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SPEECH

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Proper Resources and Autonomy in Budget Management*

1 Introduction: The Current Debate

[1] Current fiscal policy debates have two main topics: the rising debt of many countries due to the financial and economic crisis, and (unfair) tax competition between countries. Both topics are, however, not only relevant at the international level, but also within federations and, what is a special but highly relevant case somewhat in between these two levels, within the European Union. Moreover, they are relevant for the relation between local communities even within a unitary state. Thus, the discussions in this workshop about “Proper Resources and Budget Management” will also (more or less) circle around these two problems. Or, to state it somewhat differently, the two problems are: (i) What should be the rules of the competition game between governmental units at the same level?, and: (ii) How can sub-central units be enforced to follow a sustainable fiscal policy? A precondition for satisfactory answers to these two questions is, of course, that sub-central units receive sufficient transfers from the national government and/or have enough tax autonomy to raise sufficient revenue to fulfil their tasks.

[2] The economic theory developed to analyse these problems is the one of fiscal federalism, i.e. it relates to states in a federal country, but can and is, of course, applied to the other situations mentioned as well. Thus, in the following, first, the main problems of fiscal federal systems are described (*Section 2*). From these, the five main topics are derived which are to be discussed in this workshop and which are outlined briefly in *Section 3*.

2 The Main Problems of Fiscal Federalism

[3] The first basic challenge every federal system has to cope with is the assignment of responsibilities to the different governmental levels.¹⁾ The traditional answer to this problem is the subsidiary principle, i.e. every task should be performed by the lowest governmental level that is able to perform satisfactorily.²⁾ The second problem, and this is the one to be discussed in this workshop, is the resource problem: which resources are to be given to the lower gov-

*) Theme paper for workshop No. 3 “Proper Resources and Autonomy in Budget Management”, *Conference on Democracy and Decentralisation*, University of St. Gallen, May 3-4, 2010.

1. See for this, for example, R. BIRD et al. (2003).

2. On the subsidiary principle see, for example, L.P. FELD and G. KIRCHGÄSSNER (1996).

ernmental levels, and who is deciding about this. There are two basic systems applied: (i) the central government is distributing the funds among the sub-central levels according to certain criteria, as is the case, for example, in Australia,³⁾ or the communities at these levels have own resources, in particular own tax autonomy, on which they can decide without (major) interferences from the central level. This is, for example, the situation in Switzerland or the United States. There are of course also many cases where mixtures of these principles are applied, as, for example, in Germany.

[4] Economic theory of federalism, as originally developed by CHARLES M. TIEBOUT (1956), RICHARD A. MUSGRAVE (1961) and WALLACE E. OATES (1972),⁴⁾ shows that there are some governmental tasks which can only be performed satisfactorily at the federal level, in particular stabilisation policy as well as the provision of national public goods. Local and regional public goods should, on the other hand, be provided by the political authorities of these levels. According to the decentralisation theorem of W.E. OATES (1972), the regional units should be shaped in a way that those who benefit from regional public goods should also be those who pay for their provision and also those who decide about the amount to be provided. Thus, they must have their own revenue sources. In order to avoid spillover effects violating the optimality conditions of the decentralisation theorem B.S. FREY and R. EICHENBERGER (1999) developed the concept of ‘Functional Overlapping Competing Jurisdictions’ (FOCJ) according to which for every governmental task there should be special constituency that covers exactly the geographical area of the public good provided by it, a constituency with own tax autonomy and (direct) democratic control. This is, however, hardly practical as it would lead to a rather large number of different political units, which implies a huge bureaucratic apparatus which is hardly controllable by the citizens. Thus, in most countries the number of governmental levels is reduced to three (Switzerland) or four (Germany); an exception being the United States with its special purpose districts.⁵⁾ This, however, creates coordination problems between the units at the same level whenever there are spillovers.

[5] Following conventional wisdom, income redistribution using (progressive) income taxes should also be performed at the federal level. Assuming mobility, competition will lead to a situation where rich people move to communities with low taxes while poor people to communities with high social expenditure. This leads to a segregation of the society into rich and poor communities, which might result in lower tax rates but higher government expenditure in ‘rich’ compared to ‘poor’ (local) communities and, therefore, a breakdown of redistribution. The classical example is the city of New York which went bankrupt due to its extensive social policy and had to stop it.⁶⁾ Anticipating such a situation the sub-central level communities will not engage in redistribution. Thus, only the national level remains for this task. On the other hand, Switzerland shows that despite the mobility of its citizens, given some

3. A description of the Australian system is given by COMMONWEALTH GRANT COMMISSION (2007). See also B. DAHLBY and N. WARREN (2003).

4. For overviews of the economic theory of federalism see, for example, W.E. OATES (1999, 2005).

5. Similar institutions as the U.S. special purpose districts also exist in other countries, like, for example, the joint waste management authorities in Germany.

6. For the fiscal crisis of New York City in 1975 see, for example, E.M. GRAMLICH (1976).

rather special institutional conditions, some redistribution can also be performed at lower governmental levels, even using progressive income taxes.⁷⁾ Thus, while some centralisation is unavoidable, given the corresponding institutions some redistribution is also possible at the sub-national levels.

[6] Tax autonomy leads to tax competition, be it at the international level, between member countries of an economic union, or between lower governmental levels within a country. As any other institution, tax competition has positive and negative effects.⁸⁾ And as with any other competition, there have to be rules to be followed by the participants of the game if it is to bring into being positive net-results. It is, for example, not by chance that the OECD is engaged in fighting ‘harmful tax competition’ since more than 10 years.⁹⁾ While it cannot be avoided at the international level, tax competition can be restricted within an economic union and even be prevented within a federal country. This might, however, not be without costs, because the suppression of tax competition might result in increased competition using subsidies, an institutional competition which might lead to even more harmful outcomes.¹⁰⁾ However, finding rules for tax competition which prevent, as far as possible, its negative implications without impeding its positive effects is no trivial undertaking.

[7] This problem is reflected in the discussion about the merits of tax competition between as well as within countries, within the member countries of the European Union, for example, but also within Switzerland. Not only politicians, but also economists have rather diverging points of view, some more pointing to the positive, others to the negative effects of tax competition. This is hardly astonishing because every political institution with positive and negative effects can be assessed rather differently depending on the weights given to the different aspects. The imposition of such weights is, however, a political (value loaded) task and not a scientific one. Thus, a general consensus can hardly be expected.

[8] If we consider the international discussion, most problems arise when small countries have considerable lower taxes than larger ones. Tax havens are typically small countries, like, for example, Liechtenstein or Singapore, or small parts of larger countries that are, however, allowed to have their own tax regime, like the Channel Islands belonging to the United Kingdom.¹¹⁾ Consequently, conflicts, if they arise, arise between large and small countries and rarely between large ones. But this is also hardly astonishing. As S. BUCHOVETSKY (1991) and J.D. WILSON (1991) have shown, compared to larger ones, small governmental units can achieve an advantage in tax competition by having lower tax rates.¹²⁾ Starting from the situation of a social optimum with identical tax rates a small unit, as in Switzerland, for example,

7. For the Swiss situation see, for example, G. KIRCHGÄSSNER (2007).

8. On the effects of tax competition see, for example, G. KIRCHGÄSSNER (2008).

9. See, for example, OECD (1998, 2006), and also:
http://www.oecd.org/department/0,3355,en_2649_33745_1_1_1_1_1,00.html (30/03/10).

10. On the different forms of fiscal competition see, for example, J. AFONSO, S.G. FERREIRA and R. VARSANO (2003).

11. On the effects of tax havens see, for example, D. DHARMAPALA (2008), J. SLEMROD and J.D. WILSON (2009) or J. BECKER and C. FUEST (2010).

12. See for this also A. HAUFLER (2001, pp. 74ff.).

the canton Zug, can improve its situation by reducing tax rates and, therefore, attracting additional tax payers. If large cantons like, in Switzerland, Bern or Zürich, would reduce their taxes to the same extent, nobody would win: small and large cantons had still identical tax rates, but lower financial means. Thus, small cantons would reduce their taxes even further. Anticipating this reaction, large cantons will not fully adjust; they will reduce their tax rates to a smaller extent than small cantons. The logic behind this is that, by reducing tax rates, a large canton will lose quite a lot of revenue from those taxpayers already located in the canton and will – in relative terms – not gain very much from those taxpayers moving into the canton. The opposite holds for the small canton. In the new (Nash) equilibrium, both will have lower tax rates than in the beginning, but the tax rate of the smaller unit will be lower than the one of the larger unit. Moreover, despite the lower tax rate, the smaller unit will have higher public expenditure per capita, and also higher welfare compared to the larger one, and the welfare gains of the smaller unit cannot compensate the losses of the larger one.¹³⁾ The condition that this effect occurs is that the difference in size between the small and the large canton (or country) is large enough. In principle, this results holds for all taxes which are instruments in the tax competition game, but while it relates in international tax competition mainly to corporate income taxes, it is within Switzerland also highly relevant for personal income taxes because one can, for example, work in the large canton Zürich and reside in the small canton Zug.

[9] If all units had (more or less) an equal size and structure, tax competition would hardly lead to major problems. Those areas where we would be afraid of a race to the bottom, especially redistribution and national public goods, could be assigned to the central level, and there might be competition in other areas, primarily with respect to the allocation of regional and local public goods. However, if we have tax competition between units of very unequal size, a fiscal equalisation system is necessary in order to prevent the country from breaking apart. This certainly holds for countries like Switzerland, where the relation of the size of the population between the smallest the largest canton is huge. In a democracy, this might have two consequences: the splitting up of the country in different smaller, but unitary organised countries, or the abolition of the federal structure or, at least, of tax competition.

[10] An additional instrument to mitigate negative distributional impacts of tax competition with respect to corporate income taxes is to introduce a system of formula apportionment.¹⁴⁾ This presupposes a common definition of the tax base; based on this taxable profits are distributed among the different locations of a company according to certain criteria, as, for example, employment or capital invested. Switzerland has such a system. It would also be possible to introduce such a system in every other federal country where the sub-national units have (some degree of) tax autonomy, but also, for example, in the European Union. As the endeavours of the OECD show, on the truly international level there are only very restricted possibilities to regulate tax competition. The main instrument is to reconcile some rules in trea-

13. One might even say that the smaller units exploit the larger ones.

14. On the concept and the effects of formula apportionment see, for example, R.M. BIRD and J.M. MINTZ (2003), J.M. WEINER (2005), C. FUEST, TH. HEMMELGARN and F. RAMB (2007) as well as J. BECKER and C. FUEST (2010).

ties of double taxation or not to agree on such a treaty with some countries at all. Tax havens like, for example, Andorra, are, therefore, unable to enter into such treaties with other (larger) countries.

[11] The problem of any fiscal equalisation system is, however, that the incentives to keep track of the own tax base are reduced.¹⁵⁾ This holds for those governmental units which receive money from this system, but also for those which have to pay into the system. This problem can be somewhat mitigated if the distributed money stems (at least partially) from central tax revenue, because the ‘rich cantons’ will still have incentives to take care of their tax base. For the poor cantons, however, it still holds that the corresponding incentives are the lower the stronger the equalisation is. Germany is a rather negative example in this respect. The German Constitutional Court declared in several decisions that even a very far reaching equalisation is constitutional.¹⁶⁾ Moreover, in 1992, there was a partial bailout of two smaller states, Saarland and Bremen. This situation seduced some states to follow a non-sustainable policy.

[12] With respect to the latter effect, the size of the governmental unit also matters. While a large state can hardly hope for a bailout, a small one can. Saarland and Bremen are the two smallest states in West Germany. Large states like Nord Rhine-Westphalia, Baden-Württemberg or Bavaria can hardly hope for it. They are forced to follow a sustainable fiscal policy. The same also holds in the European Monetary Union. Despite all the provisions of the Stability and Growth Pact, Greece, which counts for only three percent of the European Unions GDP, can hope for a bailout, and the recent decisions of the European Union show that there might be some kind of partial bailout. Large member countries like Germany or France cannot hope for something like this. Thus, it is not by chance that Germany which was the main financier of the European Union in the past was strongly resistant against any kind of bailout for Greece.

[13] The general problem behind this is how lower level governmental units can be induced to follow a sustainable fiscal policy. This question arises whenever these units have own expenditure autonomy; it holds for member countries of the European Union, for member states in a federal country but also for local communities, in a federal as well as a unitary state. As the recent experiences of the European Union show, even strong no bailout-clauses might not be credible under certain circumstances. On the other hand, the Swiss experience with the local community of Leukerbad which went bankrupt shows that a bailout can be denied even if the debt of a community is very high, provided the courts support this.

[14] The problem of fiscal sustainability is, of course, not only a problem of sub-central governmental units, but also a problem of national states. However, there is only a possibility of a bailout if there is a governmental level above the unit. And the seduction to speculate for a bailout is larger the smaller the single unit is compared to all communities together. Thus, the

15. On the problems connected with fiscal equalisation systems see, for example, B. DAFFLON and F. VAILLONTCOURT (2003).

16. See the decisions of the Constitutional Court of February 20, 1952 (1 BvF 2/51), of June 24, 1986 (2 BvF 1, 5, 6/83 und 1, 2/85; E 72, 330 II), of May 27, 1992 (2 BvF 1, 2/88, 1/89 und 1/90; E86, 148, II) and of November 11, 1999 (2, BvF 2, 3/98 1,2/99; BverfGE 101, 158).

situation might be especially pronounced in Switzerland with its many rather small cantons and local communities. This might be one reason why ‘debt brakes’ have been introduced in several cantons, the first one in St. Gallen in 1929. Today, we have such institutions in at least 12 cantons.¹⁷⁾ The main feature of the successful institutions is that taxes have to be raised and/or expenditure cut whenever a deficit above a certain threshold is to be expected. Thus, a precondition for the introduction of such a brake is (partial) tax autonomy of the corresponding governmental unit.

3 The Sub-Themes to Be Discussed in the Workshop

[15] Based on the above considerations, in the following, the four sub-themes to be discussed in this workshop are outlined.

3.1 Fiscal Resources and Fiscal Autonomy

[16] Regarding fiscal competences, the first problem to be solved in any (quasi) federal system, i.e. whenever sub-central units have at least some fiscal autonomy, is who decides about the fiscal equipment of these units and according to which criteria. There are two extremes: (i) One is the Australian model mentioned above where a commission nominated by the federal government decides how much money each province receives. It does this using certain criteria given to them. In this situation, there is no revenue autonomy at all. (ii) The other extreme is the (free) national state which has far reaching tax autonomy. This holds, for example, for the member countries of the European Union, but also, somewhat more restricted, for the Swiss cantons or the U.S. states. Most countries have solutions which are in between these two extremes, where the sub-national units have some, but rather limited tax autonomy. A rather special situation is the German one, described as the ‘joint decision trap’ by F.W. SCHARPF (1985, 2006) where the single state has no tax autonomy at all, but all member states decide together with the central government not only about their own tax revenue but also on the one of the federal government. Needless to say, in this situation all German states (‘Bundesländer’) use the same tax rates, whereas there are, for example, huge tax rate differences between the Swiss cantons.

[17] Depending on the concrete situation, both systems can have advantages. In some developing countries it might, for example, be rather difficult for the sub-central units to raise own tax revenue, and there is also the danger of corruption.¹⁸⁾ In developed, industrialised countries, however, the situation is quite different, but Australia keeps, nevertheless, to its model.

[18] Closely related to this is the problem of conditional in relation to unconditional grants. Even in systems like Switzerland with extended tax autonomy of the sub-central units some of these units need additional money from the federal government due to, for example, different

17. See TH. STAUFFER (2001, pp. 83ff.) as well as the overview over the current situation under http://www.fdk-cdf.ch/100204_hh-regeln_kantone_synopse_def_d.pdf (30/03/10).

18. See for this, for example, R. PRUD'HOMME (1995) and A. SHAH (2006), R. FISMAN and R. GATTI (2002), as well as C.S. FAN, CH. LIN and D. TREISMAN (2009).

geographical conditions, while other do not. To which extend should the national government tie these transfers to some conditions, be it, that this money can only be used for specific purposes (selective grant), be it, that it is only given for special projects on the condition that the state or local government pays some predetermined share of the costs (matching grant)¹⁹⁾. In some situations, both kinds of conditions might be appropriate, but the danger of inefficient use of (federal) tax money, i.e. of social waste, is also given.

[19] Thus, the main questions to be discussed in this section are:

- (i) Which taxes should be assigned to which governmental level, and how far should the revenue autonomy of sub-central unit go?
- (ii) Which is the suitable role of grants? To which extent should they be conditional or unconditional?

3.2 The Rules of the Tax Competition Game

[20] If tax autonomy is granted to sub-national units, first, it has to be decided which taxes are to be assigned to which governmental level. There exist rather different solutions. In the United States, for example, the states can decide about their income as well as sales taxes, i.e. not only on direct but also on indirect taxes, whereas in the member countries of the European Union as well as in Switzerland the rates of indirect taxes are set at the national level and uniform within the country. The Swiss cantons are free to choose their own schedule for the cantonal (and local) personal and corporate income taxes. The member countries of the European Union are also free to allow their sub-central units to have their own income tax schedule, and many use this possibility in one or another way, in particular at the local level. As mentioned above, traditional economic wisdom is that (progressive) direct taxes should be set at the national level and uniform across the country, because they are one of the major instruments of redistribution. There are, however, also good reasons to decide on progressive income taxes at sub-central levels and to have uniform rates of indirect taxes within a country.²⁰⁾

[21] The next question is how far harmonisation of those taxes should go whenever the sub-national units have (restricted) tax autonomy. It is trivial that these units should have the right to set their own tax rates; otherwise it would be difficult to speak of ‘tax autonomy’. It is, however open whether they should also have the right to set their own tax schedule. In Switzerland, for example, the cantons have the right (restricted, however, by some mild restrictions of the federal constitution) to set their own schedule, while the local communities can only set a surcharge on the cantonal taxes. There is, nevertheless, competition between the local communities within the cantons.

[22] Even if they are allowed to have their own tax schedule, the tax base has at least partly to be harmonised. To what extent this should be is, however, an open question. In some federal countries like Switzerland, there exists only partial harmonisation. A full harmonisation

19. On the effects of matching vs. non-matching and general vs. selective grants see, for example, R.A. MUSGRAVE and P.B. MUSGRAVE (1984, pp. 538ff.).

20. See, for example, G. KIRCHGÄSSNER (1994).

allows for a very transparent system, in particular with respect to proportional corporate income taxes, because then tax competition is restricted to tax rates. A full harmonisation would, for example, also exclude rules which exist in several Swiss cantons which allow newly located firms to be exempted from taxation for several years. Moreover, foreigners should in such a system be taxed in the same way as citizens of the country or state, i.e. the place of residence and not the nationality of the individual should be relevant for taxation.

[23] Finally, it has to be decided where corporate income taxes have to be paid. Considering multinationals, the traditional way of taxation is separate entity accounting, i.e. each enterprise of a multinational company is treated as a separate entity.²¹⁾ This allows at least to some extent to shift profits between countries and, therefore, to manipulate tax payments. Major German companies, like BMW, Siemens, or BASF, for example, which mainly produced in Germany, paid for several years taxes in Dublin, Belgium or the Netherlands, and hardly in their home county, despite the fact that no production took place in these other countries.²²⁾ An alternative is the concept of ‘formula apportionment’. Based on a fully harmonised tax base, in this system profits are attributed to the different production locations of a firm according to some criteria representing their share of activity in the corresponding country, like, for example, employment or capital invested. As the Swiss example shows, such a system can not only be applied at the international level but also within a federal country. It severely restricts the possibilities to manipulate tax payments.

[24] Thus, the main questions to be discussed in this section are:

- (i) To what extent should taxes be harmonised? Should, for example, the tax base be harmonised but competition with respect to tax rates allowed?
- (ii) With respect to which system should corporate profits be taxed?

3.3 Institutions to Enforce Fiscal Sustainability

[25] There are two different kinds of institutions which are currently employed to enforce sub-central units to follow a sustainable fiscal policy: pacts, like the Stability and Growth Pact of the European Union,²³⁾ and debt brakes, as employed in many Swiss cantons, and in Switzerland also at the national level.²⁴⁾ The Stability and Growth Pact, concluded in 1996, should provide strong incentives for EU member countries to keep the deficit below the three percent rule of the Maastricht treaty, by imposing financial sanctions for violating this rule. It was, however, already weakened in 2005 when large countries like Germany and France violated this rule, and it was totally unable to prevent the catastrophe of the Greek finances. Thus, it is no surprise that the German parliament when looking for solutions for the over-indebtedness

21. See for this, J.M. WEINER (2005).

22. See for this: So viele Inseln, *Wirtschaftswoche* No. 47 of November 14, 1996, pp. 80ff.

23. See, for example, <http://www.euractiv.com/en/print/euro/stability-growth-pact/article-133199> (30/03/10):

24. See for this L.P. FELD and G. KIRCHGÄSSNER (2008). – For the different institutional possibilities to limit public debt see also G. KIRCHGÄSSNER (2010).

of some German states did no longer rely on this instrument but took the Swiss national debt brake as model.

[26] While, as mentioned above, the debt brakes at the cantonal level mainly adjust taxes (revenue) to expected expenditure, the debt brake at the national level goes the other way round: Expenditures have to be adjusted to revenue which, however, is smoothed over the business cycle. In calculating this smoothed revenue extraordinary revenue is not considered; it has to be used to pay back debt. ‘Normal’ surpluses and deficits are accounted in a separate account and they are to be balanced over several years. Deficits which exceed 6 percent of the expenditure of the preceding year have to be balanced within the next three years. Extraordinary expenditure (which are not included in these calculations) can be decided on by the majority of the members in both chambers of the federal parliament, but have also to be paid back. As long as the parliament is following these rules, Swiss federal public debt will no longer increase in the long-run.

[27] While the cantonal institutions demand presuppose tax autonomy, this kind of a debt brake can also be applied if the governmental units do not dispose of such an autonomy. Thus, it can also be applied to the German states which, as mentioned above, do not have autonomy about their own tax revenue. There, the rules are even more strict: After a transition period up to 2020 the German states are no longer allowed to raise new debt. These rules have been included in the German constitution in 2009.²⁵⁾ Given the recent dramatic change of public debt due to the measures against the economic crisis, it might be questioned whether these states will be able and/or prepared to follow these restrictions. Such doubts are even more justified because no strict sanctions are available once a state is violating these rules. Moreover, the Swiss experience also justifies some scepticism. After the voters had decided on the new rule in 2001, it should become effective in 2004. However, after detecting a ‘new structural deficit’ the Swiss parliament postponed it for another three years and it became, therefore, effective not before 2007. One can easily imagine similar considerations in Germany in about ten years.

[28] Every institutional provision to induce fiscal sustainability requires a credible no bailout-clause. As the case of Greece shows, this clause was even not fully credible at the European level. It is even more difficult to make it credible within a country, in particular if, as in the German case, the courts can require such a bailout. Thus, the problem to find a credible clause which cannot be circumvented is far from being trivial.

[29] Thus, the main questions to be discussed in this section are:

- (i) Which institutional provisions can enforce sub-central governmental units to follow a sustainable fiscal policy?
- (ii) Under which conditions is a no-bailout-clause credible?

25. On the German debt brake see, for example, F. GRÖTEKE und K. MAUSE (2009) and E. MAYER and N. STÄHLER (2009).

3.4 Fiscal Equalisation

[30] As mentioned above, the negative consequences of fiscal imbalances between states of a federal country but also between local communities can be mitigated by fiscal equalisation. Such equalisation can be vertical if transfers from the federal governments are given to sub-national units to balance somewhat these asymmetries, or horizontal if there are payments between the governmental units of the same level. Most existing systems mix these two possibilities. The problem of any such system of fiscal equalisation is that it reduces or, in the extreme case even totally destroys incentives of the sub-federal units to take care of their own tax base.

[31] Germany and Switzerland are two countries which had serious problems with their fiscal equalisation system in the past. Both systems were rather in-transparent. In the last years, both countries had major reforms of their federal system. But while in Switzerland these reforms also included a reform of the equalisation mechanism, Germany did not reform this part of its federal systems and, therefore, its problems remain.²⁶⁾ They mainly stem from the fact that equalisation goes much too far, partly even reversing the order of fiscal capacity between the states. One major problem of the old Swiss system was that the cantons were able to influence the money they received through this system by changing their tax rates. The new system prevents this by basing the payments on a harmonised tax base which cannot be (directly) influenced by the tax policy of the corresponding canton. This significantly reduces the possibilities and incentives to manipulate the payments.²⁷⁾

[32] In recent years, the differences in the fiscal capacity of the different cantons increased considerably. The old system was unable to prevent this. Whether the new system is a success or not depends largely on whether this gap will no longer increase in the future but rather close somewhat again. There are some signs in this direction, but only the future will give us a definite answer.

[33] Thus, the main questions to be discussed in this section are:

- (i) What are the criteria according to which a system of fiscal equalisation should be designed, and which are relevant to judge it as being a success or not?
- (ii) How can incentives to take care of the own tax base be preserved in a system of fiscal equalisation?

26. On the new Swiss fiscal equalisation system see, for example, B. DAFFLON (2004) or G. KIRCHGÄSSNER (2009), on the German system T. BÜTTNER (2008) or R. HEPP and J. V. HAGEN (2009).

27. There is, of course, an indirect impact of the cantonal tax policy on the tax base which cannot be avoided.

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