Germany: A sound fiscal federalism with minor political mildew

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Abstract: Germany's fiscal federalism has undergone a process of perpetual reform. On the one hand, some tax revenues such as the national corporate income tax generated a lower volume of fiscal resources because of changes in the system or fluctuated extremely like the local trade tax due to the economic effects. On the other hand, the judgement by the Constitutional Court has necessitated a renewal of Germany's equalisation system. Besides illustrating the tax sharing system between the three tiers of government, the main part of this paper deals with the equalisation among the 16 federal states as well as the local public finance system. In addition to a detailed illustration of the subnational revenues, the paper also highlights some problems in various public expenditure areas in Germany such as the differing quality of education at secondary schools or the current “Kindergarten law”. However, it has to be considered that in the majority of public expenditure areas, the political accountability for the expenditure is not clearly defined in Germany and some former public enterprises such as hospitals have been privatised. Based on these descriptions of Germany, suggestions are made as to how France can avoid pitfalls in the area of fiscal federalism and what lessons they can learn from negative experiences in Germany. Overall Germany has a sound fiscal federalism with minor political mildew.

JEL Classification: H7; H2; H1

Keyword: Fiscal Federalism, Germany, Grants, Fiscal Autonomy, Germany,

The working paper 02-2013 was published as Werner, Jan (2014): The financing of policies in Germany in Leroy, Marc and Orsoni, Gilbert (2013): Le financement des politiques publiques, Brussels / Belgium, Bruylant page 347-369.