

Abstract

The thesis "Financial Equalization of German Federal States – a Key German Domestic Political Issue of the Turn of the Millennium" describes one of the most important elements of the German financial system, which has been in place since 1950s. It has its constitutional justification in the principle that citizens cannot be treated differently by the government simply because they live in different parts of the federation (article 107 of the German Constitution). The fiscal equalization exists in the form of redistribution of tax revenue (individual and corporate income tax and turnover tax) primarily according to the size of the population in each German state (Bundesland). It takes place vertically between the federation and individual states and simultaneously horizontally among states themselves. The "Länderfinanzausgleich", interstate horizontal fiscal equalization among the Länder, is certainly the main factor of interregional solidarity in Germany. Without central government's intervention, it organizes the horizontal redistribution of fiscal revenues among the Länder, including the five new Länder since 1995. The operating mechanisms are quite complex. Since the amount of money, which the rich states have to pass on to the poorer states, is enormous, the financial equalization became one of the main topics of German domestic politics. The controversy escalated in 1998 when three of the main contributors challenged the system because of its alleged unconstitutionality, leading to the reform in 2005. This thesis aims to outline the development of financial equalization in Germany and its main controversies, and to answer the following questions: What were the interests of the main participants? How did the negotiations surrounding the payment regime unfold? What were their financial consequences and which party to the talks could be labeled as winner?