Margit Schratzenstaller

The New Revenue Sharing Act 2008 to 2013: Fundamental Reform Again Postponed

The Austrian revenue sharing system suffers from a number of fundamental structural deficiencies, both as far as the allocation of government responsibilities and thereby of expenditures is concerned, as well as the power of the different territorial authorities to raise revenues. Moreover, while being a federal state by its constitution, Austria is nevertheless highly centralised, notably when considered from an international perspective. This is reflected by several areas of legal competence and government spending where responsibilities are effectively shared between different authorities and hence joint financing arrangements exist. The federal revenue system is indeed characterised by a strong element of pooling that has been further strengthened with the Revenue Sharing Act of 2005 currently in force. It implies a rather low degree of revenue autonomy at the sub-national level, such that in many instances legal, spending and financing responsibilities are split between different authorities. At the same time, intra-governmental transfers play an important role, particularly for the financing of the States (Länder), and the transfer network has become increasingly complex and less transparent.

Margit Schratzenstaller is an economist at WIFO. **The author is thankful to Heinz Handler and Hans Pitlik for useful and constructive comments. The data were processed and analysed with the assistance of Dietmar Klose** **• E-mail: Margit.Schratzenstaller@wifo.ac.at**

After negotiations between the partners in the revenue sharing agreement, the new Revenue Sharing Act ("Finanzausgleichsgesetz" – FAG) 2008 was passed in December 2007. The earlier Revenue Sharing Act in force since 2005 was due to expire only at the end of 2008. It will thus be replaced one year ahead of time by the new agreement which, moreover, extends over six years instead of the four-year periods applied so far. The carrying-forward was necessary because the financial contributions of the different territorial authorities to several major reforms initiated by the federal government (notably a means-tested basic income and day-round home nursing care) had to be settled.

The new regulations introduced by the FAG 2008 essentially relate to three areas: the vertical revenue sharing, the horizontal revenue sharing at the level of municipalities, and the joint financing in certain areas of shared responsibilities between the federal level (Bund), the Länder and the local level.

Changes in vertical revenue sharing

The provisions of vertical revenue sharing, i.e., the attribution of tax-raising powers to the levels of government as well as the kind and scope of financial transfers between the different layers of government and in particular from the federal level to the Länder, crucially determines the degree of fiscal autonomy and the institutional congruence or fiscal equivalence at the sub-national level. The Austrian system of fiscal federalism has been criticised by academia for the low degree of tax autonomy at the sub-national level, for the increasing lack of transparency of intra-governmental transfers and for the heavy dependency on transfers, notably of the Länder finances[1].

[1] See, for example, the contributions in *Bauer – Handler – Schratzenstaller* (2006) und *Bauer – Schratzenstaller* (2007).

On the revenue side, fiscal federalism in Austria is characterised by a strong pooling element[2], which in the FAG 2005 has been further reinforced by the conversion of some exclusively central government taxes into joint federal ones[3]. The share of total government tax revenues being raised as joint federal revenues and shared between the three levels of government according to a largely uniform quota[4] (federal level 73,204 percent, Länder 15,191 percent, communities 11,605 percent) has increased from about three-quarters in 1990 to over 90 percent in 2005[5]. The share of revenues assigned exclusively to the Länder from taxes in total tax receipts has remained consistently low, at less than 1 percent; there is thus no own tax for the Länder of any importance. Slightly more than 5 percent of total tax revenues accrue exclusively to the communities as own communal taxes (real estate and communal tax). The long-term decline in the importance of direct community taxes is mainly due to the sluggishness of real estate tax yields: real estate asset values are increasingly under-estimated for tax purposes in the absence of a reform of the existing valuation procedure.

The long-term shift of revenue shares from the joint federal revenues towards the federal level (Table 1) should have been arrested in 2005 with the introduction of a uniform distribution formula for most of the joint federal revenues.

Table 1: Revenue shares of the levels of government for horizontal redistribution

	2000	2001	2002	2003	2004	2005	2006
				Million €			
Federal level	27,662	32,199	31,297	30,705	32,067	36,376	38,004
Länder (including Vienna as Land)	6,923	7,244	7,009	6,739	7,078	7,163	7,551
Communities (including Vienna as community)	5,731	6,409	6,147	5,951	6,255	6,372	6,749
Total	40,316	45,852	44,454	43,395	45,400	49,911	52,304
				Percentage shares			
Federal level	68.6	70.2	70.4	70.8	70.6	72.9	72.7
Länder (including Vienna as Land)	17.2	15.8	15.8	15.5	15.6	14.4	14.4
Communities (including Vienna as community)	14.2	14.0	13.8	13.7	13.8	12.8	12.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Federal budget final account ("Bundesrechnungsabschluss"), Federal Ministry of Finance, WIFO calculations.

However, also the FAG 2008 falls short of a fundamental reform of Austrian fiscal federalism, i.e., in favour of a strengthening of the revenue autonomy at the sub-national level. Nor does the new FAG contribute towards greater institutional congruence, linking more closely policy responsibilities with those of spending and financing, which could raise the efficiency of policy action in the federal system.

Nevertheless, changes have been agreed for the transfers from the federal level towards Länder and communities. They actually have implications, albeit limited, for fiscal autonomy and fiscal equivalence at the sub-national levels. Thus, the major financial transfers from the federal level to the Länder and communities are converted into generally non-earmarked revenue shares. Table 2 shows the amounts of financial transfers and earmarked subsidies from the federal level to the Länder and communities that are concerned by this conversion (on the basis of the revenue forecast of July 2007).

[2] In a pooled system, legislation on the design of individual taxes (tax rate, tax base) is conferred to the federal level which on the basis of fixed quotas transfers revenue shares of the taxes concerned (in Austria joint federal revenues – "gemeinschaftliche Bundesabgaben") to the other territorial authorities.

[3] For details, see *Schratzenstaller* (2005).

[4] There are special quotas for a few taxes.

[5] For details, see *Pitlik* (2007).

Table 2: Changeover from federal transfers to revenue shares

	Million €	Earmarked
Länder	*3,912.6*	*66.6* [1]
Revenue shares-per-capita quota smoothing ("Kopfquotenausgleich") of the Länder	104.6	No
Block grants to Länder for budget balance (as of 2009)	1,192.9	No
Block grants linked to off-budget and debt reduction operations	4.4	No
Block grants to Länder with gambling houses	3.1	No
Financial transfers for ecological and energy-saving measures	94.1	Yes
Financial transfer in agricultural matters	14.5	Yes
Financial transfer for public urban transport purposes	166.6	Yes
Subsidies to Länder for environmental protection	6.9	Yes
Investment subsidies for residential building, environment and infrastructure	1,780.5	Yes
Subsidies for road construction/maintenance (only regular ad-hoc subsidies)	545.0	Yes
Communities	*121.9*	*0* [1]
Block grants to communities for budget balance	116.6	No
Block grants linked to off-budget and debt reduction operations	2.2	No
Block grants to communities with game banks	3.1	No

Source: Federal Ministry of Finance. – [1] Earmarked transfers as per cent of total transfers.

The implications of the foreseen conversion of transfers into revenue shares for the spending autonomy of the sub-national levels depend on whether or not the transfers concerned are earmarked. The revenue autonomy is affected to the extent that the receiving government authorities have an influence on the amount and possibly the purpose of the transfers (also when compared with the formula for the distribution of the revenue shares).

In Austria, both the transfers from the federal level to the lower-level governments with regard to their amount and purpose as well as the formula for the distribution of revenue shares are agreed by consensus in the periodic negotiations between the three government levels. This also implies that the federal level as the transfer-giving authority does not decide ad libitum about the transfers: the level and possibly the purpose of the intra-governmental transfers as well as the conditions for their being granted are defined clearly and on a longer-term basis in the underlying revenue sharing agreement and in the act regulating the earmarked subsidies. Therefore, any differences in the degree of fiscal autonomy between revenue shares and federal transfers derive from the principle of earmarking. What is relevant in this context is that by switching from fixed-amount transfers to revenue shares the (positive or negative) "revenue risk" of the receiving levels of government increases.

The transfers from the federal level to the Länder concerned by the changeover amounted to a total € 3,912.6 million, two-thirds of which are earmarked: as investment subsidies for housing construction, environment and infrastructure, as financial grants for agricultural projects, for environmental and energy-saving measures as well as for urban public transport, and as subsidies for environmental protection and road construction or maintenance. Not earmarked are the block grants for budget balance, for off-budget transactions and debt reduction, and the transfers to the Länder locating gambling houses. The transfers from the federal level to the communities to be converted (block grants for budget balance, for off-budget transactions and debt reduction, and transfers to communities locating gambling houses) amounted to € 121.9 million in 2007 and were not earmarked.

As far as the transfers converted into revenue shares are not earmarked, the spending autonomy of the sub-national governments remains unaffected. However, the changeover from hitherto earmarked transfers to non-earmarked revenue shares enhances the spending autonomy at the Länder level. Nevertheless, with regard to the allocative purpose of some of the transfers concerned (to internalise regional spill-overs such as for major roads under federal responsibility, or to influence private behaviour e.g., in the area of individual public transport) it is questionable whether a total retreat from earmarking is meaningful.

Housing subsidies are a case in point. In this area, an agreement (still to be concluded) between the federal level and the Länder pursuant Article-15a of the Austrian constitution shall establish specific guidelines for the institutional setting of housing promotion as from 2009 with a view to achieving environmental goals in the construction domain, such as compliance with minimal standards as a requirement for subsidies to new building and renovation.

An undisputed advantage of a replacement of federal transfers by revenue shares is the implicit streamlining to some extent of the highly complex transfer network that exists between the government levels. This also holds for the gradual phasing out of the contribution towards fiscal consolidation of Länder and community budgets[6].

The changes envisaged for the investment subsidy for housing, environment and infrastructure also contribute towards simplification and transparency of the transfer system. Indeed, the rather complicated procedure of calculating the total financial amounts for the promotion of residential building and for the ad-hoc transfers to the Länder to balance their budgets[7] is simplified to a high degree. The housing promotion contribution is henceforth converted into a shared federal tax, of which 80.55 percent of the receipts go to the Länder. The remainder of the investment subsidy whose ceiling is maintained at € 1,780.5 million will be financed from the revenue shares of the Länder.

At the same time, the changes foreseen for the housing promotion scheme confine themselves to rather technical adjustments of its financing arrangements, while the system as such is not put into question. As much as the increased emphasis to be given to ecological considerations is to be welcomed, the required fundamental evaluation of housing promotion from the distributional, allocation and environmental policy perspectives with due regard also the expected demographic changes still needs to be undertaken. Within the framework of such a fundamental overhaul and possible reform of the system, it may be envisaged to turn the housing promotion contribution into a Länder tax, which would be a first step towards greater revenue autonomy of the Länder and towards a strengthening of fiscal equivalence.

Changes in horizontal revenue sharing

Total revenue shares assigned to the Länder and communities are distributed according to several criteria (*Pitlik*, 2007). At the Länder level, the dominating criterion is population size, on which basis more than three-quarters (2006 77.6 percent) of the revenue shares are distributed. For the distribution among the communities, the modulated population apportionment formula is the major factor albeit slightly losing importance over time (in 2006, 54.2 percent of the community revenue shares were distributed along this line). Since the beginning of the nineties, the population size has slightly lost importance. Like for the Länder, the locally generated revenue has originally been retained as the second-most important distribution criterion for the community revenue shares, but has meanwhile become rather insignificant and replaced by fixed quota according to which almost one-quarter of the revenue shares are distributed.

[6] This consolidation contribution has since 1995 been deducted ex-ante from the revenue shares received by the Länder and communities. In the first stage of FAG 2008 (2008 to 2010), it will be cut by half; of the total amount of € 209 million, € 156 million go to the Länder and € 53 million to the communities. In the second stage (2011 to 2013) it will be abolished; out of the € 418 million thereby released, € 312 million are accounted for by the Länder and € 106 million by the communities. The Länder will concede € 50 million to cities and communities to compensate them for losses from the moderation of the modulated population apportionment formula (to the effect that the communities will altogether receive no less than € 156 million in the second stage).

[7] The total financial amount is the sum of 80.55 percent of the receipts from the housing promotion contribution (currently an exclusive Federal tax) and 8.346 percent of the revenues from wage tax, assessed income tax, corporate tax and capital revenue tax from dividends. It increases steadily with the progression of the underlying tax bases and revenues. The investment contribution is subject to a ceiling of € 1,780.5 million, unchanged since 1995, and is transferred to the Laender earmarked for the promotion of residential building. However, the earmarking is relaxed insofar as the funds may also be used for infrastructure investment purposes. The rest of the total financial amount is transferred to the Laender as non-earmarked ad-hoc contribution to achieve budget balance.

While the FAG 2008 leaves the horizontal distribution of the revenue shares unchanged at the level of the Länder, the modulated population apportionment formula will be changed once again as from 2011 in favour of the smaller communities up to a population of 10,000. With the FAG 2005, the multiplier for the smaller communities was raised from $1\frac{1}{3}$ to $1\frac{1}{2}$, thereby reducing the gap between the smallest and the largest communities (population over 50,000 and Vienna; multiplier $2\frac{1}{2}$) from 1 : 1.75 to 1 : 1.55. With the further moderation of the modulated population apportionment formula foreseen (the multiplier will be raised for the smaller communities to $1\frac{21}{34}$), the gap is being further reduced to 1 : 1.44. The increase in the multiplier for the communities up to 10,000 inhabitants will bring them additional revenue shares to the amount of € 100 million. The larger communities (over 10,000 inhabitants) which other things equal would lose revenue shares to the same amount of € 100 million through the increase in the smaller-community multiplier, will be compensated from the funds released by the abolition of the contributions towards fiscal consolidation.

This repeated improvement in the position of smaller relative to larger communities is facing increasing criticism in the academic debate. It is claimed that already now the adjusted population quota inadequately reflects the cost of agglomeration, i.e., above-average and with community size rising per-capita outlays for the supply of communal public services. Moreover, by differentiating within the group of communities up to 10,000 inhabitants, i.e., via a multiplier rising with community size, an incentive could be created for mergers between communities and thereby for mobilising economies of scale and potential efficiency gains in the supply of certain communal services. Per-capita expenditure on a number of public services as a function of community size possibly exhibits a U-shape (*Littmann,* 1977, *Bröthaler – Wieser,* 2005). Against this background, financial incentives, limited in time and of degressive scale, for voluntary ad-hoc co-operations between communities have been agreed within the framework of the FAG 2008. Nevertheless, the empirical evidence so far for the existence of economies of scale is not clear-cut[8]. The profiles of costs and expenditures by community size should therefore be carefully scrutinised ahead of the reform of the modulated population apportionment formula envisaged for 2011.

Financing of matters of shared responsibility

The allocation of government responsibilities and spending between the layers of government is not to be changed for the time being. Whether such changes will be made in the future and what form they may take will depend on the conclusions of a commission of experts on constitutional and administrative reform as well as of those of three working groups installed ad-hoc with the agreement reached on the FAG 2008, with the mandate to design a fundamental reform of federal fiscal relations, institutional design and financing of nursing care and of the health system, respectively. Results from these working groups are expected by the end of the first three years covered by the current FAG. This means that all joint financing arrangements between the federal level and the Länder – and in some instances also the communities – are being prolonged.

Only in two areas, an increase of transfers from the federal level to the Länder is foreseen. In addition to the increase in the cost refund for the teaching personnel of the Länder (including religion teachers) by € 12 million per year already agreed in the FAG 2005, the Länder receive another € 12 million p.a. in the first and € 13 million p.a. in the second stage of the FAG in compensation for additional cost arising from the decline in the school population and from the schooling of children with special needs for their development. The principle of financing the teaching staff of the Länder is not being touched upon, leaving the problem that in this area the separation of the financing responsibility (federal level) from the spending responsibility (Länder) is particularly strong.

8 Thus, e.g., *Lüchinger – Stutzer* (2002) show that the per-capita cost of the core administration does not decline as a result of community mergers even for the smallest communities of a population below 500.

A co-financing arrangement between the federal level and the Länder for the period from 2008 to 2010 has also been agreed for the extension of child care facilities and early childhood education including language training. Over this period, the Länder will contribute at least € 20 million, with the federal level adding the same amount as ad-hoc grants. In addition, the Länder will receive € 100 million more per year for the financing of hospitals; this amount will be adjusted each year according to the increase of revenue shares. Unlike in the FAG 2005, where the hospital financing provisions were linked to agreed savings by the same amount (€ 300 million per year), no such obligation for cost reductions by the Länder has been stipulated this time.

In order to rein back expenditure growth at the Länder level and to limit administrative cost more generally, it has been decided in the revenue sharing negotiations to further pursue the administrative reform stage II, agreed in November 2005. The latter should include personnel restraint, a harmonisation of the tax collection code, a fiscal equivalent adoption of the federal pension reform by the Länder, the introduction of individual retirement accounts with the Länder bearing the cost for their respective shares of the Länder teaching staff, the revenue-neutral abolition of the government authorities paying and financing social benefits of their personnel directly from their own budgets ("Selbstträgerschaft"), and the installation of a working group to examine and implement the recent proposals for administrative reform advanced by the Court of Auditors. However, a large part of these measures have not been specified or decided either in substance or as regards timing of their implementation.

Furthermore, agreement has been reached on the financing of those two reform programmes of the federal government for the sake of which the negotiations for a new revenue sharing act had been carried forward, i.e., the day-round home nursing care and the means-tested basic income. For the day-round nursing care, the inter-governmental agreement pursuant to Article-15a of the constitution provides for a financing contribution by the Länder and communities of 40 percent of the total cost. Since the latter is subject to a ceiling of € 40 million per year, the share of the two lower governmental levels will amount to a maximum of € 16 million. The guaranteed basic income will be financed by each level of government for the benefits falling within its area of competence. Thus, the federal level contributes to the financing of the minimum retirement benefits and of unemployment assistance. Länder and communities are responsible for the other benefit categories, notably social assistance, with the provision of a ceiling of € 50 million of total cost for the two lower government levels. In addition, a revision clause has been introduced for each of the two spending programmes: at the end of the first three years of the FAG agreement, the adequacy of financial resources will be examined and, if necessary, the financing arrangements will be adjusted accordingly.

New Stability Pact

Together with the FAG 2008, a new internal Stability Pact has been agreed, likewise extending over the period from 2008 to 2013. It foresees that the general government balance swing from deficits of 0.9 percent of GDP in 2008 and 0.2 percent in 2009 to surpluses of 0.4 percent of GDP respectively for the years 2010 to 213 (Table 3). Within the overall target, the federal government deficit is to narrow from 1.33 percent of GDP in 2008 to 0.14 percent as from 2010, while the Länder should achieve surpluses rising from 0.45 percent of GDP in 2008 to 0.52 percent as of 2010 and the communities on aggregate balanced budgets in each year.

Against the backdrop of the latest Maastricht notification of end-September 2007 reporting a general government deficit of 1.4 percent of GDP for 2006, these budgetary targets appear difficult to achieve. Admittedly, the actual deficit fell below the target of 1.6 percent of GDP set in the internal Stability Pact. Yet, under the impression of buoyant tax revenues last spring, the deficit projection for 2006 was revised down to 1.1 percent of GDP. This target was missed mainly because the Länder were unable to achieve the planned surpluses. Although this was partly due to one-off factors and corrections, it becomes increasingly clear that also going forward the Länder will face increasing difficulties in meeting their budget targets, unless they take early and decided action to contain expenditure growth and thereby secure sustainability also over the longer term. A series of measures taken to declare budgetary surpluses in the last few years were either one-offs that can no longer be resorted to (like the sale of homebuilding loans) or do not comply with the rules for the statistical identification of the Maastricht position (e.g., hospital financing operations).

Table 3: "Austrian Stability Pact new": Maastricht balance by level of government 2008 to 2013

	2008	2009	2010	2011	2012	2013
			As a percentage of GDP			
Government level						
General government	– 0.88	– 0.19	+ 0.38	+ 0.38	+ 0.38	+ 0.38
Federal level	– 1.33	– 0.68	– 0.14	– 0.14	– 0.14	– 0.14
Länder (including Vienna)	+ 0.45	+ 0.49	+ 0.52	+ 0.52	+ 0.52	+ 0.52
Communities (without Vienna)	± 0	± 0	± 0	± 0	± 0	± 0
Länder and communities	+ 0.45	+ 0.49	+ 0.52	+ 0.52	+ 0.52	+ 0.52

Source: Federal Ministry of Finance. + . . . surplus, – . . . deficit.

Looking at the Maastricht balance by federal levels according to the last Austrian Stability Pact (Table 4) suggests that the Länder missed their budgetary targets already in the years from 2005 to 2007[9]. If the general government deficit in 2005 and 2006 turned out lower than targeted by the Austrian Stability Pact, it was because the central government (federal level) deficit was substantially smaller than projected and the communities reached a slight aggregate surplus although the Stability Pact only requires from them an overall balanced budget. The surpluses of the Länder, however, turned out markedly lower in the period covered by the last Stability Pact than foreseen, the balance even being slightly negative in 2006. Against this very background it appears all the more urgent to specify the substance and the implementation schedule of the measures planned in the context of the administrative reform stage II, which are to generate substantial savings also at the Länder level.

Table 4: "Austrian Stability Pact": Maastricht balance by level of government 2005 to 2007

	2005		2006		2007	
	Target	Actual	Target	Actual	Target	Actual[1]
			As a percentage of GDP			
Government level						
General government	– 1.80	– 1.56	– 1.60	– 1.36	– 0.70	– 0.73
Federal level	– 2.40	– 1.83	– 2.20	– 1.44	– 1.40	– 1.13
Länder (including Vienna)	+ 0.60	+ 0.22	+ 0.60	– 0.02	+ 0.70	+ 0.26
Communities (without Vienna)	± 0	+ 0.09	± 0	+ 0.12	± 0	+ 0.14
Länder and communities	+ 0.60	+ 0.31	+ 0.60	+ 0.10	+ 0.70	+ 0.40
Social security bodies	± 0	– 0.04	± 0	– 0.02	± 0	± 0

Source: Federal Ministry of Finance. + . . . surplus, – . . . deficit.– [1] Projection by Federal Ministry of Finance for Maastricht notification of 27 September 2007.

Conclusion

The new Revenue Sharing Act (FAG 2008), like its predecessor of 2005, does not bring fundamental changes for Austria's fiscal federal relations. Although steps into the right direction have indeed been taken, like with the streamlining of intragovernmental transfers, long-discussed systemic deficiencies , notably concerning the allocation of responsibilities between the federal level, the Länder and the communities as well as the revenue autonomy for the sub-national levels have not been addressed and possible remedies have once again been postponed into the future.

[9] The budgetary results according to the Austrian Stability Pact may differ somewhat from those calculated on the basis of the rules governing the Maastricht definition, due to allowance made for certain special factors. The relatively strong deviation of the actual from planned results plausibly suggests, however, that the Laender could not meet their commitments even within the definitions of the Austrian Stability Pact. This can be clarified definitively only via an evaluation by the co-ordination committee in charge which so far, however, has not even evaluated compliance with the Stability Pact 2001-2004.

The New Revenue Sharing Act 2008 to 2013: Fundamental Reform Again Postponed – Summary

In December 2007, the new Revenue Sharing Act (Finanzausgleichsgesetz, FAG) 2008 was passed after negotiations between the revenue sharing partners were completed ahead of schedule. Thus, the agreement on the system of federal fiscal relations in place since 2005 has been replaced by a new agreement one year earlier than planned and is to last six years instead of the four as up to now. This mode of procedure was necessary because of the need to reach agreement between the federal levels regarding their shares in the financing of the various reform packages of the federal government (especially with respect to the means-tested basic income and the day-round home nursing care).

The new provisions set out in the FAG 2008 over three main areas: the vertical revenue-sharing, the horizontal revenue sharing at the municipal level, and the joint financing of several tasks for which the federal government as well as the states (Länder) and municipalities have competence and responsibility.

On the revenue side, fiscal federal relations are characterised by a high degree of centralisation: over 90 percent of the tax revenues of the general government are collected as shared federal taxes and distributed according to an apportionment formula across the levels of government. FAG 2008 again failed to strengthen subnational fiscal autonomy.

However, changes were agreed in the area of federal transfers to the Länder and municipalities that enlarge the fiscal autonomy at the subnational federal levels. The major transfers of the federal government to the Länder and municipalities are converted into shares in shared federal taxes that are usually not dedicated to specific purposes. The relevant transfers of the federal government to the Länder have a total volume of some € 3,912 million. Two-thirds are dedicated to specific purposes. The federal transfers to the municipalities to be converted (transfers to balance the budget, for outsourcing and lowering debts as well as to casino municipalities) will amount to around € 120 million in 2007 and are not earmarked for specific purposes. An advantage of the replacement of federal transfers by shares in shared federal taxes is without doubt the slight thinning of the tight mesh of the transfer net between the federal levels.

While the FAG 2008 leaves the horizontal distribution of the shares in shared federal taxes at the Länder level unchanged, as of 2011, another change will be implemented to the modulated population apportionment formula in favour of the smaller municipalities (overall population of up to 10,000). The multiplier for the smaller municipalities will be increased to $1^{21}/_{34}$. Thus, the discrepancy between the smaller and the larger municipalities (population of over 50,000 and Vienna), for which a multiplier of $2^{1}/_{3}$ applies, will be eased.

For the time being, there are no changes planned to the allocation of tasks and spending to the layers of government. This also implies the continued existence of all mixed forms of financing in which the federal government and the Länder as well as in some cases some municipalities are involved. The funds allocated by the federal government to the Länder are to be increased only in two areas: the Länder will receive in the first phase of the new agreement € 12 million and € 13 million in the second phase per year for teaching staff and religion teachers for compensation of the additional costs arising from structural problems. The system of financing of teachers employed by the Länder itself is not touched upon – and thus neither the problem of the divergence in this area of financing responsibility and spending responsibility. Co-financing for the enlargement of childcare facilities was also agreed by the federal government and the Länder for the years 2008 through 2010: the Länder will contribute at least € 20 million in this period, which will be supplemented by transfers from the federal government in the same amount. Moreover, the Länder will annually receive an additional € 100 million for hospital financing.

To slow the dynamic of spending at the Länder level, the continuation of the Administrative Reform II was agreed in the negotiations on revenue sharing. The measures concerned are: staffing is to be cut back and tax codes are to be standardised; the financially equivalent implementation of the pension reform of the federal government by the Länder; introduction of a pension account with the Länder carrying the costs for the share of the teachers employed by Länder; the set-up of a Working Group to examine and implement the most recent proposals of the Court of Audit on the administrative reform. However, most of these measures were not fixed or specified in detail with respect to timeframe or contents and concrete measures.

Together with the FAG 2008, a new domestic Austrian stability pact was agreed on by the revenue sharing partners with the same period of validity. According to the agreement, the overall government deficit of 0.9 percent of GDP in 2008 and 0.2 percent in 2009 is to be transformed into a surplus of 0.4 percent of GDP in the years 2010 to 2013. In the light of the most recent Maastricht notification of the end of September 2007 according to which an overall government deficit of 1.4 percent of GDP was reported for the year 2006, these budgetary targets do not seem easy to attain. Therefore, before this backdrop it is even more urgent to define concrete measures as regards timeframe and content within the scope of the Administrative Reform II, which is expected to result in savings at the Länder level as well.

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