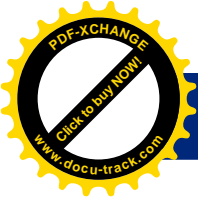


| BertelsmannStiftung

The German Federalism Reform – victim of the Financial Market Crisis?

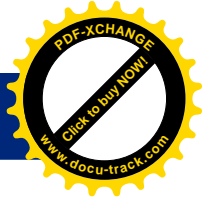
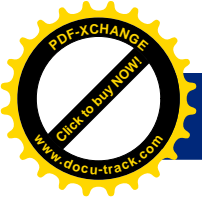
Dr. Henrik Scheller

**Forum of Federations, Ottawa
February 24, 2009**

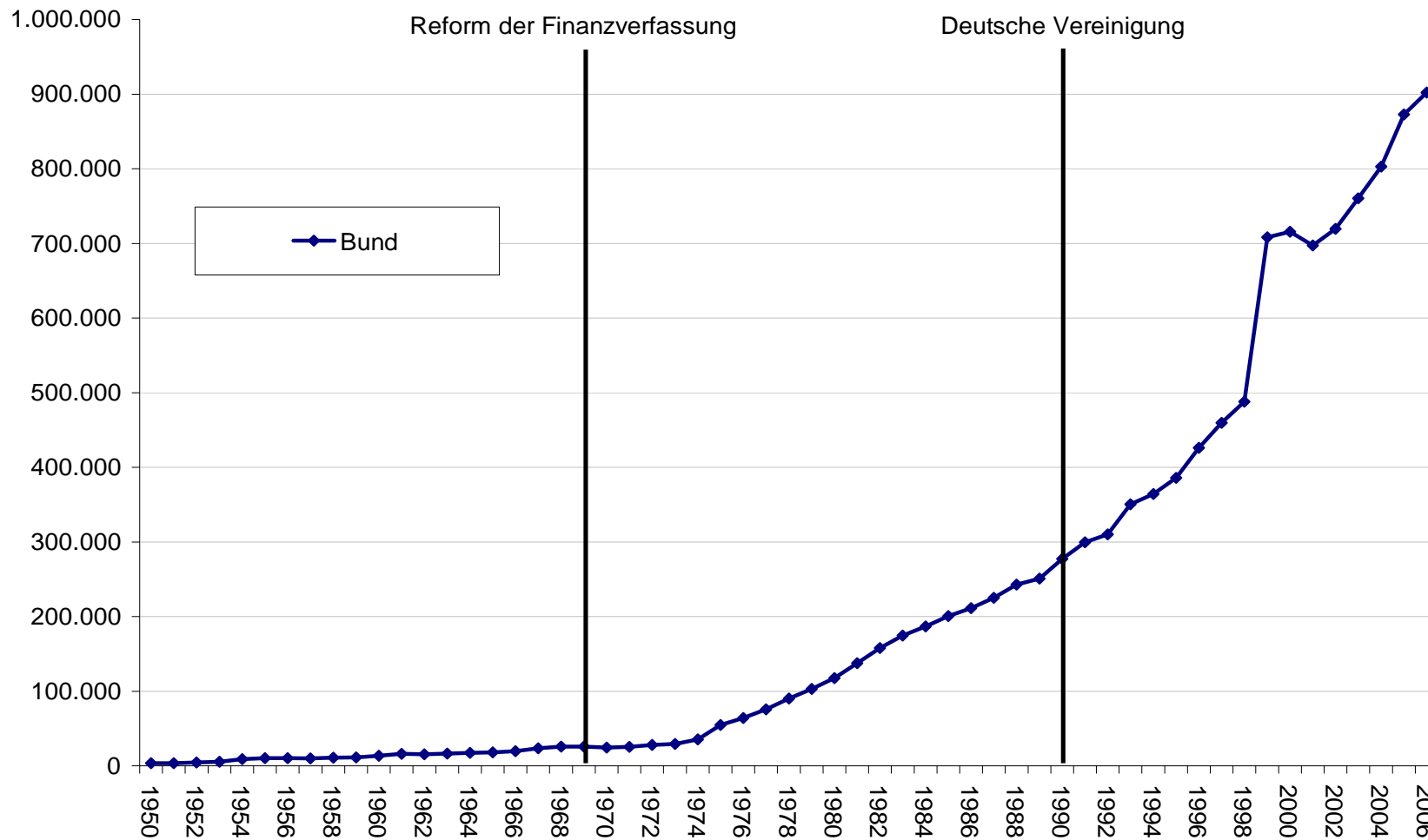


Content

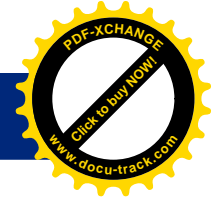
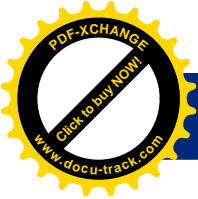
- Ø Federalism Reform I: Main Objectives
- Ø Federalism Reform II: The new “debt brake”
- Ø Financial Situation – main problems since the German reunification
- Ø German Federalism Reform – victim of the Finance Market Crisis?



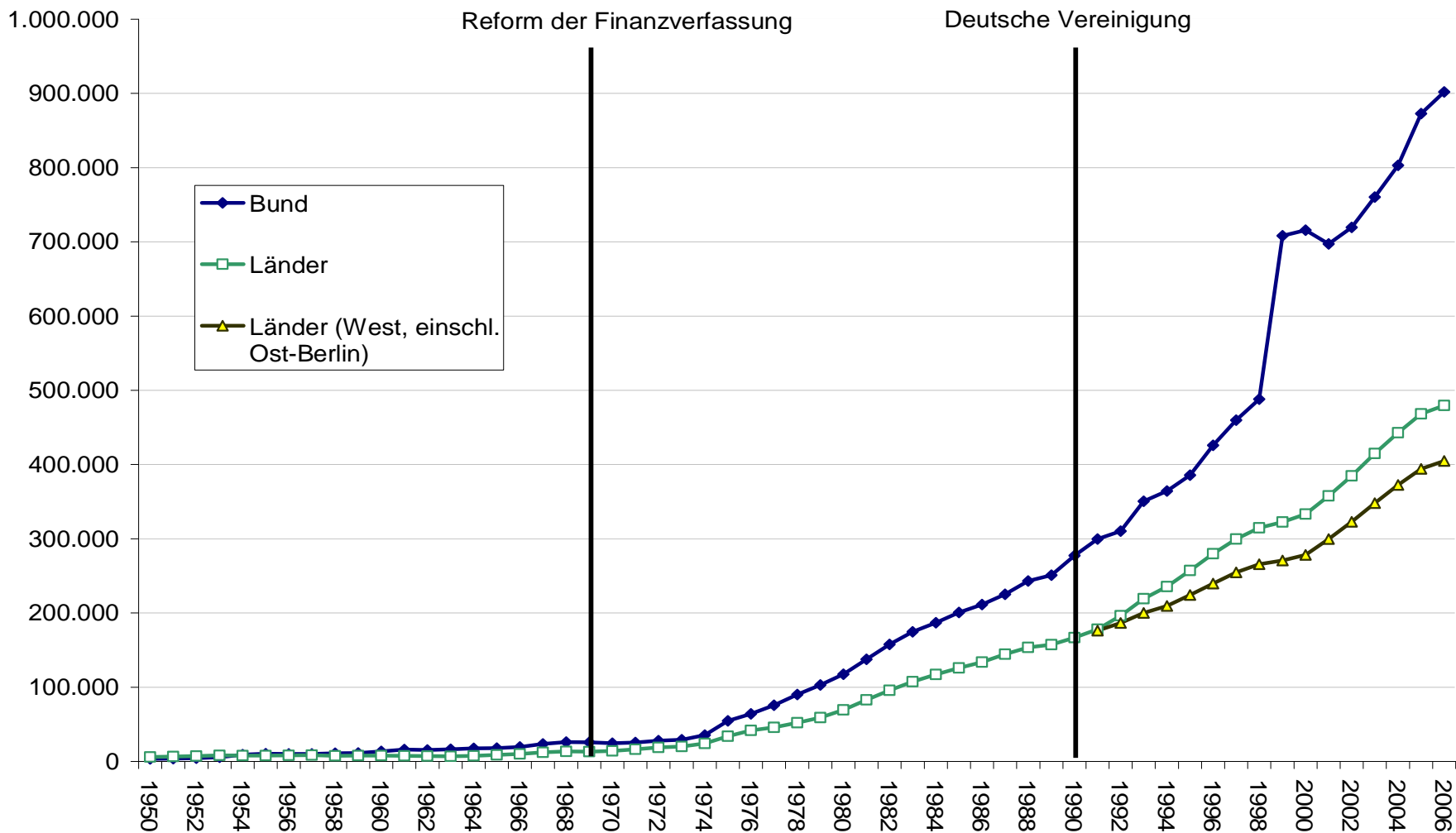
Public Debt of the Bund in Million Euro



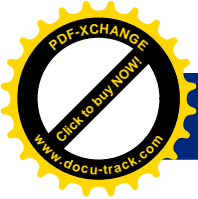
Source: Statistisches Bundesamt – Zusammenstellung: Thomas Lenk.



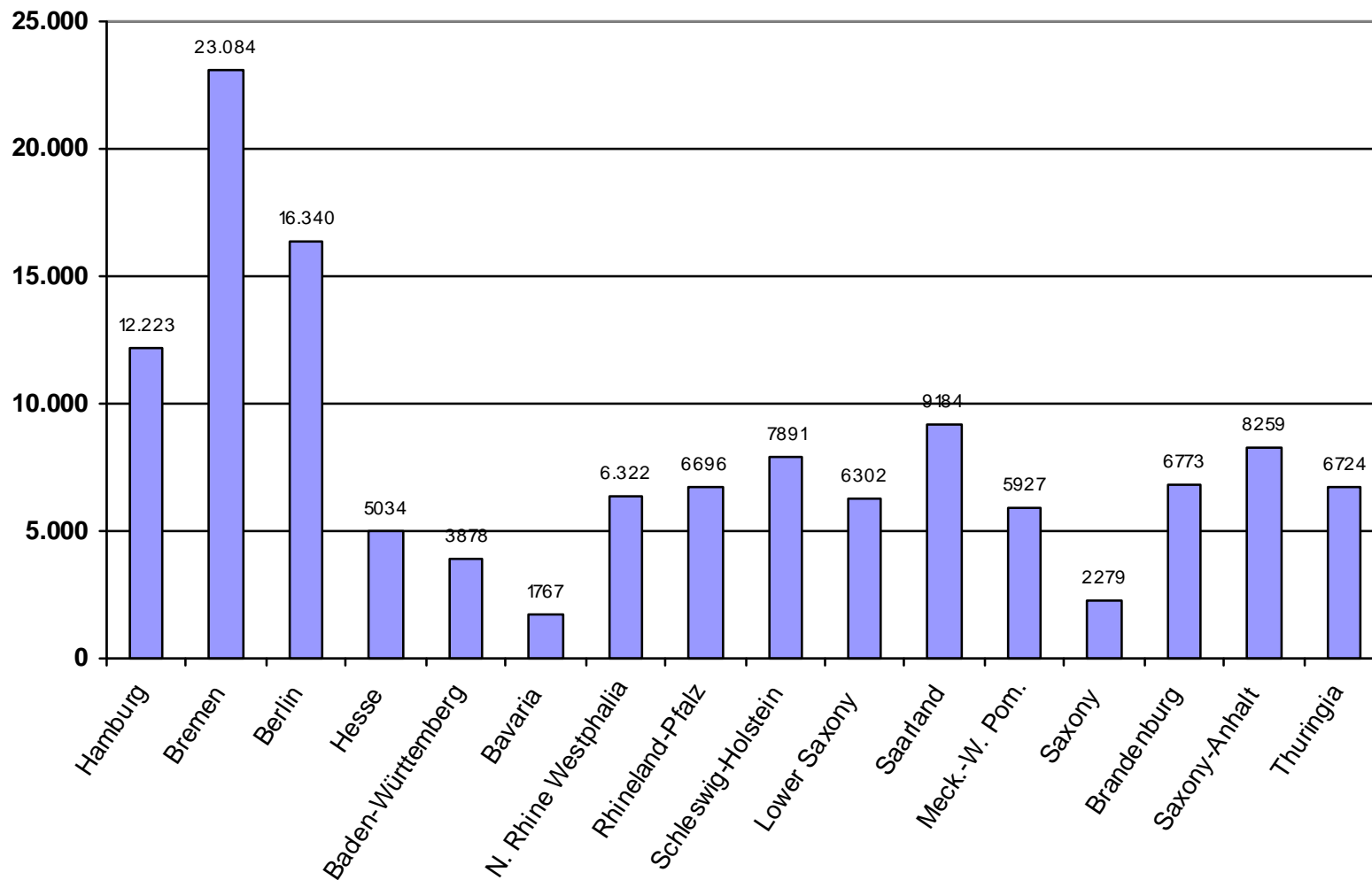
Public Debt in Million Euro



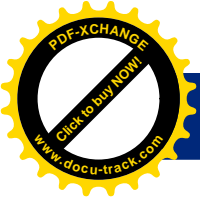
Source: Statistisches Bundesamt – Zusammenstellung: Thomas Lenk.



Public debts of the Bundesländer per capita in thousand Euro 2008



Source: Statistisches Bundesamt, Pressemitteilung Nr. 060 vom 20.02.2009



The German Fiscal Equalisation System

99,5 %

Supplementary federal grants
(Art. 107 II GG)

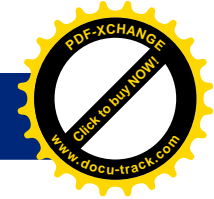
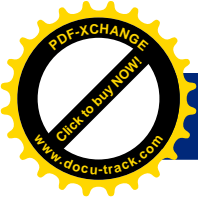
95 %

Financial equalisation among the Länder
(Art. 107 II GG)

92 %

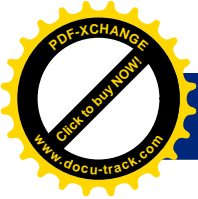
Horizontal distribution of the
VAT share of the Länder (Art. 107 I GG)

Distribution of entire tax revenues
(Art. 106 GG)



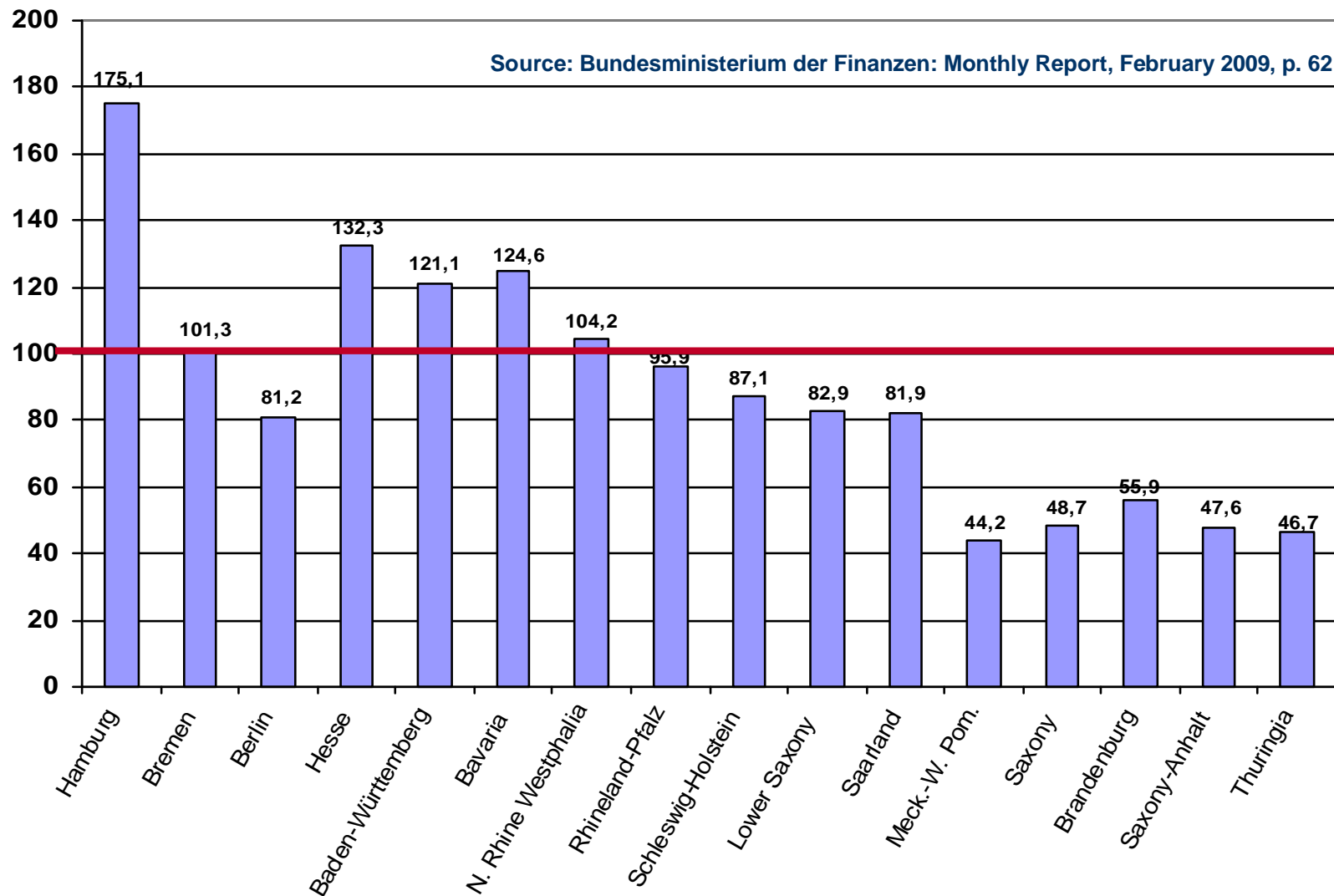
Distribution of the revenues of the joint taxes in Germany

	Bund	Länder	Municipalities
Income-Tax	42,5 %	42,5 %	15 %
Interest-Rebate Tax	44 %	44 %	12 %
Corporation-Tax	50 %	50 %	
VAT	52 %	45,9 %	2,1 %

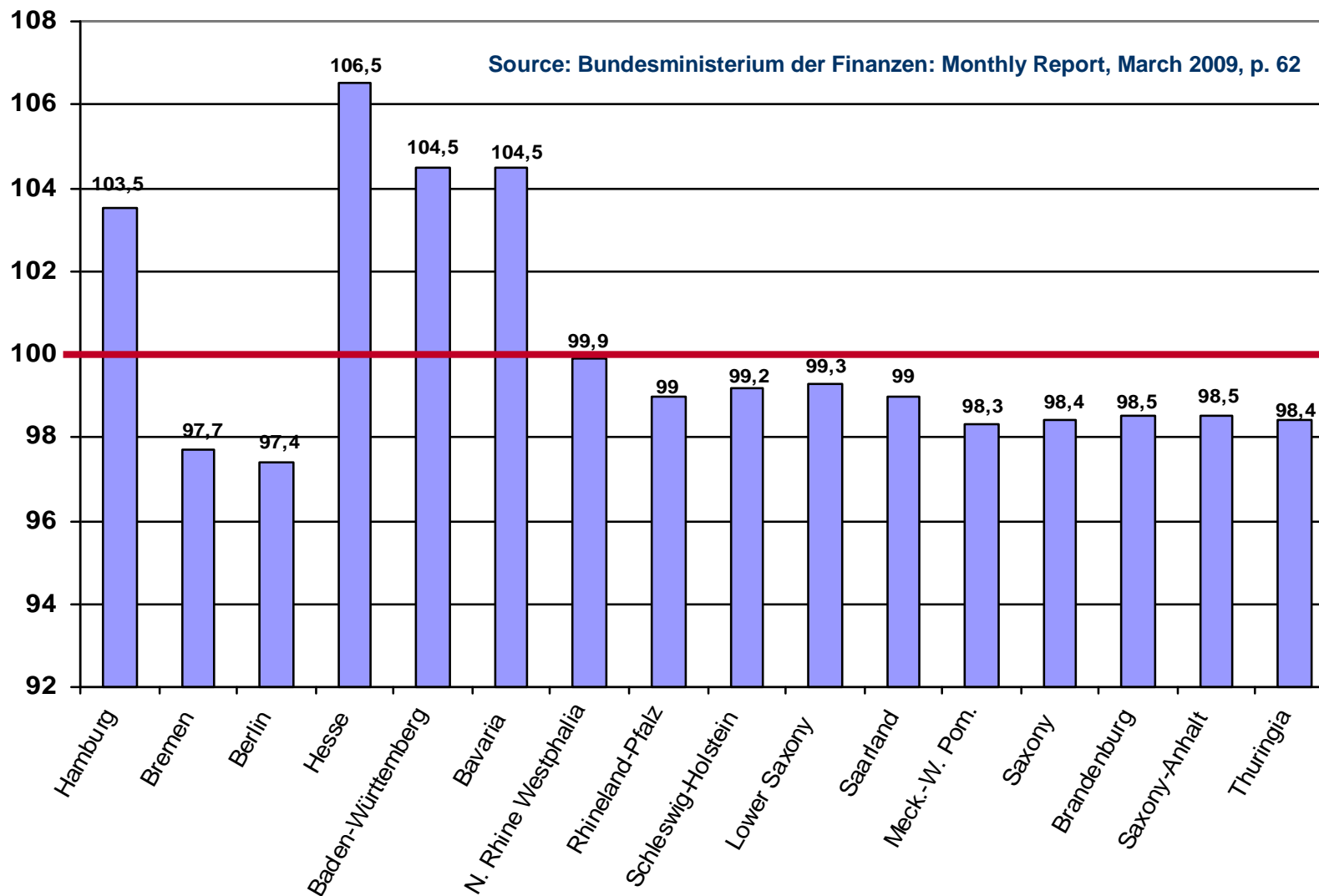


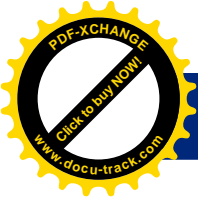
Original fiscal power of the Bundesländer 2008

(per capita in percent without any financial equalization)

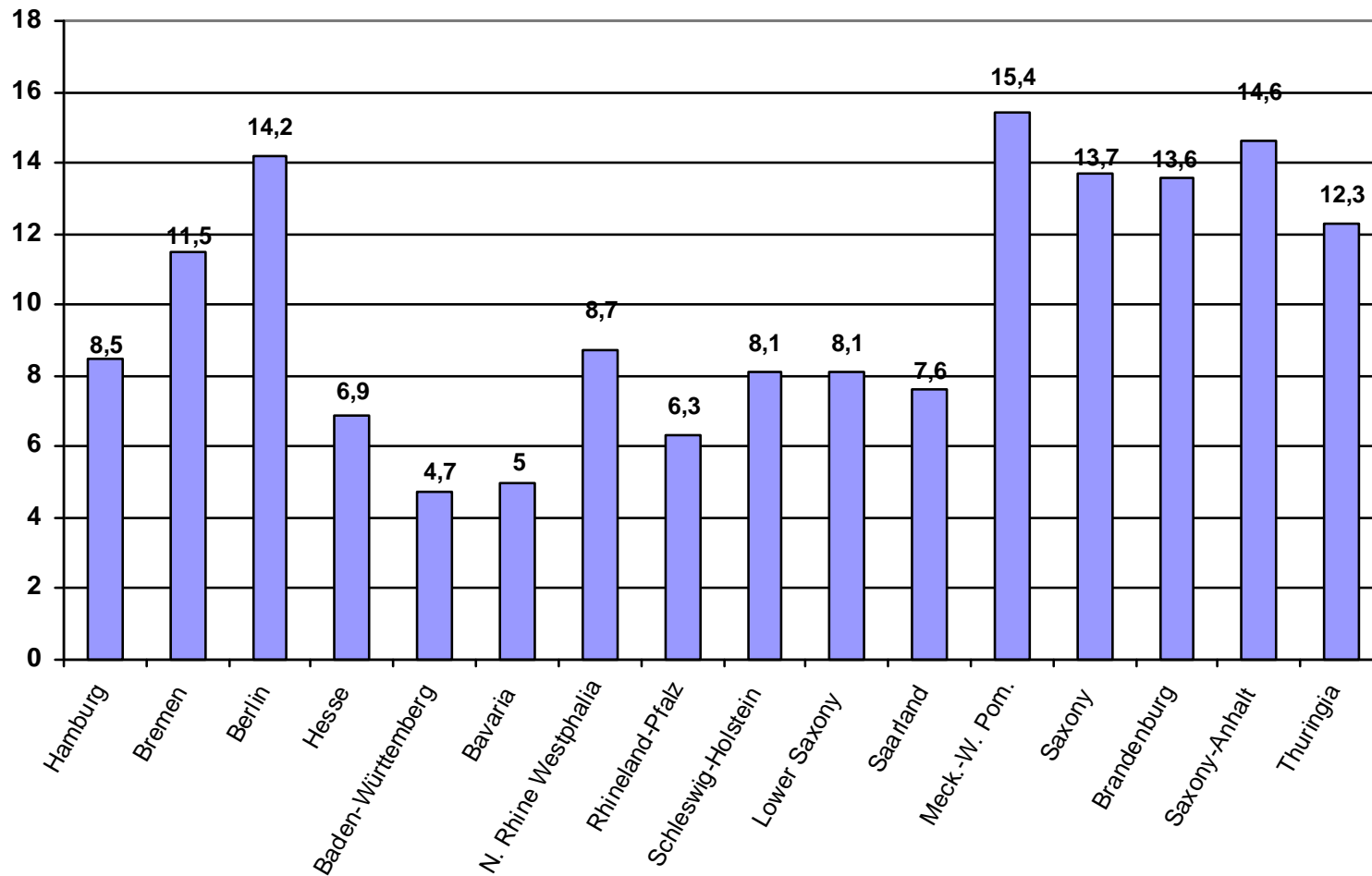


Fiscal power of the Bundesländer in 2008 after equalisation (without the Supplementary Federal Grants for Eastern German Länder)

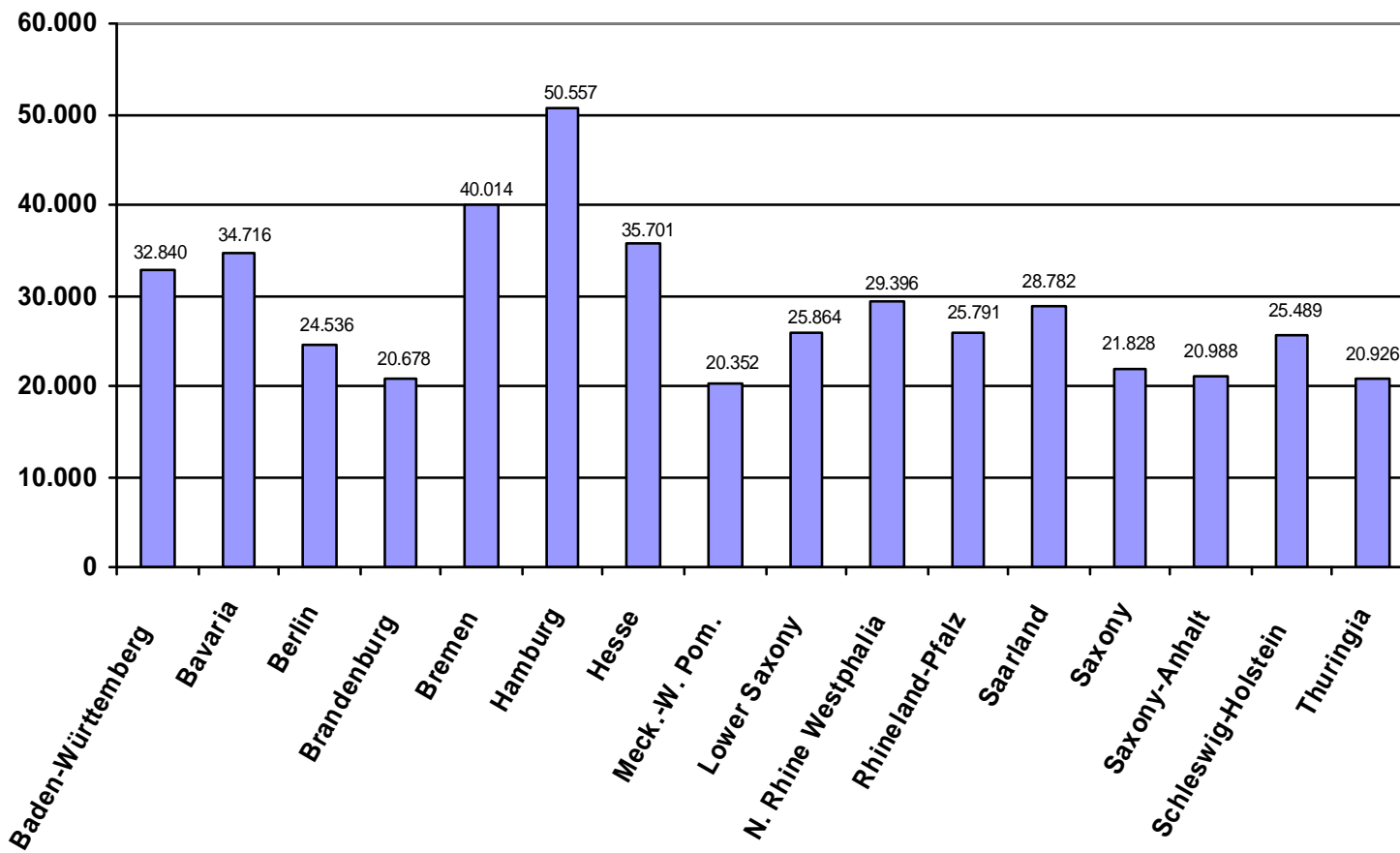




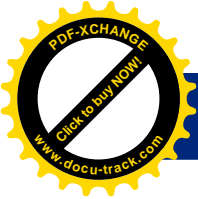
Unemployment Rate of the Bundesländer in Percent – January 2009



GDP at Market Prices per capita in Thousand Euro 2007

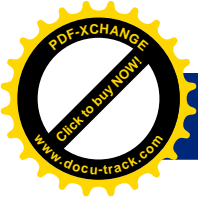


Source: Arbeitskreis „Volkswirtschaftliche Gesamtrechnung der Länder“



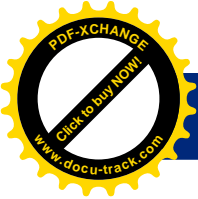
Federalism Reform I: Main objectives – September 2006

- Ø improve the decision-making capabilities of the Bund and the Länder
- Ø to allocate political responsibilities in a much clearer way
- Ø to increase the expediency and the efficiency of the legal obligations
- Ø to clarify the legislature competencies of the Bund and the Länder and the Länder's participation rights in the legislature of the Bund
- Ø to disentangle the financial relationships between the federal levels – especially the so-called joint tasks (“Gemeinschaftsaufgaben“)
- Ø to improve the situation of the municipalities



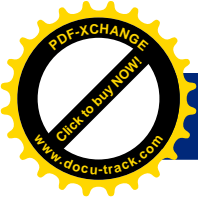
Federalism Reform II: Main objectives – September 2006

- Ø Revision of the constitutional indebtedness rules for the Bund and the Länder (Article 109 and 115 of the Grundgesetz),
- Ø The concrete arrangement of the “National Stability Pact” to comply with the EU Deficit Criteria by the Bund and the Länder commonly,
- Ø Institutionalization of an early warning system including a financial benchmarking and proceedings to prevent and remedy “extraordinary budget crises” of single Länder,
- Ø Possible consolidation grants for extremely high indebted Länder.



New debt rule for Bund and Länder?

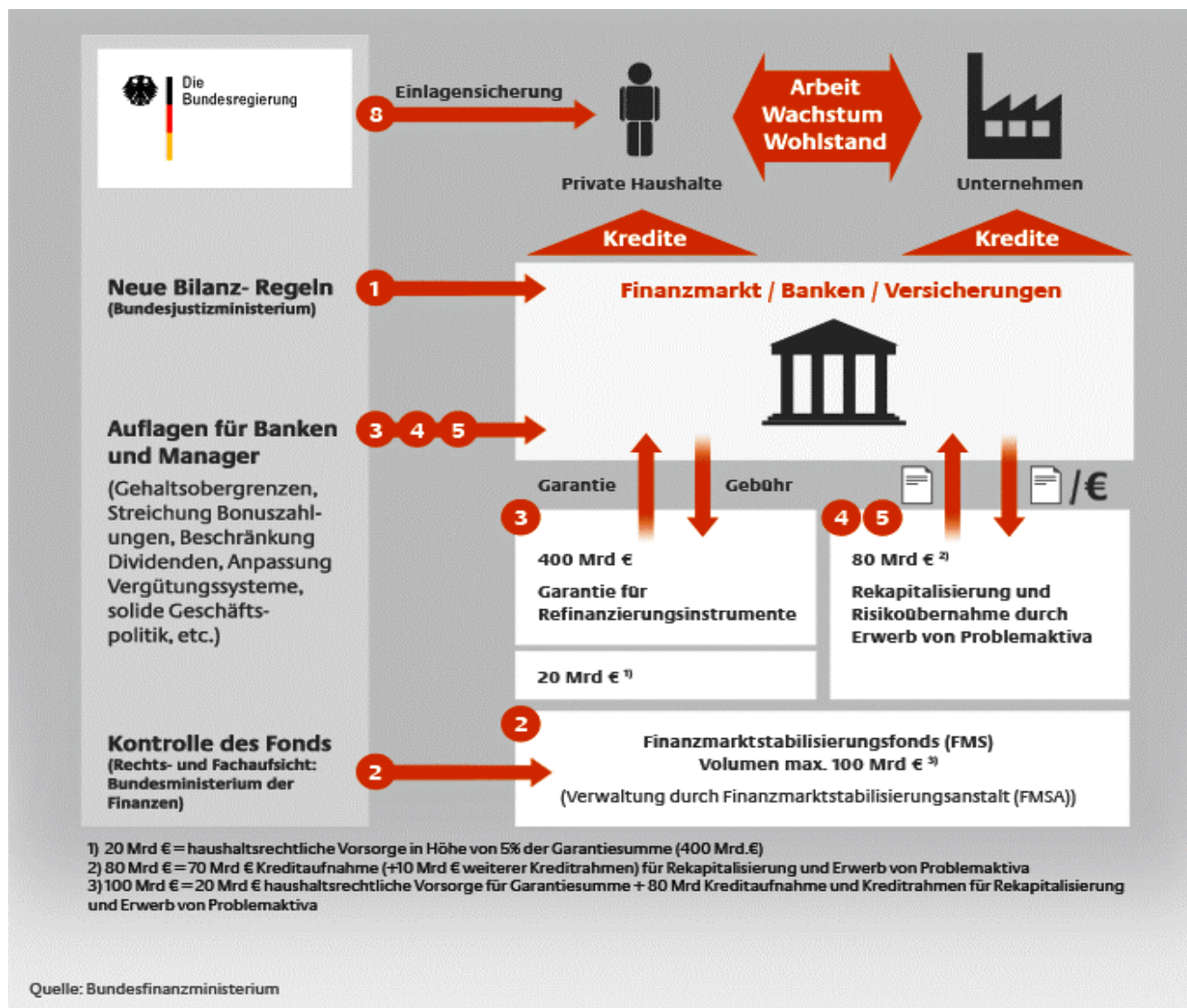
- Ø “budget balance” (“Haushaltsausgleich”) topmost principle.
- Ø debt-ceiling for new structural borrowings by the entire nation of 0.5 per cent of the GDP per annum.
- Ø The debt-ceiling divided up in a ratio of 0.35 to 0.15 per cent of the GDP among the Bund and the Länder
- Ø “economic indebtedness component” à possibility for increased borrowing during economic downturns
- Ø A so-called “compensation account” (“Ausgleichskonto”) à automatic compensation obligation
- Ø Exception rule for in “special situations, such as natural catastrophes”
- Ø no sanction measures

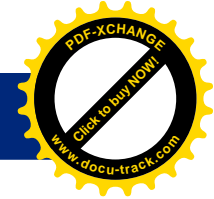
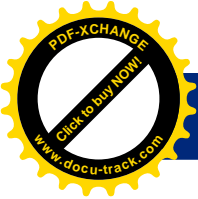


“Proceeding for the Avoidance and Remedy of Budget Crises”

- Ø three-stage procedure
- Ø based on a general and continuous budget supervision of all Länder as well as the Bund.
- Ø two stages for the financial restructuring of Länder with a possible budget crisis.
- Ø establishment of “Stability Council” for the general supervision of the financial development
- Ø The financial situation of the Bund and the Länder shall be “presented and discussed” on the basis of reports every year.
- Ø use of uniform and obligatory accounting parameters (for information about the current budgetary situation, the projections of financial medium-term planning as well as the compliance of the constitutional indebtedness rule.
- Ø Examination of the risk of individual Länder experiencing a budget crisis

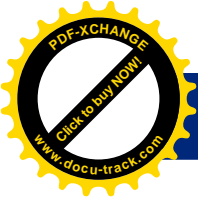
Stabilizing Package for the Financial Market – October 2008





Stimulus Package I – November 2008

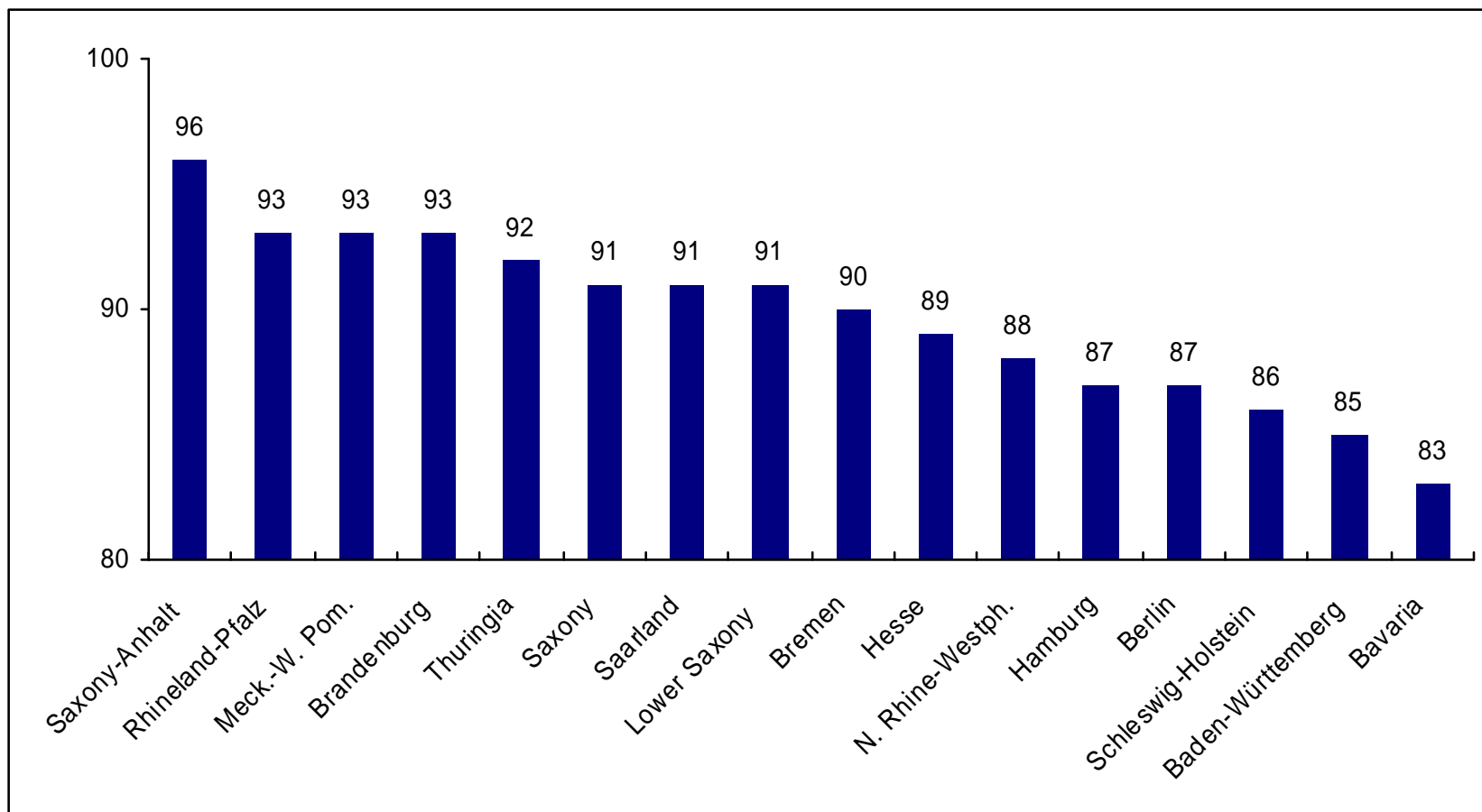
- ∅ Total: € 32 billion shall be made available in 2009 and 2010 by the public budgets
- ∅ shall stimulate investment and orders around € 50 billion by companies, private households and local authorities.
- ∅ secure financing and liquidity for companies safeguard funding for investments of € 20 billion.



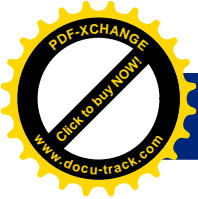
Stimulus Package II – February 2009

- Ø Reduction of the income tax
- Ø Reduction of the health insurance rates, retaining unemployment rates
- Ø Introduction of a “Children-Bonus”
- Ø Credit-programs for medium-sized and bigger companies
- Ø “Environmental Premium” or “Scrapping Premium” for old cars
- Ø Grants for short-time work, additional
- Ø Investments in infrastructure (4 Billion Euro)
- Ø 10 Billion Euro for local investments in the municipalities
- Ø Investments in education, higher-education and research
- Ø Investments for climate protection and energy efficiency

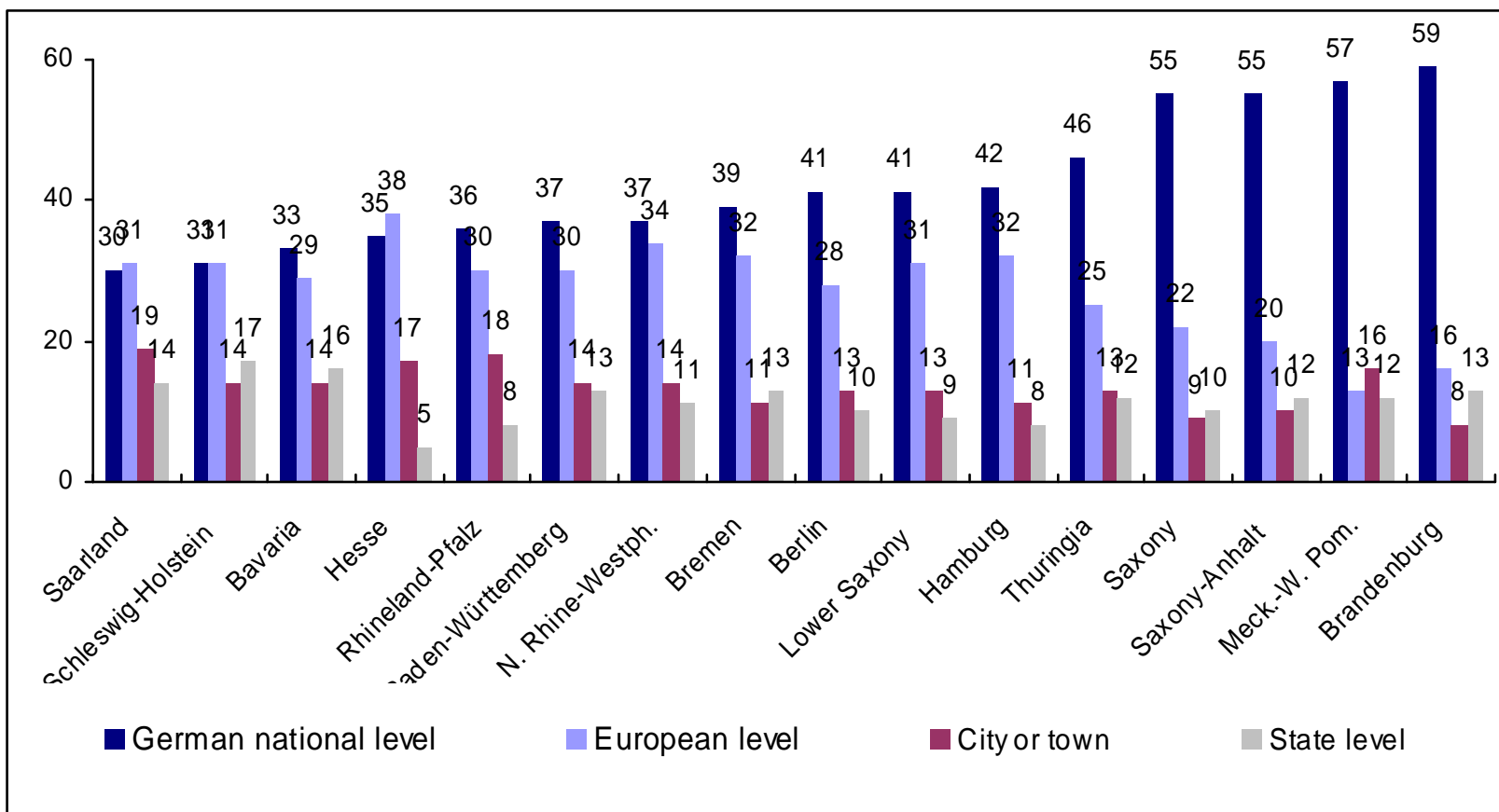
Vast majority agrees: solidarity, not competition among the states



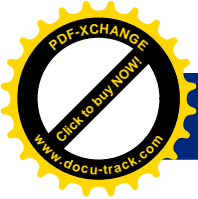
Share of respondents who prefer solidarity among Germany's states: Response of "I agree" to the statement "The German states should work together and not enter into competition with each other." Figures in percent. Source: ifas.



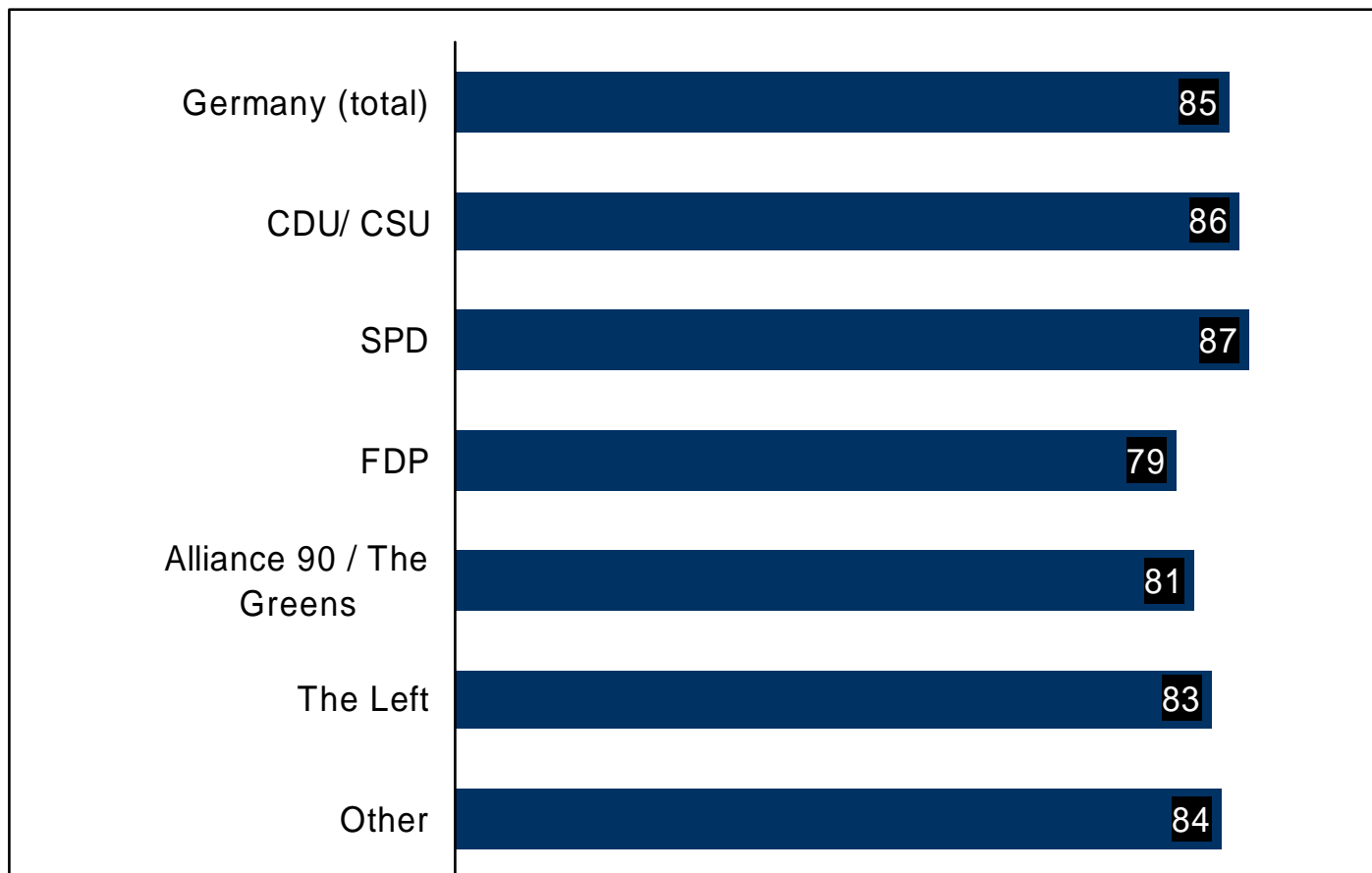
Respondents would like to see equal living standards for all, especially at the national level



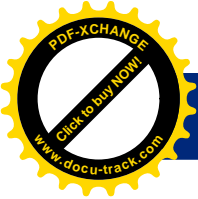
Political levels at which living standards should be comparable: "At which level should living conditions be equal for the most part?" Figures in percent, ranked by the response "At the national level in Germany." Source: infas.



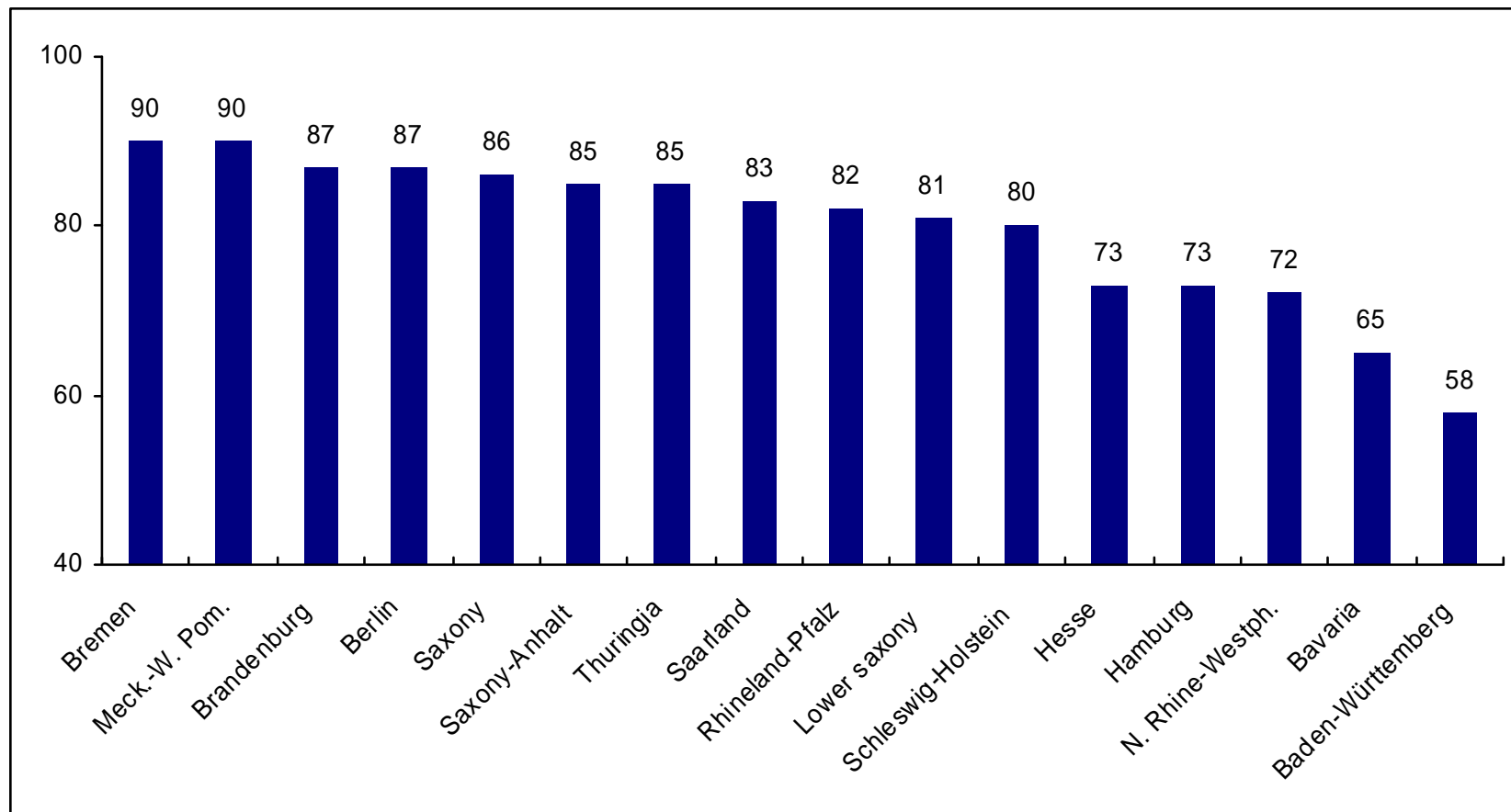
Clear majority for uniform national tax rates



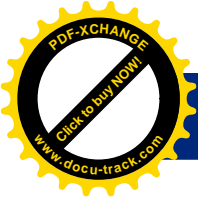
Uniform tax rates in all German states: Response of “I agree” to the statement “Tax rates should remain the same in all German states in the future.” Figures in percent. Source: infas.



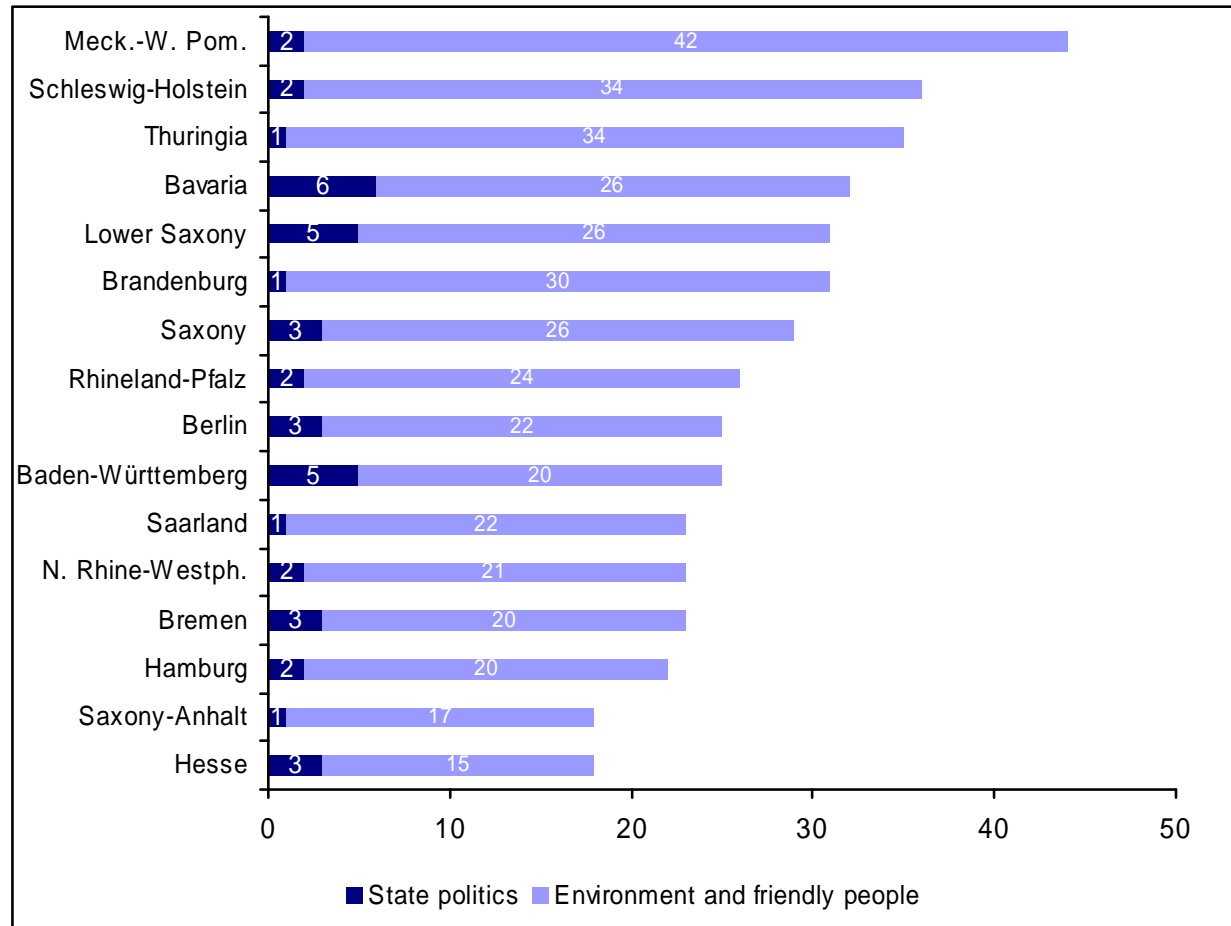
Three out of four Germans want to retain the federal financial equalization system among the Bundesländer



Share of respondents who endorse maintaining the system of financial redistribution: Response of “I agree” to the statement “Germany has a system of redistributing public funds. Rich states provide additional financial resources to the poor states. This should continue to be the case.” Figures in percent. Source: ifas.

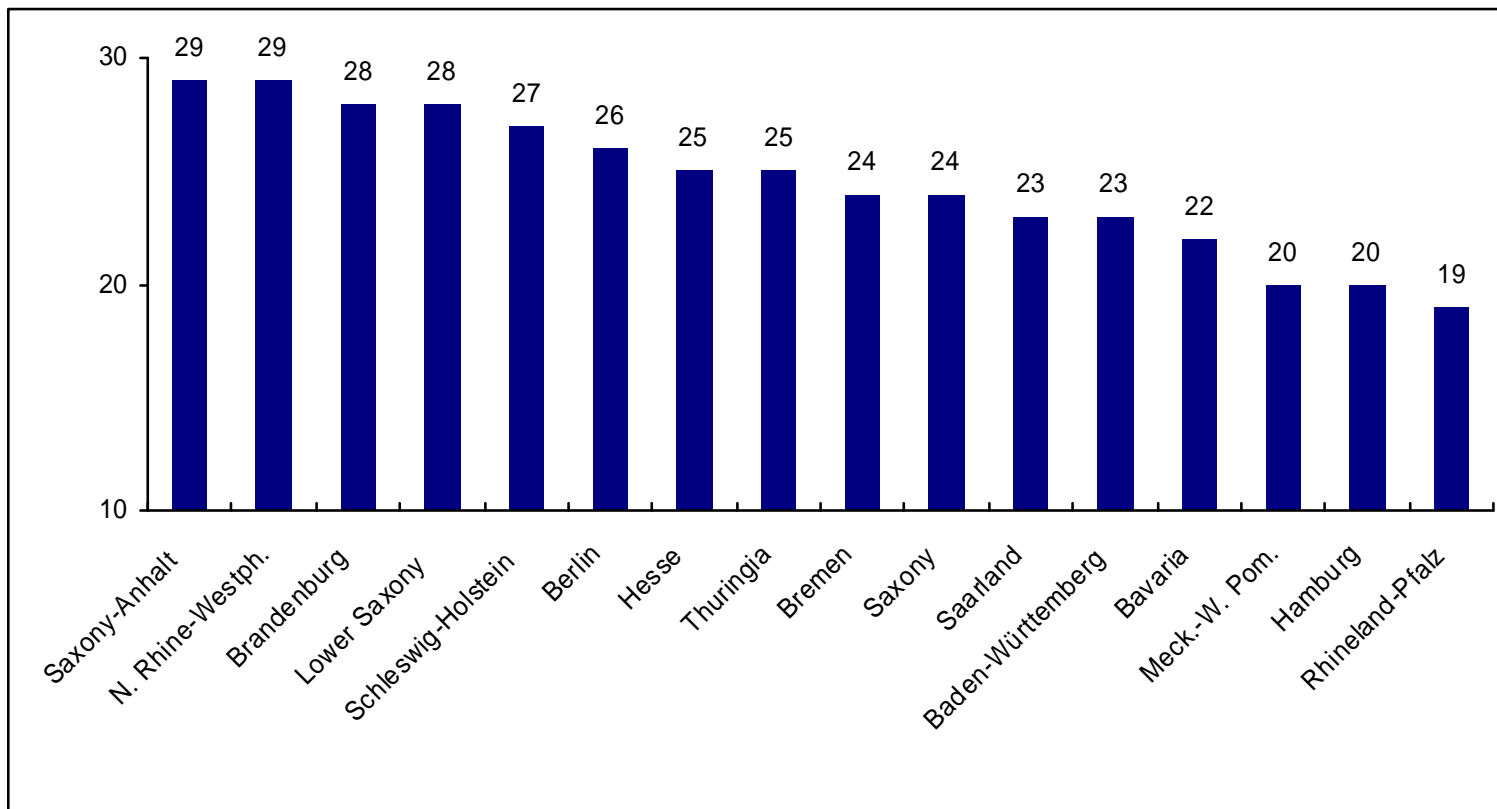


Characteristics respondents associate with their own state

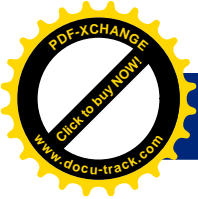


Identification with state-level politics: “In your opinion, what are the outstanding characteristics of the state in which you live, in comparison to other states?” Multiple responses possible, figures in percent. Source: ifas.

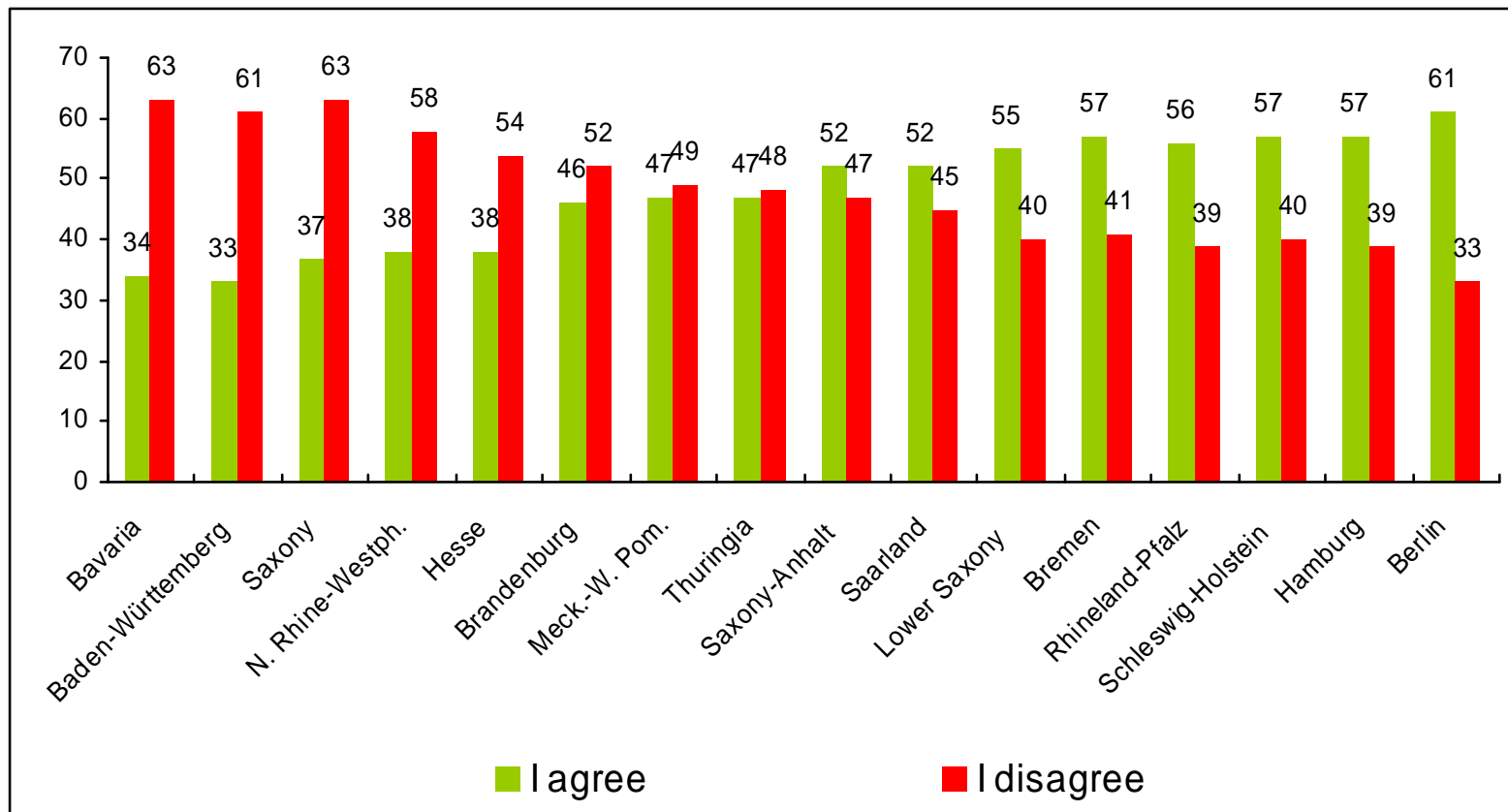
One in four Germans feels that the states are unnecessary



Share of respondents who feel the states are unnecessary: Response “I agree” to the statement “We no longer need the states, since the federal level and the European Union are dealing with the truly important issues.” Figures in percent. Source: ifas.



Four out of ten Germans want to merge with a neighboring state



Attitudes toward merging states: Responses of “I agree” or “I disagree” to the statement “A merger with a neighboring state would make sense for the state in which I live.” Figures in percent, ranked by the difference between agreement and disagreement. Source: ifas.