active civil society that provides numerous local services, including outdoor swimming pools, supermarkets and local heating networks in cooperative ownership, as well as cultural centres through voluntary work. This form of community capitalism (van Dyk, 2018) often represents the last resort for maintaining infrastructure and voluntary tasks, and therefore ultimately (still) serves as the guarantor for maintaining quality of life. Nevertheless, it would be erroneous to assume the existence of such an active civil society in all cases. Consequently, it is necessary to consider the economic and socio-cultural conditions under which a lack of volunteers in associations, local politics and initiatives may result in an inability to maintain services.

Based on the analysis in Section 4, the specific challenges faced by small municipalities in implementing austerity measures differ significantly from those encountered by larger cities. While cities, in response to austerity measures, may resort to unpopular instruments such as public-private partnerships or compete more vigorously for grant funding, small municipalities often cannot even consider these options. This is because the expected returns are too low for private investors due to low population density, and often these municipalities lack the staff and expertise for complex grant programmes. Additionally, small municipalities, just like cities, face new tasks imposed by federal and state governments, reflecting a form of austere federalism where municipalities bear the consequences of shrinking welfare states.

In Section 2, we proposed the concept of a rural consolidation state, consisting of five elements. The ensuing discussion examines the manifestation of these elements within the context of our empirical investigation of the Bavarian case study.

Firstly, due to the *uneven development* of rural municipalities, there is often no suitable basis for high-yielding business tax increases. For Germany, Vesper (2015, p. 30) shows that tax revenue increases with the size of the municipality, with larger cities relying more heavily on business taxes, while smaller municipalities benefit primarily from shared taxes (PIT and VAT). Furthermore and in general, strategic selectivity within the municipal state system (Jessop & Sum, 2006, p. 98) tends to prioritise property tax over business tax increases in municipal consolidation efforts due to concerns about businesses pulling out as a result of higher taxes whereas people are less mobile. The case study of Bavaria demonstrates that municipalities can achieve only limited consolidation through the implementation of (their own) tax increases. Instead, there is a tendency for municipalities to resort to fee increases, a practice that is problematic from a social perspective. Nevertheless, in contrast to the consolidation state at international level, the rural consolidation state is also forced to elevate its own taxes.

Secondly, rural municipalities frequently possess inadequate political influence at the level of the federal state and are consequently disproportionately impacted by particularly severe consolidation measures. Therefore, rural municipalities may be treated both as a signal to lenders and the financial market, and as a deterrent to other municipalities within the paradigm of moral hazard. Our analysis lends support to this assertion of a *political marginalisation* of the rural, as the notion that "no one thinks about us" (Interview #15 in N.) is a sentiment expressed by numerous individuals in affected communities. This is indicative of a perceived lack of recognition and attention from state policy, resulting in frustration und regional embitterment.

Thirdly, rural municipalities are constrained by a limited set of options for consolidation through expenditure cuts. This is due to their specific expenditure structure, which is characterised by the high costs of *infrastructural challenges* and a limited number of staff. As demonstrated in the case study, municipalities can often fulfil only mandatory tasks. However, these tasks are costly due to the extensive area of rural municipalities, comprising numerous villages. For instance, the presence of fire brigades in all villages is obligatory, and the maintenance of roads, sewers and water systems does not allow for cost-effectiveness. The necessity for municipalities under austere pressure to generate revenue through cost-covering fees results in higher charges for residents than those levied in urban areas of consolidation.

Fourthly, rural municipalities are particularly burdened by the professional and bureaucratic demands of both debt support and other funding programmes. In general, municipalities are increasingly reliant on complex funding programmes, which often delays project implementation and escalates costs. In some cases, this bureaucracy has even prevented projects from being executed at all (Raffer & Scheller, 2024, p. 20). Additionally, rural municipalities tend to employ generalists rather than specialists in their administration, and municipal policymakers are largely voluntary. However, they are still required to fulfil the same tasks as larger municipalities. As our analysis of the HKKs and interviews revealed, this uneven *administrative capacity* results in disparate burdens. These high and unequal burdens often give rise to frustration and resentment among rural communities.

Finally, in *community capitalism* it is precisely such civil society actors who, through their often-extensive voluntary work, address the gaps left by austere processes and the resulting lack of municipal capacities. The cutbacks of consolidation cause further frustration, as the burden shifts still more to voluntary workers. Most people in rural municipalities frequently participate in voluntary associations, neighbourhoods and initiatives, but the current dearth of younger individuals in many associations, particularly in positions of responsibility, raises concerns about the future sustainability of this passing on of tasks to volunteers in rural municipalities.

Based on these elements of the rural consolidation state, our study indicates that poor municipal finances and the resulting austere policies in rural areas are reinforcing "left behind" feelings and collective regional embitterment. The specific "selectivity of budget cuts" (Belina & Petzold, 2020, p. 201) in small, rural municipalities threatens to create further "societal division" (Konzelmann, 2014, p. 734), leading to a rejection of urban elites, federal and state politics and hostility towards democracy. It is right-wing parties in particular that can successfully capitalise on such resentment, despite offering no solution to the underlying issues faced by these communities (Förtner et al., 2021).

6. Conclusion

This article contributes to the ongoing debate on austerity by underscoring that austerity at the municipal level is also a pervasive issue in rural areas, shaped by specific conditions. Debt support should therefore be viewed from a nuanced perspective. Although this policy instrument is of material significance for municipalities, it can also be a burden for further municipal development, given its conditional design

with tough consolidation measures. Hence, debt support programmes can be considered a carrot-and-stick approach, insofar as the aid from the federal states also contributes to the municipalities' financial discipline, which is permanently enshrined in consolidation agreements. It is these austerity policies that form the basis for the rural consolidation state.

In contrast to the consolidation state at international level, which typically prioritises expenditure cuts over revenue increases, the rural consolidation state also relies on raising revenues through taxes and fees. This is not, however, the result of proactive fiscal policy, but rather a reactive response to the increasing number of mandatory tasks imposed on municipalities through top-down delegation. As Streeck (2015, p. 10) observes, national austerity policies tend to avoid tax hikes, proceeding "almost as a matter of course" via spending reductions. By contrast, municipalities – as "the last in the chain" (Interview #6 in A.) – have no option but to enact and implement unpopular decisions that are avoided by federal and state policy.

As we have shown, austerity must also be recognised as a key driver causing feelings of being "left behind" and regional embitterment (Hannemann et al., 2024). Furthermore, the notable shift to the far right observed in various nations often manifests with differing electoral patterns between urban centres and the structurally weaker rural peripheries (Förtner et al., 2021; for Germany: Arzheimer & Bernemann, 2024). The financial stability of rural municipalities is therefore becoming more and more important for the resilience of democracies to crisis. As an increasing number of studies emphasise the close connection between austerity and the rise of right-wing populism (e.g. Albanese et al., 2022; Cremaschi et al., 2023), it is becoming clear that ensuring adequate financial resources for municipalities, particularly in economically weak regions, is an elementary factor in curbing the interactions of economic downturn and a loss of trust in established political institutions.

It is essential to clarify that increased funding would not necessarily result in a decline in far-right and right-wing populist voting behaviour. However, it is evident that adequate municipal finances are a fundamental prerequisite for a democratic community. Phillips and Rozworski (2019, p. 203) emphasise that cooperative forms can serve "as bridging mechanisms toward decommodification and building the confidence of ordinary people in their own capacity". Our analysis of stabilisation aid in Bavaria has revealed that many progressive and cooperative ideas already exist in peripheral communities, largely arising out of necessity due to declining services and facilities. Adequate funding could bolster these progressive approaches, thereby laying the foundations for a robust democratic future.

CRediT authorship contribution statement

Andreas Kallert: Writing – review & editing, Writing – original draft, Visualization, Validation, Supervision, Software, Resources, Project administration, Methodology, Investigation, Funding acquisition, Formal analysis, Data curation, Conceptualization. **Simon Dudek:** Writing – review & editing, Writing – original draft, Visualization, Validation, Supervision, Software, Resources, Project administration, Methodology, Investigation, Funding acquisition, Formal analysis, Data curation, Conceptualization.

Declaration of competing interest

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