Current Issues

Germany

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German finances: Federal level masks importance of *Länder*

The financial situation of Germany's Länder (constituent federal states) is overshadowed by the financial situation of the Federation and the municipalities. Internationally, Germany is usually only equated with the Federation, i.e. the federal level, even though the *Länder* weigh in substantially on fiscal matters. Across the OECD sub-central governments account on average for more than 30% of total expenditure no less.

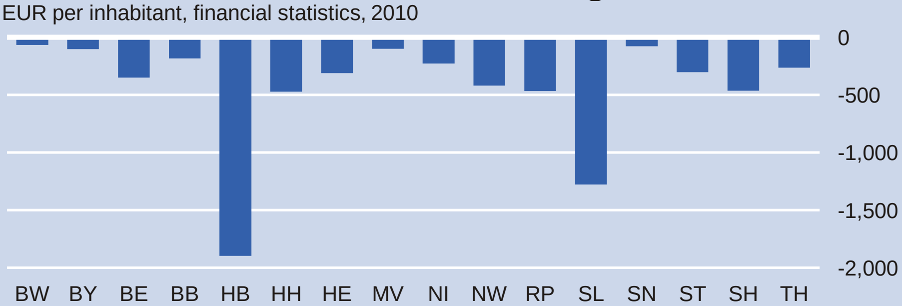
Complex financial relations link the Federation and the Länder. This results from the country's historical development – barring one exception Germany has never been a centralised state. On the expenditure, and even more so on the revenue side, the *Länder* are confronted with limits on their autonomy. They may only decide alone on less than 8% of their tax revenue, while over 70% of total tax revenue is reallocated by means of a complex procedure. Much argues for a reduction of their fiscal integration and a clear specification of competences and responsibilities in relations between the Federation and the *Länder*. More *Länder* autonomy – partly by means of a surcharge on income tax – would make sense.

The Länder are allowed to make largely autonomous decisions solely in respect of borrowing, which for a variety of reasons has developed very dynamically. While the main focus has been on direct bank loans for a long time, capital market financing has gained considerable significance for a number of *Länder*. The capital market debt outstanding of North Rhine-Westphalia exceeds that of Portugal, for instance.

Solidarity in the federal state is not empty rhetoric. The scope of the financial equalisation system and the judgements handed down by the Federal Constitutional Court ensure the practical anchoring of the solidarity principle – basically a joint liability system with a bail-out guarantee. This is why yield spreads between the *Länder* and the Federation are narrower than between the EU member states.

The Stability Council and a debt brake at the Länder level are an improvement over previous arrangements. This is the first time a preventive instrument has been created to initiate timely corrective action in the event of budget imbalances. However, its impact can only feed through in the shape of public pressure and the loss of political reputation, since there is simply no scope for ultimate sanctions.

German *Länder*: Financial balances – large differences
EUR per inhabitant, financial statistics, 2010



Sources: DB Research, German Ministry of Finance, partly provisional/estimates

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Abbreviations for Germany's *Länder* (constituent federal states)

BB	Brandenburg
BE	Berlin
BW	Baden-Wuerttemberg
BY	Bavaria
HB	Bremen
HE	Hesse
HH	Hamburg
MV	Mecklenburg-Western Pomerania
NI	Lower Saxony
NW	North Rhine-Westphalia
RP	Rhineland-Palatinate
SH	Schleswig-Holstein
SL	Saarland
SN	Saxony
ST	Saxony-Anhalt
TH	Thuringia

Abbreviations for European countries

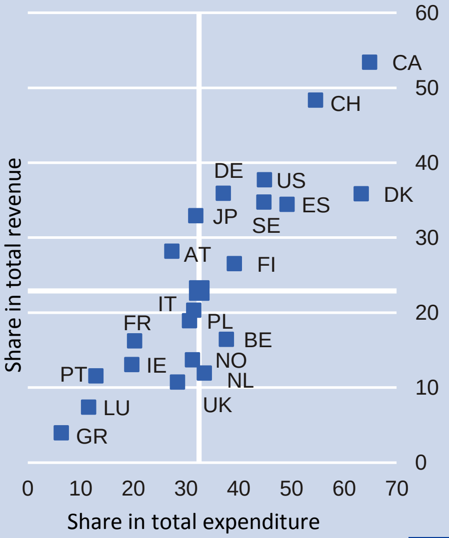
AT	Austria
BE	Belgium
CH	Switzerland
CY	Cyprus
DE	Germany
DK	Denmark
EE	Estonia
ES	Spain
FI	Finland
FR	France
GR	Greece
HU	Hungary
IE	Ireland
IT	Italy
LT	Lithuania
LU	Luxembourg
LV	Latvia
NL	Netherlands
NO	Norway
PL	Poland
PT	Portugal
SE	Sweden
SI	Slovenia
SK	Slovakia
UK	United Kingdom

Abbreviations for other countries

CA	Canada
JP	Japan
US	United States

Introduction

Fiscal significance
of sub-central governments
Shares (%), 2006



Source: OECD (2010) 1

Federalism and the federal state principle

The terms federalism, federal state principle and federal state are closely related to one another and are usually used synonymously. Nevertheless, they do have different meanings. Fundamentally, federalism refers to a possible principle of regulatory order. The term federal state designates the state structure per se, is narrower in definition and is a quasi-subform of federalism.*

With regard to the organisation of states, **federalism** refers to the relationship between the central power and the member states as well as to the relationship among the member states themselves. As a matter of principle, the latter enjoy equal rights, and have joined together to create an overarching political entity. The concept of federalism also covers a broader scope than the federal state in describing the (looser) association of states in a confederation or a decentralised unitary state and thus an intermediate stage to a federal state.

A **federal state** (or a federation) comprises several states, i.e. both the overarching federation and its members have the characteristics of a state; sovereignty under international law lies solely with the central state, though.

*For a detailed discussion (in German) on this subject and what follows see Buscher (2009), particularly p. 43ff.

The financial and economic crisis has left deep, permanent scars on public budgets in Europe and the US in particular. While debate on public debt and deficits at the international level is normally conducted on the basis of general government figures, closer examinations of policy measures are confined in most cases to analyses of the central or federal government level alone. It is often ignored that a number of countries have significant subordinate levels of government or regional authorities which in some cases wield considerable influence not only on the fiscal position of the country as a whole. Besides Germany, these countries include the US, Spain, Brazil, Argentina, India, Canada and Australia. Expressed in figures, the import for the OECD countries is that the subordinate levels of government account for 31% of total expenditure, 22% of total revenue and 66% of investment, with the remainder being carried by the respective central governments.[1]

What are the defining features of the German federal state? How are powers and responsibilities divided between the relevant bodies? As regards the financial order, this mainly boils down to the questions: how are which government levels funded, which level has what mandates, and who decides these matters in the federal system? In this launch study the initial aim is to provide a cursory overview of the broadly-based subject of *Länder* finances, the *Länder* being the constituent member states of Germany.

In the course of this year DB Research plans to publish a series of articles on various topics pertaining to the *Länder* and their finances in which the issues addressed here will be delved into in greater detail. This includes not only the questions of how the *Länder* raise their funding in the capital market, what challenges they face owing to the increasing pension burdens, but also to what extent the return to the public sector of energy, water and other privatised companies may be of greater, or less, benefit to companies and public alike. A further question to be is addressed is how – in view of the difficult financial situation and the introduction of the “debt brake” – scope may be created for key future expenditure such as on investment and education.

Germans and the federal state – a truly longlasting relationship

Germany is a federal state – as set out explicitly in Article 20 of its Basic Law (Constitution). The principle of the federal structure – like all the principles in Articles 1 and 20 of the Basic Law – is protected, moreover, by what is referred to as the “eternity guarantee” of Article 79 (3) of the Basic Law.[2] This means that constitutional amendments leading to a change in the principles upheld in these articles shall be inadmissible. Consequently, the division into Federation and *Länder* as well as their participation on principle in the legislative process are not amendable, so the federal state principle is thus firmly anchored in the Basic Law.

In principle, Germany has three levels of government – i.e. Federation, *Länder* and municipalities. However, this structure is not

[1] See Blöchliger, H. et al. (2010) and Chart 1.
[2] For detailed information (in German) see Buscher, Daniel (2009), Part I (C).

Federalism as the norm*

The origins of a federal structure stretch back to the days before the concept of the state became firmly established, i.e. back to the Middle Ages. Starting in the 14th century, the emperor of the Holy Roman Empire of the German Nation was chosen by princes known as electors. Embryonic federal structures were also to be recognised in so-called “leagues of towns” (e.g. the Hanseatic League).

With the transition from the feudal system to the territorial principle in the mid-17th century, principalities turned into autonomous states in the Holy Roman Empire. The years after the Napoleonic wars saw the emergence of the Deutscher Bund (German Confederation), an unmistakably federal association consisting of up to 41 independent states with individual constitutions that in some cases strongly differed from one another. However, steadily increasing self-serving interests (culminating in wars) led to its dissolution.

The German Empire was eventually constituted in 1871. While its 22 member states and three city-republics were free to choose their own form of government; a restructuring was only possible with the consent of the affected member state. For the first time there was also a list of responsibilities which, similar to today’s Basic Law, described the scope of legislative powers. As the supreme governing body of the Empire, the Bundesrat (Federal Council) had a central steering function and played a dominant role vis-à-vis the Reichstag (Imperial Diet). The empire was presided over by the King of Prussia, who simultaneously held the title of German Emperor. The emperor had the right to appoint and dismiss the chancellor of the empire. The federal level had to fund only few expenditures (mainly for the military) and had virtually no means of raising revenue. Otherwise, the states enjoyed legislative and above all administrative sovereignty. Direct taxes, generating large volumes of revenue, were at the disposal of the member states; these paid in contributions to fund communal expenditures on the basis of their population size.

It was not until the time of the Weimar Republic, from 1919, that the Länder (designated thus only since then) were made subordinate to the central government. The Bundesrat was replaced by the Imperial Council, which was allotted fewer powers. The empire now obtained extensive fiscal powers and built up its own system of direct taxation. The Länder received grants from the imperial financial administration and shares of the taxes. There was still no constitutionally regulated financial equalisation system.

Under National Socialism, the Länder level had been eliminated de facto (“Gleichschaltung der Länder”) by early 1934, and the Imperial Council itself, but not the Länder, dissolved. In addition, the financial sector was completely centralised, with the Länder losing their financial sovereignty.

*For more detailed information (in German) see Buscher, Daniel (2009), Part I (B).

so clearly delineated in the Basic Law.[3] The Basic Law states relatively clear rules for tasks, expenditure and revenue responsibilities and legislative powers only for the Federation and the *Länder*. While the Federation ranks above the *Länder* as regards its powers, the *Länder* play a major part in the shaping of Federation legislation. This participation in the legislative process and specific decision-making powers as well as a certain degree of financial independence (the latter established mainly by the possibility of borrowing funds and not so much by virtue of *Länder* tax autonomy) are thus the defining features of the German federal state.

In its history, Germany has never – barring one exceptional period – been a centralised state. There is evidence of this going back to the days of the Holy Roman Empire of the German Nation, and this is not to be seen as a phenomenon – as is frequently maintained – resulting exclusively from Allied policy following the second world war.[4] Before the Federal Republic of Germany was founded in 1949, the *Länder* were re-established immediately in the wake of WWII.[5] Even among the Western Allies there was initially no agreement on how strongly centralised (confederation or federation) a united German state should be. However, because of the negative experience seen in the Weimar Republic and under National Socialism, the Allies specified that the rights of the *Länder* should be adequately protected in the Basic Law. With the establishment of the *Bundesrat* (the Federal Council consisting of *Länder* government members whose voting rights were graduated in line with their respective population size), a model was ultimately implemented in which the *Länder* chamber is not on an equal footing with the *Bundestag* (national parliament).

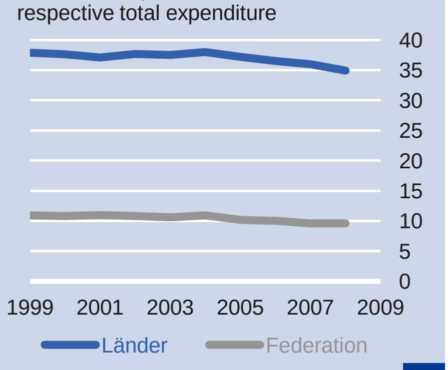
The Federation and the *Länder* – who does what and who pays?

The distribution of powers and duties between the Federation and the *Länder* in Germany is largely set out in the Basic Law. Unlike in the United States and Canada, the division of government tasks is generally more functional in nature[6], i.e. instead of an exact definition specifying certain tasks to be squarely shouldered by one of the government levels, a differentiation is made between legislative powers or framework legislation, administrative responsibilities and, as regards finances, also the apportionment of tax revenue. The Basic Law differentiates here in the legal sense inter alia between concurrent and exclusive legislative powers vested in the Federation. On principle, the *Länder* enjoy legislative powers for all matters as long as the Basic Law has not assigned the given task to the Federation – or the Federation has not claimed it for itself. In practice, the Federation has made considerable use of this right, so it now holds most legislative powers in its own hands – also following the second reform of federalism (in 2009).

[3] See Zipfel, Frank (2010), p. 4.
[4] See the adjacent box for more details.
[5] Until 1952, the five east German *Länder* in existence today had already existed on the territory of the former German Democratic Republic. These had been founded anew after 1945 following the dissolution of Prussia. Thus, from 1952 until German reunification the GDR was a central state. In the course of unification the territory was restructured along federal lines.
[6] For more on this and what follows, see Hildebrandt, Achim (2009), p. 22ff. and Buscher, Daniel (2009), p. 66ff.

Major difference

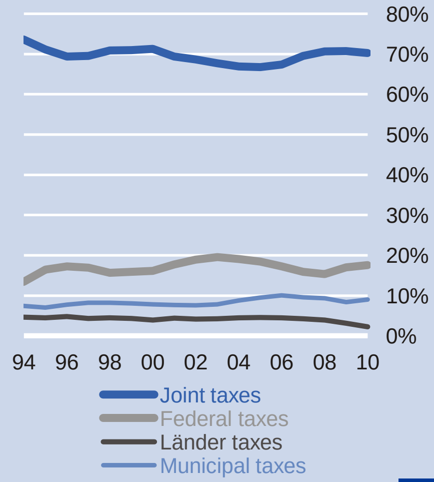
Personnel expenditure as % of respective total expenditure



Source: German Ministry of Finance **2**

***Länder* have little tax autonomy**

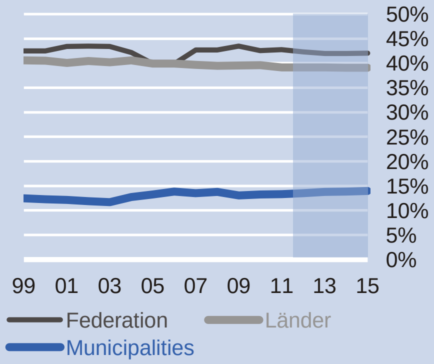
Shares of total tax revenue



Sources: DB Research, Bundesbank (2010) **3**

Tax revenue shares constant

Share of total tax revenue



Sources: Federal Statistical Office, tax estimate from May 2011, DB Research **4**

As regards the finances of the three levels of government, the section of the Basic Law on finance (Articles 104a to 115 of the Basic Law) and the division of powers and responsibilities between the Federation and the *Länder* specified there are of overarching significance. In this context it is important to note that in practice the Federation enjoys the bulk of the legislative powers, whereas the revenue is usually split up. However, the administrative tasks are nearly exclusive in the hands of the *Länder*.[7] For this reason, the personnel expenditure of the *Länder* is disproportionately higher than that of the Federation. For example, the share of personnel expenditure in total expenditure for the Federation was less than 10% at last reading, while for the *Länder* it was just over one-third of total expenditure and thus over three times as high as for the Federation.[8]

Even though the *Länder* are, in principle, independent in managing their budgets, as stated in the Basic Law, their autonomy is relatively heavily limited de facto on both the revenue and the expenditure side. On the **revenue side** it can be observed that – barring a few exceptions (e.g. purely *Länder*-controlled taxes such as real property transfer tax) – the *Länder* only participate in tax legislation via the *Bundesrat* and thus only on revenue volume. While they do have a strong right of veto, they are largely denied participation in making quantitatively significant, autonomous decisions on the volume of taxation: at last reading, some 70% of the taxes in Germany were what are known as joint taxes (2009: EUR 371 bn of the EUR 524 bn total, with the latter corresponding to roughly 22% of Germany's GDP, see Chart 3). These joint taxes mainly comprise income tax and value-added tax (VAT). Income tax and VAT are initially assigned (vertically) in the framework of a so-called "system of shared apportionment" and in a further process are partly reapportioned (horizontally) via certain mechanisms.[9] By contrast, the share of purely *Länder* taxes (which in some cases are still uniform nationally, such as inheritance tax) is only 3%; add to this 8% for municipal taxes, which the Federation and the *Länder* also partly share (via trade tax apportionment). These numbers clearly show the narrow scope for autonomous decisions on revenue volume that can be taken by the *Länder*.

All in all, the **apportionment of the tax revenue** among the different levels of government in Germany has remained relatively constant over the past ten years. The Federation and the *Länder* as a whole generate roughly equal volumes of tax revenue.[10] But a look at the earlier days of the Federal Republic of Germany (i.e. from the 1950s up to about 1999) shows that the Federation's share had steadily declined (from 53%). Hence, the *Länder* play a relatively significant fiscal role – in contrast to the general public perception – for the share of expenditure and revenue in all the *Länder* relative to the Federation is "at eye level" with the Federation. Only as regards

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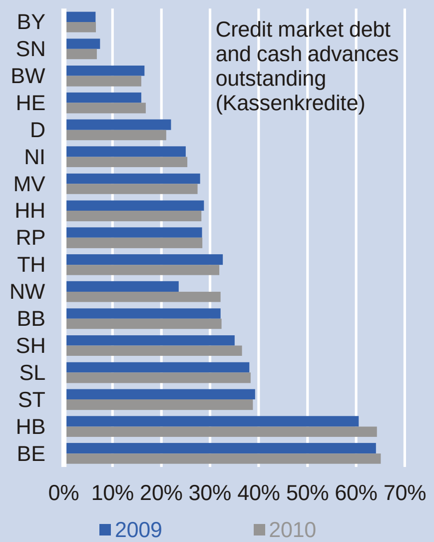
7 There are exceptions, including customs duties and the administration of waterways, which are federally owned. These arrangements, referred to as ordinary legislation, supplement or detail the constitutional legislation of the Basic Law esp. with respect to the division of tax revenue and the financial equalisation system. This includes laws such as the "Solidarity Pact II", the "Standards Act", the "Financial Equalisation Act" and the "Tax Revenue Reallocation Act".

8 See BMF (2010).

9 The distribution of joint taxes in the shared apportionment system is a complex process and will be examined in several steps. These include, for example, the VAT equalisation mechanism, the *Länder* financial equalisation mechanism and ultimately also supplementary federal grants. See also p. 8f.

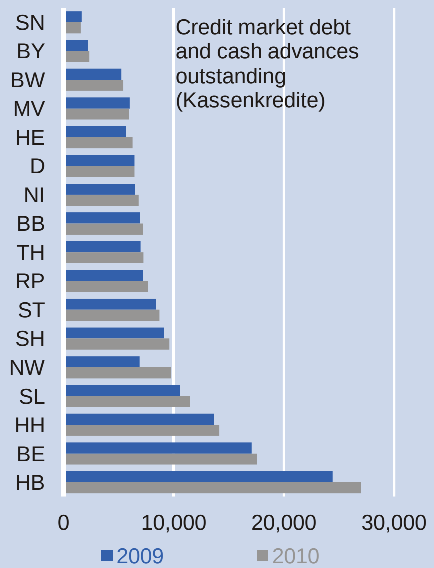
10 In addition, the bulk of the tax revenue cash flow is initially generated by the *Länder*. They pass on the tax revenue to the Federation and the municipalities.

Large differences in debt burden I
As % of GDP, financial statistics, 2010



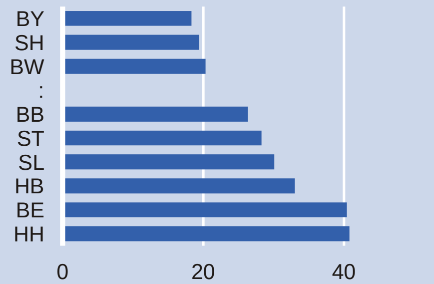
Sources: DB Research, Federal Statistical Office **5**

Large differences in debt burden II
In euro per capita, financial statistics, 2010



Sources: DB Research, Federal Statistical Office **6**

Potential for cutting administrative expenditure
Share of administrative budget expenditure (not long-term commitments), %



Source: Brügelmann et al. (2011) **7**

general government debt does the bulk lie on the Federation's side, at over 60%, while the *Länder* share is only about 30%.

On the **expenditure side**, too, a relatively heavy degree of integration between the Federation and the *Länder* similarly places limitations on *Länder* autonomy. As indicated above, public administration mainly lies in the hands of the *Länder*. The government tasks set out in the Basic Law in particular in the areas of home affairs, education and culture are a major reason for the larger share of personnel expenditure at the *Länder* level. The Federation is only allowed to fund the tasks mandated to it by the Basic Law – with exceptions spelt out in the Basic Law. The fundamental linking of tasks and financial resources and/or financial responsibility (the constitutional link) stipulated by the Basic Law and the related guaranteed independence of the Federation and the *Länder* is correct from an economic standpoint; however, this separation, and thus above all the autonomy of the *Länder* is undermined de facto by the legislative powers of the Federation.[11] Moreover, the joint financing arrangements for a host of tasks (e.g. not only joint tasks such as coastal protection and the advancement of science, but also laws providing for money grants such as the parental benefit and social benefits) result inter alia in substantial links between the budgets of the Federation and the *Länder* (and municipalities).

The de facto influence of the Federation on expenditure is, however, the subject of controversy. The commonly stated argument that the *Länder* are not at all capable of shaping expenditure policy is no doubt exaggerated. In fact, Seitz, for example, reaches the conclusion that merely between 11% and 25% of *Länder* expenditure is dictated by the Federation.[12] All in all, however, the autonomous decision-making potential on spending is without question much smaller than for the Federation.

Borrowing: Largely an autonomously manageable revenue source (hitherto)

Compared with the expenditure side and tax generation on the revenue side, the *Länder* have (hitherto) enjoyed a great deal of latitude at least in one "sub-segment" of the revenue side, and that is in borrowing. This scope is (so far still), or used to be, restricted merely by the rules set up by the *Länder* themselves – primarily in their constitutions. For example, the constitution of North Rhine-Westphalia still contains the investment-oriented debt cap anchored in the spirit of former Article 115 of the Basic Law.[13] Much like at the federal level, the comparable rules in a number of *Länder* have done only a modest job of limiting the debt burden, though.

[11] See Buscher, Daniel (2009), p. 102ff. and Zipfel, Frank (2010) on the principle of the "constitutional link". This enables adjusting the level and structure of public expenditure to the respective wishes and needs of the population, above all in respect of the potential financial scope. See also: Wissenschaftlicher Beirat BMF (2005), p. 10ff.

[12] Seitz (2008). The Cologne Institute for Economic Research sees medium-term consolidation potential of between 18% and 40% of administrative expenditure at *Länder* level, for this is the extent to which the *Länder* can determine administrative spending themselves. For more detail (in German) see Brügelmann et al. (2011) and Chart 7.

[13] Its non-observance by NRW's current SPD-Green government had led to the state's supplementary budget for 2010 being declared unconstitutional in court.

Credit authorisation in fiscal 2011

EUR bn

	Net	Gross
BW	1.00	8.00
BY	0.00	2.90
BE	2.74	10.00
BB	0.44	3.29
HB	0.91	4.36
HH	0.70	4.30
HE	2.30	6.70
MV	0.00	1.02
NI	1.95	7.93
NW	7.96	27.29
RP	2.00	8.80
SL	0.90	1.80
SN	-0.10	1.50
ST	0.54	2.33
SH	1.30	4.30
TH	0.47	2.45

*March 2011, partly rounded or provisional figures

Source: Reuters 8

Capital market debt

	Total outstanding debt	Wt. Avg. Fixed Coupon	Wt. Average Years to Maturity
	EUR bn	%	Years
BW	50.20	3.15	4.34
BY	9.80	3.38	4.50
BE	34.80	3.57	3.19
BB	10.50	3.66	2.99
HB	7.70	0.00	1.42
HH	4.90	2.43	2.57
HE	24.20	3.59	3.78
MV	0.90	4.72	5.17
NI	28.10	3.54	3.39
NW	163.10	3.32	4.92
RP	18.90	2.69	3.24
SL	1.10	2.12	3.86
SN	0.90	3.94	4.46
ST	9.30	4.23	4.27
SH	7.70	3.29	3.44
TH	2.10	4.03	2.90

Source: Bloomberg, as of March 2011 9

This is one of the reasons that in several *Länder* a significant portion of expenditure has been financed with borrowed funds (see Charts 5 and 6). This year, again, a number of *Länder* have very substantial borrowing schedules – at least in absolute terms (see Table 8). Even though the lion's share of debt has always consisted of direct bank loans, the volume of capital market debt is nonetheless considerable. It is notable that the individual *Länder* take recourse to the capital market to very differing degrees. Several *Länder* – e.g. North Rhine-Westphalia – are very much to be regarded as significant "players" in the capital market on account of their business volume, also by international standards. If one compares, for example, the entire outstanding debt volume of individual German *Länder* in the capital market with that of other European countries, this becomes apparent. North Rhine-Westphalia's total outstanding capital market debt exceeds – at least in absolute terms – the comparable debt of Portugal and Ireland, for instance, while Berlin's exceeds that of Slovakia (see Table 9).

Besides the absence of effective mechanisms to limit the debt burden in the budget process itself (e.g. via a debt brake as in Article 115 of the Basic Law), other possible causes of deficits and subsequent increases in debt can also be observed. Given the differing developments in the *Länder* over time, one must ask to what extent structural (e.g. demography; population density), economic, fiscal-policy and political factors are to blame.

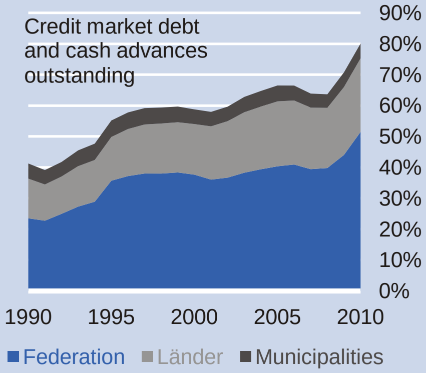
The results of a variety of studies on this issue are quite mixed.[14] Politico-economic and social science studies suggest that the political distribution of power (e.g. not only the frequency of grand coalitions made up of the CDU and SPD, frequently changing governments and related increases in debt in years running up to elections or in election years, but also the breadth of the distribution of power, i.e. the number of the parties participating in the government) in a given *Land* could have an impact on the fiscal situation. At the same time, economic development also plays an important role, i.e. the development of economic growth and unemployment, particularly with regard to spending patterns. Studies show furthermore that the fiscal policy pursued by lower levels of government in a raft of countries with decentralised structures is very procyclical. If there are no equalisation mechanisms this procyclicality is neither of benefit to the budgets of the respective subnational governments (for volatility reasons), nor is it of any advantage in the face of the potential positive effects of counter-cyclical growth policy at the national level.[15] All things considered, it remains astonishing that there are such substantial fiscal differences despite the relatively parallel growth curves in the *Länder*.

Last but not least, the already outlined close financial ties and the general principle of allegiance to the federation ("*Bündnistreue"* between the Federation and *Länder* and between the *Länder* and the municipalities that materialises in the form of mutual financial assistance) could also have ramifications for debt. For these factors provide a type of insurance against budget distress. This makes sense in times of crisis (e.g. natural disasters) which are beyond the control of the individual member states, since coping with such crises is in the interest of the entire federal state. At the level of the regional government, however, such "insurance" can result in an

[14] For more on this subject and what follows see Hildebrandt, Achim (2009); Berger, Helge & Annika Holler (2007); and Jochimsen, Beate & Robert Nuscheler (2007).
[15] See Rodden, Jonathan & Erik Wibbels (2010).

Debt by level of government

% of GDP, financial statistics



Sources: DB Research, Federal Statistical Office **10**

"Bail-out" expectations leave stamp on budget policy

The sooner a subordinate level of government can expect a bail-out from the superior level (i.e. the federation itself), the greater as a rule its inclination to fund extra expenditure via debt instruments*. This helps to boost voter approval without own costs having to be raised to the same degree, for a bail-out enables the costs of debt service to be passed on at least partially to the higher level. An international institutional comparison** shows that bail-out expectations are generally influenced or amplified by the following arrangements:

1. The lower level has the right to borrow funds on credit.
2. The lower level has no, or virtually no, other autonomous legislative powers of taxation.
3. The lower level is heavily dependent on transfer payments (both from a higher level and from the same level).
4. Existence of legally codified standards or of standards implicitly embedded in the political culture allocating responsibility to the higher level (in Germany, for example, Constitutional Court judgement).
5. Existence of historical precedents for aid from the higher level to the lower level.

*For a detailed discussion (in German) see Hildebrandt, Achim (2009), Chapter 3.1.3.

**See Rodden et al. (2002), cited in: Hildebrandt, Achim (2009), p. 40ff.

occasional lack of local budget discipline. The de facto ruling-out of liability afforded by prospective financial assistance (i.e. a bail-out) – either from the Federation or other *Länder* – thus paves the way in principle to debt-funded higher spending.

Solidarity in the federal state – not empty rhetoric

There are no explicit rules in the Basic Law on how a *Land* should cope with a looming budget emergency.[16] Rather, the principle of allegiance to each other (*Bündnistreue*) has been derived from Constitutional Court decisions (on the basis of Articles 104a and 107) and fleshed out. Materially, the fiscal solidarity emerges in concrete terms in the financial integration of the Federation and the *Länder*. Therefore, it is worthwhile at this juncture to take a closer look at this system. As already outlined, 70% of tax revenue in Germany is apportioned to the different levels of government in a complex process. In principle, there is a four-stage arrangement that combines elements of both separate and shared apportionment.

At the **first** stage, total tax revenue is divided vertically between the Federation and the *Länder*. This pertains both to the taxes allocated exclusively to one level (e.g. Federation: energy tax; *Länder*: real property transfer tax) as well as to the taxes that are far and away the most important in volume terms: VAT and income tax. While the Federation and the *Länder* are entitled to 42.5% of income tax revenue each and the municipalities are entitled to 15%, VAT – the flexible component of the federal financial system – is split up according to a continually varying formula (at last reading: 54% to the Federation and 44% to the *Länder* as well as 2% to the municipalities).[17]

Second, the tax revenue attributable to the *Länder* under vertical apportionment is redistributed among them horizontally. To avoid increased concentration of the tax revenue, it is largely reallocated further (in the case of income tax and corporation tax) according to local incidence and thus according to revenue-generating capacity (key principles: place of residency and place of business). VAT is primarily distributed (at least 75%) according to the number of inhabitants. Up to this juncture, general financial capacity, financial resources and the appropriate level of financial resources necessary and guaranteed by the Basic Law to fulfil mandated tasks do not play a role.

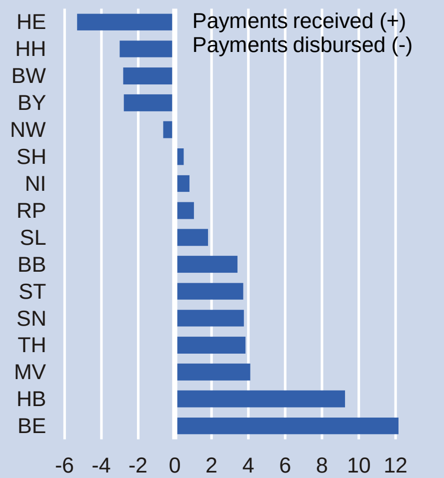
Revenue-generating capacity or financial capacity is not taken into consideration until the **third stage**. This is accounted for partly by what are referred to as supplementary shares, for up to 25% of VAT revenue is allotted to those *Länder* whose revenue income falls short of the *Länder* average. However, the other core aspect is the subsequent actual *Länder* financial equalisation (abbreviated LFA) in the narrow sense. It is not until this stage that there is a real redistribution of revenue in the sense that funds are directly transferred from financially strong *Länder* to financially weak ones. Similar to the reallocation of tax revenue this financial equalisation system is detailed more fully in a dedicated piece of legislation

[16] For more details on this and what follows see Wissenschaftlicher Beirat BMF (2005), p. 29ff in particular.

[17] The breakdown is not fixed by the Basic Law, but instead is based on an ordinary law that can be amended by simple majority in the *Bundestag* and the *Bundesrat*. For detailed information on this and what follows see BMF (2010).

Per capita payments in the *Länder* fin. equalis. system (LFA)

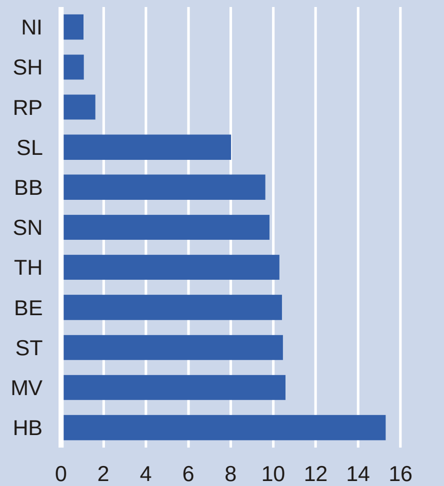
Cumulative balance 1995-2010, EUR '000



Sources: DB Research calculations, Fed. Statistical Office, German Ministry of Finance **11**

Supplementary fed. grants (BEZ) – payments received per capita

Cumulative 1995-2009, EUR '000



Sources: DB Research calculations, Fed. Statistical Office, German Ministry of Finance **12**

(supplementing the Basic Law). Using a complex procedure based on population numbers, computations are performed to calculate financial capacity and financial needs (in the form of the equalisation index). If the financial needs exceed the financial capacity, a *Land* is entitled to equalisation payments from the other *Länder* whose financial capacity is higher than their requirements. In this context, there are numerous limitations stipulating the height of the ceiling to which the needs shortfall may be topped up (in addition, the payments of the donor *Länder* are also capped). The plans recently announced by the *Länder* Baden-Wuerttemberg, Bavaria and Hesse to take this issue to court are based directly on this third stage of financial equalisation, for these three *Länder* bear the main burden (in absolute terms) of the payments (see Chart 11).

The **fourth** and last **stage** of the federal financial equalisation system is where direct transfers from the Federation to the *Länder* come into play – the so-called supplementary federal grants (*Bundesergänzungszuweisungen*, abbreviated BEZ). There are various types of supplementary federal grants. In principle, they serve to largely even out the difference remaining between financial capacity and financial needs after the LFA stage.[18] Furthermore, additional transfers are granted for dedicated purposes. However, these are geared, unlike all the other equalisation payments discussed hitherto, not so much to financial capacity as to the particular (spending) needs of the *Länder*. In the framework of the Solidarity Pact II, for example, payments to the east German *Länder* also flow in the form of BEZ ("grants to cover special needs dating back to the division of Germany"). At this stage of the equalisation system it may happen, following final calculations, that the financial capacity ranking of the *Länder* reverses compared with its starting position.

The equalisation system, which is only broadly outlined here, enables the practical anchoring of the solidarity principle and mutual support (and thus bail-outs) in the federal state. To illustrate, the *Länder* Bremen and Saarland have obtained federal assistance in the shape of supplemental grants (BEZ) to help overcome budget emergencies. The decisions on whether federal assistance is necessary has in the past usually been decided by a judgement handed down by the Constitutional Court. In 2006 it rejected renewed aid for Berlin, since it did not see any federal-state emergency in Berlin's budget distress which would justify additional transfers and, on top of this, it stated that Berlin had failed to undertake sufficient efforts of its own.[19]

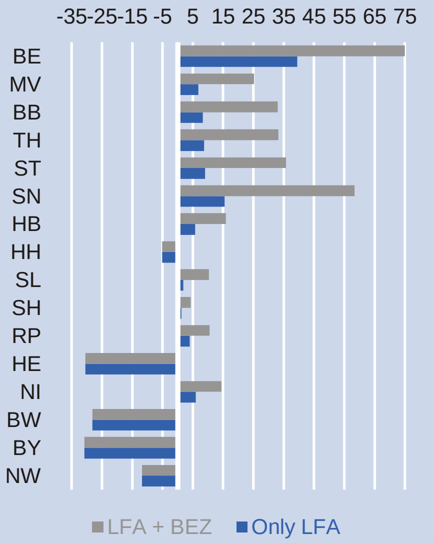
Sizeable reallocation volume

The volume of funds transferred in the LFA and BEZ framework is quite substantial (see Chart 11). Between 1995 and 2010 about EUR 114 bn flowed from the disbursing *Länder* to the recipient *Länder* under the LFA, with Baden-Wuerttemberg, Bavaria and Hesse shouldering the lion's share of these payments. With BEZ grants, the Federation additionally transferred around EUR 209 bn between 1995 and 2009, mainly to the *Länder* in east Germany (in the context of Solidarity Pact II) and Berlin. On a per capita basis, Hesse and Hamburg made the highest payments. For every inhabitant of Hesse around EUR 5,300 was transferred to the other *Länder* during the given period (almost twice the amount paid by

[18] To be more precise, 77.5% of the difference is evened out, as long as financial capacity does not reach 99.5% of the average.

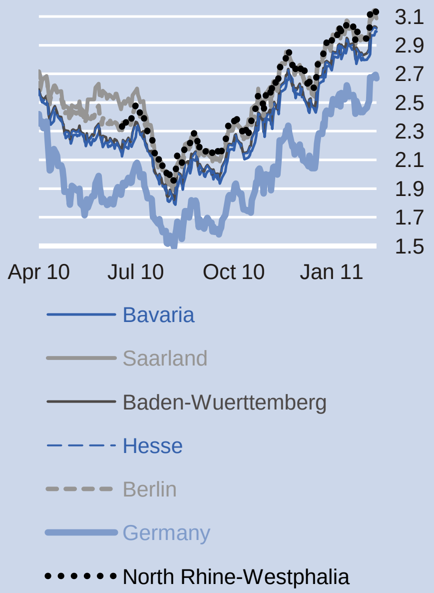
[19] For more on this topic see Buscher, Daniel (2009), p. 175ff.

Länder fin. equalis. (LFA) and Supp. fed. grants (BEZ)
1995-2009, payments received (+) and disbursed (-); EUR bn, net



Sources: DB Research calculations, Federal Statistical Office, German Ministry of Finance **13**

Bond yields: Federation and Länder
%, comparsion of yields on bonds with equal remaining life to maturity (5 years)



Sources: DB Research, Bloomberg, as of March 2010 **14**

inhabitants of Bavaria no less). The biggest beneficiary per inhabitant was Berlin. Every Berliner received over EUR 12,000 in support from the donor *Länder* from 1995 through 2010 – plus another EUR 10,000 per capita in the shape of BEZ federal grants (1995-2009). But the main BEZ recipient by far is Bremen. From 1995 to 2009, every citizen of Bremen was transferred over EUR 15,000 from the Federation budget. Given this volume one is loath to imagine a similarly dimensioned financial equalisation system at the European level. Taking, for example, the per capita transfers of the Federation to Saarland in the above-cited period (around EUR 8,000) and extrapolating this for the population of Greece or Portugal, a sum of roughly EUR 91 bn or EUR 85 bn, respectively, would have been due to these countries in the same time frame (i.e. over EUR 6 bn per year).

In financial relations between the *Länder* (and also between the *Länder* and the Federation) usually the main issue is whether or not the extent of reallocation is still appropriate and not unnecessarily fettering home-grown efforts towards sound budgeting. Ultimately, the point at issue is how to weight the constitutional requirement of uniformity of living conditions and the differences in a federal system, for the two aspects are contradictory. Much argues for a further reform of the federal financial relationships, a reduction of fiscal integration and a clear specification of competences and responsibilities in relations between the Federation and the *Länder*.[20] Sound budgeting, which often includes politically difficult consolidation measures, must be able to reap rewards for the individual *Land* in question. More autonomy would then translate into more taxation rights of their own – e.g. their own surcharge on income tax – and less smoothing of disparities via the financial equalisation system. In the context of a surcharge on income tax, the equalisation could be capped at the level of the average tax rate.

At the end of the day, the system of joint liability between the Federation and the *Länder* might be curtailed or eliminated. In this case, the credit standing of a *Land* could help determine the extent of potential borrowing and/or the interest rate charged.[21] Incidentally, the market has already started to assess the creditworthiness of the *Länder* differently from that of the Federation – albeit to a very slight degree (see Chart 14). Conversely, the autonomy of the *Länder* could generally be curbed and their debt capped by rules. The latter approach was taken with the introduction of the debt brake.

Coordination and prevention – debt brake and Stability Council

Until Germany's second federalism reform (2009) and the introduction of the debt brake along with the Stability Council there had in principle not been any sort of early-warning system, i.e. preventive instrument, enabling timely corrective action in the event of budgetary imbalances or debt accumulation. To date, Article 104 of the Treaty establishing the European Community (now Article 126 of the Treaty on the Functioning of the European Union), which has been transposed in the Budgetary Principles Act (now Section 51) and which also covers the *Länder*, has had a greater impact than the national rules. This has changed considerably in the wake of the

[20] For more see Peffekoven, Rolf (2005), whose arguments remain topical.
[21] For more on this topic see Jochimsen, Beate (2007).

What is a "debt brake"?

The legislation resolved in 2009 capping borrowing by the Federation and the Länder (Articles 109 (1) and 115 of the Basic Law) first took effect in 2011. It stipulates that the Federation and Länder budgets (see also Article 143d (1) of the Basic Law) have in principle to be balanced **without recourse to credit**. However:

— While the Federation is allowed to take up loans of up to 0.35% of GDP, the Länder are prohibited from borrowing on credit altogether.

— Exceptions are permitted in the event of natural disasters and economic crises (via majority resolution in the Bundestag). Resultant liabilities must be run down in the framework of an amortisation plan and they reduce the scope for borrowing in subsequent years.

The objective of the rule is to limit the **structural** debt burden (i.e. debt unrelated to the level of economic activity). So if funds are borrowed on credit during a downswing for growth reasons, they must be paid back during upswing phases.

The **borrowing reported in the budget differs from the structural borrowing** by several offsetting items. These include:

— The **strictly cyclically-related net borrowing** (via automatic stabilisers);

— these result in less borrowing latitude during an upswing.

— **Financial transactions** (these are non-capital-forming public expenditure and revenue. Among other things they include loans disbursed and loans repaid (e.g. to the Federal Employment Agency) and acquisitions and disposals of participations): If their balance is positive, the scope for borrowing decreases.

Debt brake introduced in only a few *Länder* so far

second reform of federalism. However, it remains to be seen how strongly the effect of these changes can unfold in practice. This will depend partly on how willing and able *Länder* policymakers will be to observe the new rules – evidence can already be seen in the differing approaches of the *Länder* towards implementation of the debt brake.[22] Partly it is a matter, too, of how the political public – also ordinary citizens – take to the measures linked with such a rule (e.g. expenditure cutbacks) or sanction violations of the same, e.g. on election day. While surveys show that, especially lately, debt dynamics and debt levels are being viewed very critically by the public, cutbacks in consumptive government spending above all in areas of social policy, without which sustainable consolidation cannot be achieved, are at the same time finding virtually no broad-based support.

Debt brake for the Länder – better than the status quo?

The prohibition of new structural debt set out in the Basic Law does not hold for the *Länder* governments until 2020. However, some *Länder* (Berlin, Bremen, Saarland, Saxony-Anhalt and Schleswig-Holstein) will have to start gradually cutting back their structural deficits in the transition phase from 2011. In turn, though, they will receive consolidation aid of EUR 800 m per year from the Federation and the *Länder* bloc.[23] The Basic Law does not spell out to the *Länder* exactly how they have to implement the debt brake, nor how they have to calculate cyclical debt. The requirement is merely to ensure that the rules of the *Länder* are in keeping with Article 109 (3) 1 of the Basic Law (cyclical debt, exceptions in emergency situations that are beyond the control of the government as well as an amortisation plan for such debt). This apparent straddling of two sides results from the already outlined budgetary autonomy of the *Länder* which prohibits the Federation from prescribing (uniform) rules for the *Länder* or imposing sanctions on them.

Therefore, it is not possible to envision at this point in time how faithfully the Länder will transpose the rules pertaining to the debt brake into their own rules. Currently, three *Länder* (Hesse by referendum, Rhineland-Palatinate and Schleswig-Holstein by parliamentary resolution[24]) have integrated the rules into their respective state constitution. In Hesse, the exceptions are confined to the cyclical debt also allowed in the Basic Law as well as extraordinary emergency situations and natural disasters[25]. In Rhineland-Palatinate, by contrast, a further exception has been approved: funds may be borrowed as a result of revenue losses caused by amendments to tax legislation that do not fall under the Land's jurisdiction[26]. Saxony-Anhalt has merely anchored the debt brake in the state budget code. In most of the other *Länder* the debate over its implementation continues. In this context, incidentally, the municipalities also play a significant role. Legally,

[22] For more on this and what follows see Berlit, Uwe (2010), p. 336f.
[23] For the disbursement of these funds the *Länder* and the Federation have agreed on the reduction of funding shortfalls by means of administrative arrangements. The funds will be distributed as follows: Berlin EUR 80 m, Bremen EUR 300 m, Saarland EUR 260 m, Saxony-Anhalt EUR 80 m and Schleswig Holstein EUR 80 m per year up to and including 2019.
[24] However, Schleswig-Holstein concomitantly brought suit against the debt brake before the Federal Constitutional Court.
[25] See Article 141 of the Constitution of Hesse.
[26] See Article 117 of the Constitution of Rhineland-Palatinate. The extent to which these exceptions are compatible with the framework legislation of the Basic Law is at the very least open to question.

they apparently are not subject to the debt brake.[27] Considering the huge debt of a number of municipalities in the various Länder the question arises as to what extent financial transfers between a Land and its municipalities could result in undesirable evasion effects – also to the detriment of the municipalities.

Can coordination in the Stability Council produce the desired results?

Greater significance attached to medium-term budgetary and financial development and planning for the first time

The second key pillar apart from the debt brake is the newly constituted Stability Council (in its role as the successor to the Financial Planning Council). Its aim is to combine prevention measures and sanctions in order to avert budgetary emergencies, i.e. to ensure that timely steps are taken before the situation gets out of hand. For the first time, in principle, a regime has been established in which medium-term budgetary and financial developments have been given a much more substantial weight in current fiscal policy. The Stability Council has agreed on four key ratios and related threshold values in attempts to assess the budget situation:

1. Structural financial balance (current = financial balance per inhabitant)
2. Credit financing ratio (= Net borrowing to net expenditure)
3. Debt level (= Debt at Dec 31 in relation to population)
4. Interest-to-tax ratio (Interest expense to tax revenue)

The key ratios are monitored over a period of seven years. During this time a differentiation is made between two partial periods: the **current budget situation** (with the actual values of the prior two years and the target value of the current year) as well as the **financial planning** (target/proposed value of the upcoming year and the items budgeted in the financial planning, i.e. four years in all).[29] Comparisons with the respective *Länder* average including certain supplements function as ceilings or thresholds for the individual key ratios. A budgetary emergency is said to loom only if the threshold values of at least three key ratios in at least one period have been exceeded; only then does the Stability Council have to make a decision.

Four Länder facing a of budgetary emergency

At its second meeting in October 2010 the Stability Council certified that four *Länder* were in jeopardy of or actually facing a budgetary emergency: Berlin, Bremen, Saarland and Schleswig-Holstein. Thus the evaluation committee launched a test procedure. In May, during its third meeting, the Stability Council affirmed a budgetary emergency in the given *Länder* and decided that they have to work out a restructuring programme. A related resolution will be adopted at the earliest in October 2011. After all this process is a premiere of sorts.

[27] See Berlit, Uwe (2010), p. 327.
[28] For more on this matter and what follows see resolutions of the Stability Council (Beschlüsse Stabilitätsrat) (2010a).
[29] In October 2010 this meant, for example, the actual readings from 2008, 2009 and the target for 2010 as well as the proposal for 2011 and the financial planning for 2012-2014.

The new Stability Council of the Federation and the Länder*:

Purpose:

The Stability Council is a joint body representing the Federation and the Länder whose mandate is to avert serious budget problems.

Organisation:

Its members are the Länder finance ministers as well as the federal finance and economics ministers. Resolutions require the votes of the Federation and 2/3 of the Länder (minimum: 11 Länder). However, a Land is not entitled to vote if it is affected by the decision to be made. The Stability Council convenes for regular meetings every May and October. The groundwork for its sessions is prepared by a working group that additionally meets regularly every July to confer on the general and financial framework conditions for budgetary and financial planning. An evaluation committee that is set up separately if a budgetary emergency looms examines the budget situation of the affected level of government and monitors any potentially adopted restructuring programme.

Tasks:

The main task of the Stability Council is to regularly monitor the budgets of the Federation and the Länder. To do so, it conducts a test based on certain criteria before formally establishing whether or not a budgetary emergency is on the horizon. If it reaches this conclusion, it launches a restructuring programme (based on the proposal put forward by the affected government); compliance with the programme is checked on the basis of regular reports. Moreover, it monitors whether the five Länder receiving budget consolidation aid from 2011 are actually meeting their consolidation obligations. Furthermore, the Stability Council discusses the progress reports on the "Aufbau Ost" reconstruction programme in the east German Länder. Last but not least, the Council is considered to be the coordinator of budgetary and financial planning also with regard to the obligations arising from the Stability and Growth Pact.

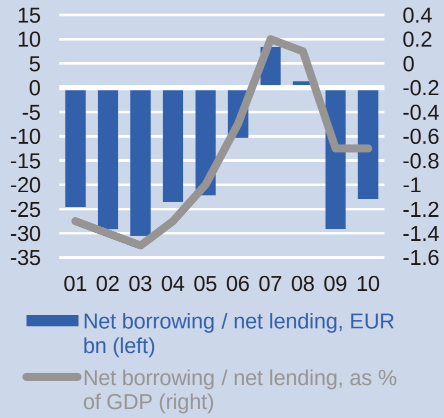
Mode of operation:

Decisions will be based on the stability reports to be tabled annually in future by the Federation and the Länder (by September at the latest for the meeting in October). They will contain certain key figures as well as a forecast of the medium-term budget situation. If the majority of the key figures exceed the prescribed threshold values or the forecast development points to this eventuality, the Stability Council will decide whether to initiate a test procedure (by the evaluation committee). The resultant test report will be the subject of consultation at the next meeting (during the following May). It is not until then that a restructuring programme will be discussed with the affected government. The latter itself will table a programme that will be examined and subsequently approved by the Council. As a rule it will be spread over five years and contain concrete targets on reducing annual net borrowing as well as on implementing appropriate restructuring measures. At six-month intervals reports will have to be made on the state of compliance with the consolidation programme and decisions taken on whether further measures are necessary. The Council can demand (several times) that the government in question intensify its efforts. If the budgetary emergency has not been eliminated after five years a new restructuring programme will be agreed.

*For more (in German) see Stabilitätsrat (2010b).

Länder **budgets – mostly in deficit**

EUR bn (financial statistics), % of GDP (national accounts)



Sources: Deutsche Bundesbank, Federal Statistical Office, DB Research **15**

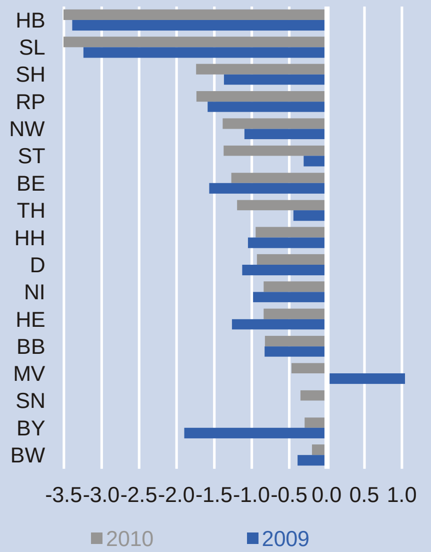
The debt brake and the Stability Council may be regarded as two sides of the same coin: the two are meant to achieve better budget management and stop the increasing debt burden of the three levels of government. But the degree to which this is possible continues to hinge on the will of all involved, i.e. policymakers and the public. The related limitations and methodology continue to offer ample room for debate. For instance, a cyclical adjustment procedure for the *Länder* has yet to be resolved, although proposals have been put forward.[30] Another issue up for dispute is how well the key ratios selected by the Stability Council are suited for the assessment. One of the inherent problems is that the key ratios are geared to the *Länder* average, so the deeper the *Länder* budgets fall into disequilibrium, the easier it becomes for the individual *Land* to stay within the threshold values. Moreover, owing to the limits on revenue-side autonomy, appropriate restructuring measures that a *Land* can adopt on its own will in most cases probably involve spending cuts.

Above all, the Stability Council ultimately has no last-ditch direct scope for sanctions enabling it to push through restructuring programmes – the Basic Law would likely also rule this out. On the other hand, the evaluation and "sanctions" procedure via the Stability Council (and also the debt brake) does not provide for any automatic assistance from the other *Länder* or the Federation.[31] As far as implementation of the debt brake is concerned, the State Constitutional Courts and the Federal Constitutional Court will face a heavier burden of responsibility and work going forward. Even if more rules-based fiscal policy does make sense in a politico-economic light, the ongoing "judicialisation" and shifting of political

30 See RWI opinion (2010).

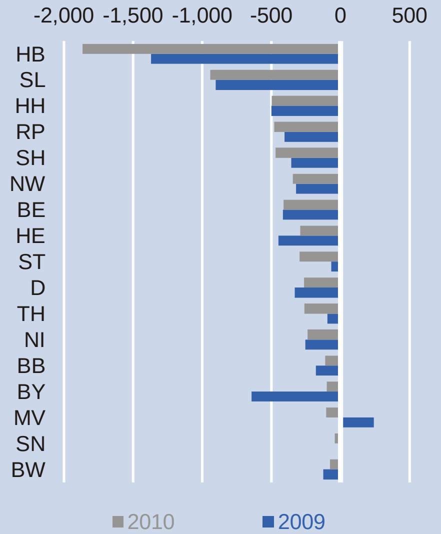
31 See Brügelmann et al. (2011), p. 17. Such assistance, if possible at all, would have to be decided on a case-by-case basis.

Länder deficit ratios
Financial balance, as % of GDP



Sources: Federal Statistical Office, Nat. accounts for the Länder, DB Research, partly estimates **16**

Financial balances _Länder_
EUR per inhabitant, financial statistics



Sources: DB Research, German Ministry of Fin., Federal Statistical Office, partly estimates **17**

responsibility towards the (constitutional) courts also harbour problems[32]. However, the currently developed procedure is, on the whole, all the better than the possibilities existing hitherto in the framework of former Article 115 of the Basic Law and of the Financial Planning Council. For now at least there is a proper procedure whose results are made transparent and which at least can produce desired effects via public pressure and a potential loss of political reputation.

Current financial situation: Large differences between *Länder*

According to provisional calculations the *Länder* recorded a deficit in 2010 of around EUR 23 bn – some EUR 10 bn less than budgeted (about half as large as the Federation deficit) and about EUR 6 bn less than in 2009. While none of Germany's *Länder* was able to generate a surplus in 2010, the deficits varied considerably. In the city-states the financing deficit per inhabitant, for instance, was twice as high as in the territorial states. But some of the territorial states (e.g. Rhineland-Palatinate, Schleswig-Holstein and Saarland) are also currently reporting sizeable deficits. The deficit *Länder* are also posting the highest debt and are at the same time among the biggest recipients of transfers (Berlin, Bremen and Saarland in particular). Except in the years 2006 and 2007 the *Länder* have always spent more in total since German unification than they have generated in revenue.

The 1.8% increase in total *Länder* expenditure (to EUR 303 bn) was set against revenue growth of approximately 4.3% (to EUR 280 bn). The recovery on the revenue side has continued in Q1 2011 thanks to the increase in tax inflows. At the end of March, the *Länder* tax revenues were up nearly 10% on the year-earlier reading; that figure was very low, though, for crisis-related reasons. Nevertheless, the increase in tax revenue will be reflected in the *Länder* budget deficits in quite different ways, since the *Länder* do not all fund their expenditure via tax revenue to the same degree. In the past, the share of tax revenue that flowed into total spending used to range between merely 40% and over 80% (in Berlin the share of tax revenue was only 50%, for instance, at last reading). All in all, though, the positive budgetary development should be used to create the prerequisites for sound, longer-term budget policy.

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[32] Whether the increasing trend towards settlement of political issues by the courts is in keeping with the spirit of democracy is another matter altogether. In many areas of fiscal policy there is a host of conflicting targets that probably ought to be resolved in a political process of due consideration rather than by the judgement of a court. For more details see Junkernheinrich, Martin (2010).

Germany's *Länder* in international comparison – GDP

Nominal GDP 2009 (EUR bn)

	Indicator value		EU counterpart	US counterpart
North Rhine-Westphalia	521.7	(= 21.7%)	Netherlands	Florida
Bavaria	429.9	(= 17.9%)	Switzerland, (Poland)	Illinois, Pennsylvania
Baden-Württemberg	343.7	(= 14.3%)	Belgium	New Jersey, Ohio
Hesse	216.5	(= 9.0%)	Denmark	Maryland
Lower Saxony	205.6	(= 8.5%)	Denmark	Maryland
Rhineland-Palatinate	102.5	(= 4.3%)	Hungary	Iowa, Oklahoma
Saxony	92.8	(= 3.9%)	Hungary	Nevada, Kansas
Berlin	90.1	(= 3.7%)	Hungary	Kansas, Nevada, Utah
Hamburg	85.7	(= 3.6%)	Hungary	Kansas, Nevada, Utah
Schleswig-Holstein	73.4	(= 3.0%)	Slovakia	Arkansas, Washington D.C., Mississippi
Brandenburg	53.9	(= 2.2%)	Slovakia	New Mexico, Nebraska, Hawaii
Saxony-Anhalt	51.5	(= 2.1%)	Slovakia	New Mexico, Hawaii
Thuringia	48.9	(= 2.0%)	Luxembourg	West Virginia, Hawaii, New Mexico
Mecklenburg-W. Pomer.	35.3	(= 1.5%)	Slovenia	Rhode Island, Maine, Idaho
Saarland	28.8	(= 1.2%)	Lithuania	South Dakota, Wyoming, Montana
Bremen	26.7	(= 1.1%)	Lithuania	Wyoming, South Dakota, Montana
Germany	**2,407.2**	**(100%)**		

Sources: Eurostat, US Dept. of Commerce **18**

Germany's *Länder* in international comparison – population

(Million inhabitants in 2009)

	Indicator value		EU counterpart	US counterpart
North Rhine-Westphalia	17.87	(= 21.8%)	Netherlands	Florida
Bavaria	12.51	(= 15.3%)	Greece	Illinois, Pennsylvania
Baden-Wuerttemberg	10.74	(= 13.1%)	Belgium	Ohio, Michigan
Lower Saxony	7.93	(= 9.7%)	Switzerland, Austria	Virginia, New Jersey
Hesse	6.06	(= 7.4%)	Denmark	Missouri, Tennessee, Indiana
Saxony	4.17	(= 5.1%)	Ireland	Kentucky, Louisiana, Oregon
Rhineland-Palatinate	4.01	(= 4.9%)	Ireland	Kentucky, Oregon
Berlin	3.44	(= 4.2%)	Lithuania	Connecticut, Oklahoma
Schleswig-Holstein	2.83	(= 3.5%)	Latvia	Utah, Kansas, Arkansas
Brandenburg	2.51	(= 3.1%)	Latvia	Nevada
Saxony-Anhalt	2.36	(= 2.9%)	Latvia	Nevada, New Mexiko
Thuringia	2.25	(= 2.8%)	Slovenia	New Mexiko
Hamburg	1.77	(= 2.2%)	Slovenia	Nebraska, West Virginia
Mecklenburg-W. Pomer.	1.65	(= 2.0%)	Estonia	Idaho
Saarland	1.02	(= 1.3%)	Estonia	Rhode Island, Montana
Bremen	0.66	(= 0.8%)	Cyprus	North Dakota, Alaska, Vermont
Germany	**81.80**	**(100%)**		

Sources: Eurostat, US Dept. of Commerce **19**

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