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The Nascent Societies and Governments of Germany’s Unitary Federalism

CHRISTIAN LEUPRECHT
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ABSTRACT Is German federalism a function of its society or of its institutions? Understood as co-ordinating mechanisms, federal institutions are functionally predicated on generating or sustaining equilibria. But what impact do changes in independent social effects have on institutional stability? Either these equilibria are highly elastic; or there comes a tipping point of social change beyond which equilibria become increasingly costly and difficult to sustain, let alone generate. A conflagration of population aging, immigration and urbanization as well as post-industrial economic transformation has been spawning unprecedented horizontal differentiation across federations. Yet, federal institutional structures have remained largely unchanged. This observation has important implications for theorizing about the relationship between structure and institutional change: Rather than taking societal change as a harbinger of things to come, federal institutions are actually proving themselves as agents of continuity. This article examines the Federal Republic of Germany as a crucial case study where demographic and economic differentiation across the federal territory is especially pronounced. While exposing sociological reductionism in federal studies as problematic, the premise of this article is that—institutional continuity in light of societal change notwithstanding—there are good empirical reasons why the German federal system cannot be taken for granted, at least not in its current form.

KEY WORDS: Demography, federalism, Germany, fiscal equalization, public opinion

Introduction

The impact of society on government is a common theme in the study of democratic polities. Less common, especially outside of multinational federations, is an agency approach which inverts the dependent and independent variables by stressing the impact of government on the functioning of society. Like so many democratic federations, German federalism is preoccupied with institutional reform. Yet, Germany’s federal system has proven obdurately resilient to reform. Why is that? And can this
continue indefinitely or is there a breaking point that is bound to overstretch the system’s elasticity? Germany is a critical case study: Neither have the horizontally differentiating effects spawned by the exogenous shock of reunification received adequate attention by scholars of federalism, nor has the capacity of government to make society responsive to its demands. This article asks whether German federalism is a function of its constituent societies or of the governments that work the Constitution.

The leitmotif of prevailing institutional continuity in Germany is the moral hazard created by a federalized financial equalization whose perverse incentives encourage rent-seeking and profligacy by those who can least afford it. Politicians in recipient Länder already have little incentive to change their fiscal behaviour; soft budget constraints as a function of a clientelist dependence on transfer payments further diminish whatever incentives may exist. Their intransigence contrasts with growing impatience among Länder that pay into the scheme as horizontal inequities become ever more egregious. Such fiscal bifurcation, along with demographic and economic decoupling, affects the conditions propitious to social mobilization: older populations tend to be more reliant on the state than younger ones which makes younger populations less amenable to government intervention in the first place, especially when it comes to forms of taxation and equalization from which they are reaping decreasing marginal returns. Historically, societal and economic homogeneity across Germany’s Länder had facilitated uniform outcomes. The nature of German federalism had thus far not been a function of reconciling societal diversity among Länder. Their sources of renewal, survival and vitality lay within themselves and their capacity to mould the environment in accordance with their own governmental purposes.

The mounting costs associated with mitigating widening horizontal asymmetries, however, heighten demands on a federal system’s ability to mediate the emergent territorial diversity. In this light, the relative lack of powerful, independent Länder governments is puzzling. The territorial differentiation of aggregated interests to which these trends give rise incentivizes provincial politicians in more affluent Länder to adapt their behaviour strategically by advocating greater decentralization and asymmetry. Yet, Germany’s federal system has proven resilient to change while acting as an agent capable of engineering an exceedingly high degree of uniformity. Twenty years after reunification, preferences in favour of uniform policy outcomes remain strong. After all, pattern maintenance by means of path-dependency—the idea that previous decisions will constrain the realm of future action—is a functional imperative of constitutional democracies (cf. Pierson, 2000). None the less, the extent of popular support for uniformity among Germans is exceptional. Why has horizontal differentiation not been accompanied by more tolerance for greater political autonomy among the Länder? Evidently, German federalism is not readily reducible to socio-logical drivers.

Initially the article examines the changing foundations of German society in terms of independent demographic, economic and fiscal variables. The objective of that first section is to make a case for the detrimental impact of unprecedented horizontal differentiation across Germany’s federal territories on the capacity of institutions to prevail as co-ordinating mechanisms that generate and sustain equilibria. In effect, demographic and economic change along with their impact on fiscal capacity have bifurcated Germany into societies that are young, heterogeneous, urban, economically
vibrant and with solid fiscal capacity on the one hand, and societies that are aging rapidly, homogeneous, more rural, more indigent, whose fiscal capacity is weakening on the other hand. The second objective of the first section is to show how one might reasonably expect these circumstances to enable aggregate political preferences that are manifest in strategic political behaviour by politicians in more demographically, economically and fiscally vibrant jurisdictions. Assuming that voters are rational, we might reasonably expect parts of this electorate to get frustrated with the ‘last-shall-be-first’ outcomes: a fiscal equalization system that sets up a moral hazard which encourages structural dependence in the form of rent-seeking and profligacy that allow indigent societies to provide per capita current expenditures superior to those societies that are footing the bill for subsidizing overcompensation.

However, that expectation fails to obtain, as section two shows: Germans strongly support cross-sectional uniformity both in policy and outcomes and reject with determination inter-jurisdictional competition. German public opinion might thus be thought to reflect the sort of general preference for unified policy outcomes that we have come to expect in federations.1 The data, however, go further. They reflect both an overwhelming preference for uniformity and an unequivocal rejection of decentralization. These results are telling. The remedies commonly prescribed for what ails German federalism are disentangled responsibilities and a more competitive federalism (e.g. Scharpf, 1988; Benz, 2007; 2008). The public opinion data would seem to render these propositions untenable.

We thus are faced with a puzzle of unitary federalism: how to explain popular preferences that contravene the strategic choices one would have expected from a good part of the electorate, namely those residing in more affluent Länder. The consensus is so broad that it does not really allow for any significant aberrations in any of the 16 Länder. Ergo, the classic critique of historical institutionalism by W.S. Livingston (1956: 4) that federalism is a function of its society rather than its constitution seems to obtain only to a limited extent in the German case: the electorate’s choice is clear—but its preferences do not seem particularly strategic in light of horizontal differentiation and sub-optimal outcomes. Section three posits path dependency and institutional culture as possible explanations. The conclusion, finally, reflects on the prospects for institutional stability and reform as well as broader implications for using structure to theorize about institutional change in federations.

**Structural Foundations: Shifting Tectonic Plates**

Until reunification, Germany’s structural fundamentals were fairly uniform throughout. This despite the fact that in the Federal Republic of Germany power is dispersed (Elazar, 1987: 13–14, 34–38).2 The strong institutional position of the Länder facilitated the emergence of multiple centres of power. This polycentrism counteracted a spatial economic concentration of the sort found in centralized societies and their regional economic disparities. Germany’s economic polycentrism precipitated a more equitable territorial distribution of economic activity. Similarly, until reunification, demographic trends were quite uniform across the territory. Post-war immigration from the East had an additional levelling effect in both demography and cultural homogeneity across the German territory.
Demographically, economically and fiscally, reunification constituted a horizon-tally differentiating shock for the German federation. The new Länder face demographic challenges of unprecedented proportions where the effects of rapid population aging are compounded by the flight of younger, educated labour-market participants, which stifles both demographic growth and per capita tax capacity. Figure 1 depicts the projected population development in Western and Eastern Germany.

By 2019 those trends are projected to give rise to a difference in average age structure of just under 48 in Thuringia as opposed to 45 in the West. Having largely held constant since reunification, the dependency ratio, that is, the population under 15 and over 65 relative to the population from 16–64, is about to rise from 36.9% in 2010 to 42% by 2020 in the East while remaining almost unchanged (from 38.0 to 38.4%) in the West. The proportion of the population aged 19–67 years of age—the key working-age cohort—is projected to decline by 15% between 2009 and 2019 (Figure 2) in the East while the West remains largely unaffected. That is almost twice the rate of the population decline in the East overall (which means that a significant part of population decline can be attributed to migration).

Neither the trend nor the rate of population decline is new. Between 1991 and 2005, while most ‘old’ Länder registered population growth, the population of each ‘new’ Land declined by about 10% (with the exception of Brandenburg whose decline was offset by population expansion around suburban Berlin). That is a decline of almost 1% a year among the population in the East, a difference in order of magnitude by a factor of ten compared to projections for the West. The results are manifest in Figure 3 in different total fertility rates across the German territory.

Not only is the proportion of women of childbearing age relative to men in the same age cohort on the wane—which is indicative of an outmigration of women of childbearing age—but those women who are staying behind are having fewer children than women in the West (Figure 4).

![Figure 1. Population development in East and West Germany (2006–30); % of the population of 2006 (2006 = 100%). Source: Seitz (2008: 16).](image-url)
On the one hand, population aging means fewer people of working age paying taxes; on the other hand, solidarity pact funds that are spent on current rather than capital goods—contrary to their intended purpose—accelerate population flight (especially among women of childbearing age since they tend to be more highly...
skilled and thus more mobile than the corresponding male cohort) because a Land failed to optimize its competitive edge and job-creation for highly skilled people. This claim is empirically verifiable: between 2002 and 2007 personal wealth across inhabitants of the Western Länder rose from €90,724 to €101,208 per capita (about 12%); over the same period, it fell by about 9.71% from €34,029 to €30,723 across the East.4

As long as economic conditions remain fairly uniform across the territories of which a federation is composed, the impetus for redistribution will be quite limited. At fairly uniform economic conditions and identical levels of average taxation per capita, tax revenue in Germany used to be so comparable that it was fairly easy to equalize for disparities. Since reunification, however, that is no longer the case. Per capita tax capacity of the least affluent Länder is now barely a third of that enjoyed by the wealthiest Länder.

Until 2019, however, the impact will be mitigated by the solidarity pact (Solidarpakt). It supplements regular equalization payments for the five new Länder. The new Länder are facing a gradual decline in solidarity pact payments until they run out altogether by 2019. The implications can be discerned from Figure 5: by 2019 that translates into a 20% decline in revenue. Conversely, just to maintain current levels of expenditures the Eastern Länder will have to increase their tax revenue by almost one-third over the same time frame—while at the same time confronting a shrinking population and tax base.

Figure 4. Ratio of women to men among the 18–29 cohort (2003). Source: Kröhnert et al. (2006: 7).
Since the new Länder are at a competitive disadvantage (if for no other reason than the fact that the old Länder had a head start of 40 years of embedding themselves and local companies in the capitalist system), one would think them to be all the more vigilant about positioning themselves competitively by spending disproportionately in areas such as infrastructure (broadly conceived) and post-secondary education. After all, the additional revenue was meant to be invested sustainably—in ways that enhance future economic competitiveness. Instead, the payments have largely been going towards operational expenditures, such as salaries and social programmes—expenditures that are not generally understood to make them more competitive. In principle, they have more money for R&D than the old Länder. In practice, the new Länder actually spend less of their GDP on research and development than the old Länder (Figure 6).

The new Länder are not as competitive as they could be because they have not invested their solidarity-pact payments as effectively as they could have in areas that could have made them more competitive. This is indicative of what ails German fiscal federalism.

Unemployment rates across the East consistently exceed the national average by more than 50% (12.9% in June 2009 in the new Länder, 8.1% nationally, 6.9% in the old Länder). At the same time, they have the lower labour-force participation rates (among the 15–65 cohort), averaging 66.4% across the East (including Berlin) as opposed to 70.1% across the West (without Berlin) (Statistische Ämter des Bundes und der Länder, 2007: table D.5). Lower labour-market participation rates generally mean less per capita tax capacity. How much less? Average per capita tax capacity at the levels of cities, counties and Land combined is not even €3000 in the East but almost €4000 in the West. Similarly, per 1000 inhabitants in 2005 a high of 111 works in industry in Baden-Württemberg but no more than 53 across the East and a low of 23 in Mecklenburg-Vorpommern. Concomitantly, in 2007 real GDP per capita ranged from a low of €20 352 in Mecklenburg-Vorpommern to a high of €50 557 in Hamburg and a national average of €27 700.5

Figure 5. Proportion of funds financed through tax revenue versus those resulting from the solidarity-pact transfer in Saxony’s state budget (2008–25). Source: Seitz (2008: 25).

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However, due to the high degree of levelling, the present system provides little incentive for spenders to cover their expenditures with their own revenue: Less affluent Länder just offload their fiscal liabilities on more affluent Länder and the federal government. Evidence to this effect comes from the declining correlation of state tax revenues with state GDP. Von Hagen and Hepp (2001) have interpreted this as evidence of weakening state tax efforts in response to the incentive effects of equalization (see also Büttner, 2003). The problematic incentive structure of German fiscal federalism has a long history in the literature and need not detain us here.6 Suffice it to say that its obvious manifestation is the persistence of subnational deficits and public debt but, compared to other countries, with the perverse twist of apparent incentives for fiscal indiscipline in select (i.e. the new) Länder.

The costs of redistribution and fiscal indiscipline are becoming a source of frustration that is beginning to undermine the solidarity and co-operation that have characterized the German federal system. Bavaria and Baden-Württemberg, for instance, have aggressively challenged the equalization system in the courts and in the political process (Rodden, 2003: 182). In a major ruling on 11 November 1999 even the Constitutional Court (Bundesverfassungsgericht) recognized that the current equalization system offers almost no incentive for the well-to-do Länder either to do better or to raise additional tax revenue because almost all the additional public funds gained end up being redistributed to other parts of the country. It criticized the criteria used for distribution and the extreme redistributiveness of the equalization system. In June 2001, the Bund and Länder did agree to a new equalization law (which took effect in 2005); the system remained largely unchanged with the exception of allowing more affluent Länder to keep a larger share of the taxes they collect (but without reducing payments to poorer Länder).

Figure 6. Expenditures for research and development. Source: Kröhnert et al. (2007: 14).
Over the coming decade, the demographic and fiscal cleavage between East and West is bound to widen considerably. The Western Länder generally have more sustainable population structures, especially in large centres, such as Frankfurt, Munich, Hamburg, but also Berlin, where immigrants tend to congregate (Figures 7 and 8).

As a result, both the demographic viability of the old Länder and their per capita tax capacity is better than that across the East. As a matter of fact, because of its high per capita GDP, Hamburg actually has the highest per capita tax capacity in the country and the capacity of all old Länder is either above or approaching the national average. By contrast, that of the Eastern Länder amounts to barely 40% of the national average which is about half that of the old Länder with the lowest per capita tax capacity, Saarland and Berlin.

Yet, the largest of the five new Länder, Saxony, is in a much better position than the rest. Its per capita indebtedness is among the lowest in the country, second only to Bavaria; it has spent its solidarity-pact funds more in line with what was intended; and its demographic situation is better because it has the two largest population and economic centres in Eastern Germany after Berlin—Dresden and Leipzig.

Per capita tax revenue and public indebtedness are key determinants in the development of fiscal disparity across federations. Population aging in Germany seems to produce the worst of both worlds: lower per capita tax revenue and higher public indebtedness. Since population aging is not distributed evenly across Germany’s Länder, population aging has spawned fiscal disparities of unprecedented magnitude in record time: when Germany reunited, the new Länder essentially joined with no debt; 20 years on, they carry some of the highest per-capita debt.
The equalization system in its current form was never intended to equalize for differentials of today’s magnitude. The scale of the difference in fiscal capacity can be seen in Table 1.

Now that a Land such as Bavaria has a fiscal capacity that is almost two-thirds greater than that of its Eastern cousin Thuringia, the sub-optimal performance of German public finances is increasingly the function of an equalization system that encourages irresponsible fiscal behaviour at the level of the Länder, rewards poor fiscal performance and offers little incentive to improve fiscal performance. On the

one hand, Länder enjoy greater autonomy on the spending side than on the revenue-raising side. On the other hand, their spending autonomy is severely constrained by legislative mandates that are assigned by the federal government. This dual asymmetry in German fiscal federalism has made the Länder, especially relatively deprived ones, more dependent on transfers and hampered their adjustment to negative revenue shocks. Long-term deficits continue to accumulate as a result. As rapid population aging in several Länder, especially those in the East, causes an already unprecedented per-capita gap in fiscal capacity among German Länder to deteriorate further, the pace at which the equalization system is being overstretched accelerates and the sub-optimal performance of Germany’s public finances worsens. One might expect residents in more affluent parts of Germany to champion greater regional autonomy along with less redistribution and more control over recipient spending.

### The Paradox of Unitary Federalism

This section examines the relationship between independent variables on identity and institutional preference. One might anticipate that these sorts of discrepancies would shape political attitudes, political participation and institutional preferences in the Länder. Wealth and demography especially might be expected to have a negative impact on the dependent variable of inter-regional solidarity. These discrepancies are reflected in public opinion: in a recent survey, the striking pessimism about economic performance in Saxony—the economically most-vibrant and least-indebted among the new Länderr—contrasts starkly with Bavarians’ firm belief that their Land’s economic situation is considerably better than Germany’s as a whole (Jeffrey, 2011). None the less, Germans strongly support cross-sectional uniformity both in policy and outcomes and reject with determination inter-jurisdictional competition. Survey evidence (Jeffrey, 2007; 2011; Bertelsmann, 2008) consistently shows that large

<table>
<thead>
<tr>
<th>Länderr</th>
<th>Regional GDP in 2006 (€)</th>
<th>Regional GDP divided by state GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ile de France</td>
<td>44 300</td>
<td>1.55</td>
</tr>
<tr>
<td>Vienna</td>
<td>41 500</td>
<td>1.33</td>
</tr>
<tr>
<td>Bavaria</td>
<td>33 200</td>
<td>1.18</td>
</tr>
<tr>
<td>Catalonía</td>
<td>26 300</td>
<td>1.18</td>
</tr>
<tr>
<td>Salzburg</td>
<td>34 800</td>
<td>1.12</td>
</tr>
<tr>
<td>Upper Austria</td>
<td>30 300</td>
<td>0.97</td>
</tr>
<tr>
<td>Scotland</td>
<td>30 800</td>
<td>0.96</td>
</tr>
<tr>
<td>Alsace</td>
<td>26 500</td>
<td>0.93</td>
</tr>
<tr>
<td>Britany</td>
<td>25 200</td>
<td>0.88</td>
</tr>
<tr>
<td>Lower Saxony</td>
<td>24 900</td>
<td>0.88</td>
</tr>
<tr>
<td>Galicia</td>
<td>18 500</td>
<td>0.83</td>
</tr>
<tr>
<td>Castilla-La-Mancha</td>
<td>17 400</td>
<td>0.78</td>
</tr>
<tr>
<td>Wales</td>
<td>24 000</td>
<td>0.75</td>
</tr>
<tr>
<td>Thuringia</td>
<td>19 900</td>
<td>0.71</td>
</tr>
</tbody>
</table>

*Source: Jeffrey (2011).*
majorities of the German public prefer uniform federal regulation on everything from education policy, law and order, society security to transport, including areas that technically fall within the exclusive jurisdiction of the Ländere. As Table 2 shows, where the federal system provides for the possibility of variation, for example in educational policy, there is clear disapproval.

Similarly, the proportion of citizens who identify with their Land over Germany is minuscule. As Figures 9–11 show, Germans are reticent about competition among the Ländere and are almost unanimous in their support for the principles of solidarity and uniform living standards. Figures 12 and 13 show that popular support for legislative unity in the form of national standards in everything from education to uniform levels of taxation is widespread across all Länder and party faithful. Figures 14–16 confirm that public attitudes on the most mundane of policy options, such as taxation, social spending and debt, are quite similar across all 16 Länder. However slight, the variation is not insignificant though, as it may be the canary in the coal mine, signalling—or, at the very least, leaving open the possibility—of an emergent fragmentation of Germany into constituent societies.

Table 2. Is it an advantage or a disadvantage that educational policy differs from Land to Land? (%)

<table>
<thead>
<tr>
<th></th>
<th>Germany</th>
<th>East</th>
<th>West</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advantage</td>
<td>12</td>
<td>13</td>
<td>6</td>
</tr>
<tr>
<td>Disadvantage</td>
<td>84</td>
<td>83</td>
<td>90</td>
</tr>
<tr>
<td>Don’t know</td>
<td>4</td>
<td>4</td>
<td>4</td>
</tr>
</tbody>
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Source: Jeffery (2007: 67, with further references).

Figure 9. Share of respondents who prefer solidarity among Germany’s Länder (%). Response of ‘I agree’ to the statement “The German Länder should work together and not enter into competition with each other.” Source: Bertelsmann Foundation/infas (2008).
Having flagged it here, the conclusion will speculate about the possible implications of such variation.

No wonder then that across the country, citizens’ attachment to Germany not only exceeds identification with their Land and town of residence but in 9 of 16 Länder...
citizens actually identify more with Europe than with their Land. By and large, the Länder could not have a lower level of visibility (Figure 17).

In another recent survey (Jeffrey, 2011) respondents favoured state-level government action to even out economic disparities, and that richer regions should transfer...
Figure 14. Approval of increased inheritance and wealth taxes for reducing debt. Question: “Let us assume policymakers wanted to increase revenues in order to reduce public debt. I will now read you a number of sources of revenue. Please tell me whether you approve of each source or not.” Responses for higher inheritance and wealth taxes. Mean values for responses on a scale of 1 (‘Yes, I would’) to 5 (‘No, absolutely not’). Interpretation: the lower the mean value, the greater the approval of tax increases. Source: Bertelsmann Foundation/infas (2008).

Figure 15. Approval of spending reduction in the area of social programmes in order to reduce debt. Question: “Let us assume policymakers wanted to reduce spending in order to reduce public debt. I will now read you a number of expenditures. Please tell me whether you approve of such a reduction or not.” Responses for reducing spending in the area of social programmes. Mean values for responses on a scale of 1 (‘Yes, I would’) to 5 (‘No, absolutely not’). Interpretation: the lower the mean value, the greater the acceptance of a tax increase. Source: Bertelsmann Foundation/infas (2008).
resources to poorer regions. In other words, Germans’ preferences are not out of line with those of citizens in other European regions. So, relative affluence affects the dependent variable of inter-regional solidarity—but positively rather than negatively: disparities appear to reinforce solidarity rather than undermine it. The sense of national

Figure 16. Desired use of increased tax revenues. Question: “Currently the government is collecting more tax revenues than expected. Should these additional revenues be used for …” Mean values for responses on a scale of 1 (‘Yes, absolutely’) to 5 (‘No, absolutely not’). Interpretation: the lower the mean value, the higher the acceptance of using additional tax revenues in each area. Source: Bertelsmann Foundation/infas (2008).

Figure 17. Identification with the various political levels (responses by state; %). Question: “Which level do you identify with most closely: your city or town, your state, Germany or Europe?” Figures ranked by response ‘city or town’. Source: Bertelsmann Foundation/infas (2008).
communal solidarity is far stronger than one might have anticipated given the structural fragmentation documented earlier. The inference to be drawn is a tight relationship between identity and institutional preference as independent variables. Quoting Jeffrey (2011): “Though there appear clearly to be powerful dimensions of regional-scale citizenship, they appear just as clearly to be bounded by a continuing commitment to statewide citizenship.” German attitudes thus explain not only the high degree of integration among parties at the local, Land and federal level but also why none of the federal parties advocate decentralization when appealing for votes. They also explain why economic models premised on ‘competitive federalism’ (Wettbewerbsföderalismus) and greater decentralization consistently meet with considerable popular resistance, and why ‘disentangling’ German federalism is a non-starter.7

Discussion: Why Unitary Federalism Prevails, Horizontal Differentiation Notwithstanding

That federal citizens favour uniform outcomes is not new. But Germany’s citizenry stands out for the extent of its disapproval and the consistency of that disapproval across Germany’s Länder. Fiscal federalism has long provided ample empirical evidence that citizens are prepared to make financial sacrifices for their national brethren that they would not be willing to make for just anyone. But will their support continue if uniformity of social conditions and policy preferences upon which the distinctively German variety of federalism is built comes at the cost of fiscal indiscipline? That citizens are prepared to make such sacrifices is not puzzling; by contrast, the degree to which they appear unfazed by mounting horizontal differentiation is puzzling. At a minimum, one would expect citizens in affluent Länder to come to the realization that they are reaping diminishing returns from ever-mounting transfers. Twenty years of horizontal differentiation, however, appear to have had no measurable effect on either policy preferences or strategic political behaviour. Compared to the experience of other federal countries, that is unusual. Ergo, the effect at work here must be endogenous.

The rational-choice approach to broaching this problem is to posit institutions as co-ordinating mechanisms whose function it is to generate and sustain equilibria (e.g. Thelen, 1999). Simeon (2006) has applied this approach to federalism, gauging institutional stability in terms of independent social effects. From this perspective, the curiosity about Germany is the extent to which institutional stability has remained unaffected by social effects that have been spawning an unprecedented degree of demographic, economic and fiscal differentiation across its federal territory. “Federalism is a function not of constitutions but of societies”, W.S. Livingston (1956: 4) famously extolled. Clearly, that is not the case in Germany. Livingston’s was a visceral reaction against historical institutionalism, with its alleged over-emphasis of the formal-legal aspects of the polity at the expense of the social forces that worked it. Henceforth, the dynamic of the federal system was to be sought not in government, or in features of the constitution, but in society. In the elaboration of this sociological perspective political systems were seen as superstructures devoid of autonomy, and lacking independent coercive and moulding power vis-à-vis their environment. Yet, Livingston’s plea to seek out determinants of a changing federalism in society, not
constitutions, evidently does not have a lot of traction in Germany. Contrary to expectations, then, uniform outcomes in Germany are not a function of societal and economic homogeneity. So, why has German federalism not responded to growing diversity with greater functional decentralization among its institutions?

This is an interesting question. A good deal of comparative politics tries to explain institutional variation and change. The German case poses the opposite problem: accounting for institutional stability in light of unprecedented territorial fragmentation. The Regional Authority Index (RAI) developed by Hooghe, Marks and Schakel (2010) aggregates codings on measures of regional ‘self-rule’ (institutional autonomy, policy scope, fiscal autonomy, representative autonomy) and ‘shared rule’ (measures of interconnection and inter-dependence with state-wide government). Table 3 shows the RAI for the regions included within the project “Citizenship after the Nation State” (CANS) as of 2006 (cited in Jeffrey, 2011).

Within the sample, German regions distinguish themselves by a higher degree of ‘shared rule’—a byzantine complexity of structures of intergovernmental decision-making across levels of government. Germany’s federative elements and institutions notwithstanding, their purpose is to preserve the unity of the state under civil law. The Länder amount to mere decentralized appendages of the German people. There has thus far been neither a federal society to speak of, nor a federal culture.8

This is explicable in terms of path-dependency. The principal character of the institutions of German federalism are to be sought not in the Basic Law of 1948/49 but in longitudinal institutional continuity of structural elements that can be traced back as far as 1648 (Hesse, 1962; Benz, 1999; Lehmbruch, 2000). Today’s Bundesrat embodies the organic development of an intergovernmental institution, not a post-war break with tradition. It is the successor of the permanent Reichstag which met in Regensburg from 1666 until 1806, the Bundestag of the German Federation of 1815–66, of Bismarck’s Bundesrat (1867–1918) and of Weimar’s Reichstag (1919–33). The

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Source: Hooghe, Marks and Schakel (2010).
‘accumulated sediment’ of a path-dependent institutional maturation over centuries is reflected in the strategic repertoires at the level of actors. These are acquired through the process of political socialization and transferred from one generation to the next.

Germany is notable for the role of the bureaucratic executive in the development of the modern federal state. Bismarck was familiar with the diplomatic negotiating style of traditional German federalism that can be traced to the comparative institutional advantage enjoyed by bigger Länder. His executive federalism facilitated a federal compromise between the interests of territorial bureaucracies fighting for the survival of their organizational structure and their linkage to territorial elites and incipient interest groups. Bismarck’s attempt at a modern second parliamentary chamber failed in part because of the implied loss of power for the bureaucracies of the Länder. He ended up leaving the implementation of the law largely up to the Länder.

The constitutional draft for the Weimar Republic again tried to replace the principle of the Bundesrat with a US-style senate. The attempt met with the same visceral resistance by the Länder governments and their bureaucracies as it had 70 years prior. The story repeats itself during the constitutional consultations of 1948/49 when Konrad Adenauer initially favoured the principle of a senate but proved unable to assert himself against a coalition militating for the traditional pattern. At the time the Länder also enjoyed an unprecedented power advantage because the allies had done away with the central Prussian state in 1946. This allowed the Länder to predominate much more than they had under the Weimar Republic. Yet, there was no broad resurgence of administrative heterogeneity. On the contrary, the Länder realized their interests through the informal and formal harmonization of standards. Their competitive advantage and the abolition of the hegemonic state thus raised the level of consensus among the Länder considerably.

Although, the allies decentralized public finances, soon after the rehabilitation of independent political institutions the mechanisms of policy harmonization reappeared, first through informal exchanges among civil servants of the Länder and, since 1948, through the Conference of the Ministers of Education and Cultural Affairs of the Länder (Kultusministerkonferenz) which is roughly functionally equivalent to a federal ministry. Thus, the discovery of co-operative federalism was adapted to the German institutional tradition which reinforced co-operative federalism’s inherent executive orientation. So, German federalism can be attributed to the continually strengthened institutional position of intergovernmental relations. Since Bismarck, intergovernmental relations have been indispensable to German politics and German federalism has been marked by strong elements of negotiation and quasi-diplomatic relations among the various federal partners.

The assumption—not just in Germany—was that technological interdependence and the evolution of a national market necessitated centralized planning, and destroyed the sociological vitality for the meaningful survival of the Länder. Deemed out of tune with fundamental requirements and urgent imperatives rooted in society and economy, Länder apparently had no resources adequate to stay the execution decreed for them by bureaucrats. The growth of giant corporations, national trade associations and national trade unions created a nationalizing sentiment among elites who backed the central government, thereby contributing to the centralization of authority while producing
a polished epitaph for the autonomy of the Länder. The assumption seems to have been that regional cleavages were fundamentally artificial, meaningless and undeserving of respect.

The arrival of 13 million migrants from the Eastern provinces and Eastern Europe after World War II, coupled with the erosion of religion as a determinant of cultural identity from the late 1960s onward, further catalyzed the predisposition for uniformity. The advent of the welfare state consolidated the interdependency between federal and Länder bureaucracies. The institutional reforms undertaken by the grand coalition of 1966–69 and the 1969 renegotiation of the Basic Law reduced the autonomous influence of the legislatures of the Länder while expanding the modus operandi of multilateral bargaining in the collection and distribution of revenue by establishing so-called joint tasks.

The all-encompassing trajectory towards homogeneity was also driven by judicial decisions reinforcing the equality of all citizens stipulated in Article 3 of the Basic Law. Especially in sensitive areas of jurisdiction, such as education, the prospects of decentralization that greater political autonomy of the Länder might have precipitated provoked a defensive bureaucratic strategy built on administrative formalization and uniformity. This strategy of uniformity facilitated the promotion of uniform standards of living as stipulated by the constitution (Scheller, 2005: 236ff.). The competencies and autonomy of the bureaucracies of the Länder were thus shielded against the impending threat of total decentralization. The preservation of the Länder came at the expense of pluralism, whether through centralizing legislation or co-operative harmonization. The Bonn Republic was accompanied by an unprecedented symmetrical balance of power among the Länder.

Ergo, Germany is, first and foremost, an administrative federation, not a legislative (or dual) one (which assumes that central and subnational governments are responsible for the provision of distinct, non-overlapping goods and services): rather than dividing legislative powers, it assigns most legislative tasks to the federal government which the Länder are then left to implement.\(^9\) The concept of a federal division of powers, as found in the USA, Canada and Australia, is anathema to Germans. The German federation is meant to divide power, not powers. The German state’s constitutional raison d’être is not to preserve individual and collective freedom by limiting power but to facilitate its exercise: the preservation of the territory’s integrity, safeguarding political stability and ensuring a balanced economy. This peculiar style of co-operative federalism, however, comes at a price. It destroys the link between taxes and benefits and distorts accountability.

In German federalism, decisions about fiscal supply are made jointly by the federal government in co-operation with the Länder. The major tax bases (income, corporate and value-added) are shared in common and fall under federal jurisdiction. Even some taxes which accrue entirely to the Länder, such as taxes on inheritance, are subject to federal framework legislation. This ‘entangled’ arrangement is the result of a bargain where the Länder traded their policy autonomy for federal financing on the condition that fiscal decisions are taken in a way that requires the consent of the Länder and allowed them a collective majority veto. As a result, tax federalism, including equalization, lacks autonomy because the distribution of resources requires the consent of the Bundesrat.
In the Bundesrat, the Länder forge a consensus with the federal government on legislative matters through multilateral bargaining that affect their areas of (largely administrative) competence before these can take force. That does not preclude a subsequent constitutional challenge. Yet, for a problem which in common law countries is largely resolved by the courts the German federation has an institutional solution that is designed to preserve legislative unity, which is paramount under civil law. German federalism is premised on the classic American conception of balance of power but in a civil law framework that preserves legislative unity (Fleiner, 2011).

Ergo, the Bundesrat is neither an upper chamber in the British sense nor a second chamber in the American or Australian tradition. Instead, German federalism divides powers and curtails the power of the central government while preserving legislative unity. This is possible because, for all intents and purposes, hitherto there was no diversity in the need for reconciliation and unification. German federalism was neither set up nor intended to reconcile diversity per se which makes good sense given the country’s historically high degree of cultural uniformity, homogeneity and consensus (cf. Katzenstein, 1987: 15), which has been driving German federalism’s centralizing trajectory (Erk and Koning, 2010). Its administrative nature is the result. Legislation is largely forged at the centre but mainly administered at the subnational level.

Lehmbruch (2000: 90 ff.) refers to this uniquely German combination of institutional decentralization and legal-procedural centralization as “the paradox of federal unitarization”. Since they are highly dependent on one another, the subnational actors are left with little leeway. Their institutional autonomy is curtailed by their tight integration into a multilateral system of negotiation whose raison d’être is policy homogenization. The Länder paid for creeping centralization and unitarization with a loss of autonomy. The institutional logic of German federalism rests on vertical and horizontal intergovernmental relations with latitude for autonomous state administrations in the decision-making process and the implementation of directives. Entangling the Länder meant never having to call their sovereignty into question. German federalism has thus engineered and sustained institutional stability by means of an equilibrium that generates uniformity steeped in administrative decentralization.

Conclusion: The Governments and Societies of German Federalism

The extent to which the institutions of German federalism appear impervious to independent societal and economic effects is puzzling and has significant ramifications for the use of structure to theorize about institutional continuity in federations. After all, were Livingston’s sociological-reductionist take on federalism correct, we would have expected to find growing diversity giving rise to functional decentralization. But that is not the case. A couple of different dynamics may be at work here. One is that the German system just has not yet reached the tipping point to punctuate the current equilibrium. The other is that the institutionalism of comparative federalism may be underestimating patterns of interaction and political practice of federal political superstructures as agents of societal loyalties, attitudes and pluralism:
Institutions are not simply the outgrowth or products of the environment and they are not just dependent variables in the political system. They can be seen as independent forces, which have some effects of their own: once established they themselves come to shape and influence the environment (Simeon, 1977).

German federalism has thus effectively been suffering from contagion: unitary functionalism breeds unitary attitudes.

Germany’s federal equilibrium is premised on a particular understanding of the way citizens define and pursue collective goals. It conceives of citizenship as the delineation of a national political community, with the achievement of one component of citizenship setting the stage for the inclusion, through a widening of citizenship rights, of a wider group of social classes into national citizenship (Marshall, 1992 [1950]): “Citizenship is not a simple, one-size-fits-all category, but is rather a contingent set of accommodations of the underlying principle of equality of status” (Lister, 2005: 474). The extension of citizenship after World War II to encompass social rights secured the inclusion of the hitherto disadvantaged working class into that national citizenship by providing protection against risks of ill-health, old age, unemployment and so on. These protections were funded, as an expression of state-wide solidarity, through general taxation and fiscal equalization. Bavarians’ continued endorsement of equalization and uniformity may be a function of a prevailing sense of solidarity, especially after having spent decades at the receiving end of fiscal equalization.

In Germany, however, the redistributive character is not pegged against performance; so, fiscally weak entities have little incentive to improve their tax base. That they do nonetheless, as epitomized by Bavaria’s turn-around from fiscal-transfer recipient to contributor, is thus as remarkable as it is promising. To the contrary, the arrangement exacerbates the moral hazard further. Any deterioration in tax base is offset by more transfers. As a result, a well-intentioned system that was meant to enhance equality of status now perpetuates overcompensation. The horizontal imbalance worsens as a young, heterogeneous, urban core that is relatively rich in private income but increasingly poor in public services (due to a net outflow of revenue through equalization) winds up subsidizing a periphery that is as relatively poor in private income as it is rich in public services. The distortions of this ‘last-shall-be-first’ outcome are aggravated by asymmetrical yet coincident demographic, fiscal and economic developments that have beset the German Länder since reunification: either their populations are younger, more heterogeneous, urban and affluent or they are older, more homogeneous, more rural and indigent.

Younger, urban, diverse populations which generate most of Germany’s wealth and productivity are bound to grow increasingly apprehensive about an institutional equilibrium that externalizes the costs of public goods in several of the recipient Länder on to the paying Länder. As evidenced by Figure 18, per capita the ‘new’ Länder (the last column in each of the four rubrics, respectively) spend systematically more on current accounts, such as political leadership and central administration, policing, culture, and primary and secondary education, than the ‘old’ Länder (the penultimate column in each of the four rubrics, respectively). That they spend more on education appears to bode well, until one realizes that this is a function of an inverse relationship between fertility and education spending: Owing to fiscal
equalization, higher per-student expenditures in Länder suffering demographic decline come at the expense of declining per-student expenditures in Länder where the youth cohort remains fairly stable.

In light of population aging across the East and the accompanying decline in children, disproportionate spending on education by the new Länder is particularly puzzling and leads to considerable distortions. For example, Figure 19 shows the discrepancy in the student–teacher ratio across East (black line) and West (grey line). Whereas between 1993 and 2005 the student–teacher ratio in the Western Länder rose from 16 to 17 students, it dropped from 16 to 13.5 in the Eastern...
The combination of demographic and fiscal trends posits an equilibrium under mounting strain. In recent years, though, the situation has become somewhat more nuanced which may possibly explain why Germany’s federal equilibrium has thus far not been punctuated. The current societal, economic and fiscal development is trending towards a tripartition among south, north-west and west. The Stabilitätsrat recently identified Bremen and Schleswig-Holstein (along with Berlin and the Saarland) as the Länder whose public finances are the most precarious. By contrast, the gaps that had characterized East and West in the years following reunification have not necessarily been widening further. One indication to this end is the sum for fiscal equalization which, since 2005, has actually been decreasing relative to tax revenue. In other words, the tipping point beyond which support for cross-sectional uniformity in both policy and outcomes becomes unsustainable may not be reached because equalizing transfers have levelled off. It is entirely plausible though that support for equalization is conditional on the level of redistribution but does not vary linearly; so, a punctuated equilibrium at some point in the future is not out of the question. Concomitantly, economic growth in the East has recently been outpacing rates in some Western Länder. This is significant in so far as it suggests that the trend towards increasing dependency ratios, reduced fiscal capabilities and reduced tax bases as a function of population aging, low fertility rates and migration may have been stemmed.

As demographic trends exacerbate the difference between young and old, urban and rural, diverse and homogeneous, and more and less affluent populations, they give rise to an unprecedented degree of horizontal differentiation across Germany’s federal territory. The tipping point is reached when institutional structures no longer

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Source: Jeffrey (2011).
effectively mediate collective preferences at the level of the Länder. Faced with growing disparities, we may already be seeing the first cracks in institutional structures’ efficacy at meeting societal expectations. In response to a set of constitutional options which ranged either side of the status quo situation across select European regions, among the respondents across three German Länder included in the sample there is a sense that Länder should do more rather than less (Table 4).

In all three of the German Länder whose citizens were surveyed, the status quo option outweighs the ‘fewer powers’ option, especially among Bavarians. Is it entirely coincidental that these also happen to be among the most economically dynamic, least indebted, youngest, most urban (the three city-states aside) and most heterogenous of the German Länder? Still, respondents demand more powers to the German Länder in smaller proportions than their counterparts in other European countries demand more powers to their regional governments. Respondents show some willingness to compromise on their continuing commitment to what we might call ‘unitary federal citizenship’. Indicators of political ‘decoupling’ of Germany’s unitary federation—in terms of shifting policy portfolios from one part of the state to another—are likely to grow stronger as the pace of horizontal differentiation picks up and citizens become more aware of the federal contradictions of the current arrangement.

Is this the beginning of the end of Germany’s unitarizing federalism? If it is, then the disequilibrium is likely to be driven bottom-up: not by elites and constitutional changes but by institutional paralysis in an emergent federal culture made of distinct societies and governments.

What is needed to understand the prospects and development of German federalism in the twenty-first century is a deductive theory of asymmetrical institutional change under conditions of shifting structural fundamentals. But the social sciences notoriously have difficulty explaining institutional variation and change, especially if the explanation is to have some ability to generalize beyond case-specific induction. That we do not have. The German case can, however, be used to theorize about institutional stability and the ability to sustain equilibria when confronted with systemic shocks and changes driven by independent social and economic effects. Thus far the influence of government over society has been trumping the differentiating effect brought on by the nascent societies of German federalism. In the German case, at least, this is explicable in terms of path dependency that has given rise to an administratively decentralized federal system whose equilibrium occasions fairly unitary outcomes. Path dependency, though, is not to be confused with determinism. At a minimum, this article has tried to show that there are good empirical reasons why the German federal system is not to be taken for granted, at least not in its current form.

Notes

1See, for example, Kincaid and Cole (2011); Fafard et al. (2010); Kincaid and Tarr (2005).
2Elazar insisted repeatedly that federal systems cannot have a hegemonic centre and a subordinate periphery. Only unitary states, such as the UK, which devolved competencies to constituent units, such as Scotland, are characterized by this relationship. In select federations, such as Malaysia (until recently) and Austria, we can, however, find almost analogous relations (cf. Erk, 2004).
3The adjectives ‘old’ and ‘new’ are qualified. However historically dubious, the distinction is commonplace in vernacular parlance.
Calculations by the German Institute for Economic Research (DIW Berlin) in Wochenbericht, Vol.76, No.4, p.57, table 1.

The city-states of Hamburg and Bremen may be highly indebted—but they are also disproportionately productive; so, their debt-to-GDP ratio is still lower than that found in the new Länder (Bundesministerium für Wirtschaft und Technologie, 2009).

For an overview about this discussion see Blankart (2007). Another way to look at this problem is as a soft-budget constraint where subnational federal units are prone to fiscal irresponsibility when the institutional fiscal constraints are not ‘hard’—when spendthrift subnational governments can expand expenditures without facing the full cost because the federal level ends up having to bail out lower levels (cf. Rodden, 2003).

For an overview of this debate, see Scheller and Schmid (2008).

Previous surveys—if not as systematic and comprehensive—on this topic can be found in other sources, including Noelle-Neumann and Köcher (1997; 2002; 2009), as well as in Bertelsmann Foundation/forsa (2003).

For a concise introduction to German federalism and its fiscal implications, see Feld and von Hagen (2007).

Centralization refers to a modus operandi whereby regulation is made centrally but in co-ordination with the Länder. See, for instance, Hesse (1962). By contrast, unitarization refers to horizontal co-ordination among Länder or vertical co-ordination between the federal government and the Länder (see Abromeit, 1992).

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