

“The Future of Fiscal Federalism in Germany and Europe”

The research project “*The Future of Fiscal Federalism in Germany and Europe*” will be made up of a **group of six doctoral students** who are each provided with a **three-year stipend** (1100€/month), allowing them to achieve a PhD in Economics.

The project

Countries differ in their governmental architectures and in the rules that describe the allocation of tasks, rights and duties across the various levels of government. Many of these real-world government architectures are particularly complicated and can involve anything between one (Singapore) and six layers of government (Russia). Moreover, countries’ government architectures are not static, but are often subject to substantial change. Indeed, many countries (e.g., Germany and Belgium, to name but two) currently consider changes in their government architecture, including altering the design of horizontal or vertical government responsibilities and inter-governmental fiscal relations. One can also think about the debates on the EU constitution, its enlargement and the transfer of powers from the national to the EU level (e.g., concerning a common social, fiscal or foreign policy) as an issue of fiscal federalism.

The theory of fiscal federalism attempts to address both positive and normative questions regarding the choice of governmental architecture and the assignment of tasks, rights, responsibilities etc. among different government levels. This ‘assignment problem’ includes, but is not limited to, the allocation of a) rights to choose, collect, or spend different types of taxes, b) rights to issue debt and the responsibilities for repayment of debt within the federation, c) decision rights on public expenditures for goods that benefit only a subgroup within the federation (local public goods) and d) expenditures that affect all members of the federation (nationwide public goods). While this list is clearly not exhaustive, it is also confined to the rights to tax and spend. Similar choices concerning the optimal allocation of tasks apply more generally to the regulation of public issues: e.g., education, environmental issues, cultural policy, defense, policing and so on. Moreover, governance rules and the interdependencies and structure of democratic decision-making (division of power, election rules, etc.) between government levels have to be chosen, designed or reformed.

The project on “*The Future of Fiscal Federalism in Germany and Europe*” provides a **unique opportunity** to help address issues related to the optimal design of the financial structure within a federal state (e.g., inter-governmental transfers, fiscal equalization schemes) and its impact on policy experimentation, inter-governmental competition (vertically and horizontally) and government accountability. This **research agenda covers a whole range of widely varying topics**. For example:

- What exactly is the *role of incentives, goals and opportunities* of local public officials in the (de)centralization process? How should, for example, intergovernmental transfers be designed, given that they may not invoke the same response from local politicians as increases in self-generated revenues?
- How does the *context of devolution* affect this process and its consequences? Are there, for example, differences between developing and developed countries (e.g., because lower education levels in developing countries may lead to lower quality of lower-level governments or to more corruption)?
- What are the effects of differences in political decision-making processes at various levels of government on the process and outcome of decentralization?
- How does (de)centralization in one country affect the strategic interactions between countries? For example, does it reinforce or abate the ‘race to the bottom’ in tax competition?
- What is the effect of local authorities’ expectation to be bailed out in case of financial trouble (so-called soft-budget constraints)? And is the softness of the budget constraint affected by the extent of vertical and horizontal tax competition between governments?
- What are the pros and cons of a far-reaching regionalization of social insurance mechanisms?
- Who pays and who benefits from increased student mobility within the European Union? Should there be inter-regional transfers to compensate countries with a larger inflow of students and, if so, how should these be organized?
- While the existence of intergovernmental competition (both horizontally and vertically) is by now generally acknowledged, does this really lead to more efficient government provision of public goods? A similar question can be raised concerning the relation between the extent of expenditure decentralization, local legal autonomy and local government efficiency.

The successful candidates have the unique opportunity to work on a specific aspect of this very broad research agenda that is central to his/her personal interests.

Moreover, as the project is by its very nature situated between economics and political science, the project will be **multi-disciplinary**: This interdisciplinary character intensifies discussions and requires openness to views expressed across scholarly disciplines, but also provides vital opportunities to advance our understanding.

Finally, **international organizations such as the World Bank, the OECD and the IMF often act as policy consultants in the (de)centralization processes** in developing (and developed) countries. The expertise gained in the current research project thus not only strengthens the research skills and expertise of the successful candidates, it also forms the perfect basis for a career in both the academic and policy-oriented sphere.

The participating institutes

After successful completion of a one-year doctoral program (i.e., the Berlin Doctoral Program in Economics and Management Science; <http://www.doctoralprogram.de>), the six chosen graduate students will be integrated in one of the four participating research centers and work with four leading scholars of federalism research.

Three students will be supervised by Prof. Dr. Kai A. Konrad of the **'Market Processes and Governance' research unit at the WZB Berlin**. Besides issues of fiscal federalism, main fields of interest are related to public finance, intergovernmental relations, international taxation, trade and FDI, welfare state institutions and contest theory.

One student will be associated with the **'Corporate Taxation and Public Finance' research unit at ZEW Mannheim** (led by Dr. Friedrich Heinemann) and the **'Chair of Public Economics' at Heidelberg University**, led by Prof. Dr. Lars P. Feld. These research groups' main fields of interest are empirical public finance, international taxation, tax morale, direct democracy, institutional economics, European integration and labor market policies.

One student will be associated with the **'Chair of Public Finance and Social Policy' at Free University of Berlin**, led by Prof. Dr. Ronnie Schöb. The main fields of interest here are public economics, labor economics, corporatism vs. market, welfare state reform, optimal taxation, environmental and education economics.

One student will be associated with **ifo Dresden and the 'Chair of Public Finance' at Dresden University of Technology Dresden**, led by Prof. Dr. Marcel Thum. Main fields of interest here are public economics, labor markets, industrial organization, regulation, migration and social policies.

While each student will be primarily associated with one of these four institutions from the start of the project, **extensive exchange visits between and beyond the cooperation partners** are projected. Specifically, in the second year of the program, all students have to spend three months at one of the other research institutes involved in the project. In the third and final year of the program, students can then choose to have another three-month research visit beyond the cooperation partners. These possibilities for research visits and joint workshops provide a great opportunity to develop a broad network and do research at an internationally competitive level.

Further information

Further information about the timing and structure of the program, links to the participating institutes and so on can be found at <http://www.wzb.eu/mp/scholarships.en.htm> (or can be obtained via e-mail from Dr. Benny Geys at geys@wzb.eu).

Applying

Further information about the application requirements and procedures can be found at <http://www.wzb.eu/mp/scholarships.en.htm> and <http://www.doctoralprogram.de>.

Applications should be received before March 31, 2009 at <http://www.doctoralprogram.de>.

Note that the application procedure includes a joint application for the BDPEMS *and* the WZB-Federalism stipend program. Applicants who wish to be considered for a stipend within this federalism project should explicitly address this in their motivation letter.