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**Intergovernmental Grants and Efficiency:
An Empirical Study on Administrative Discretion
in German Municipalities**

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DECLARATION

Except where appropriately acknowledged this thesis is my own work, has been expressed in my own words and has not previously been submitted for assessment.

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Abstract. How do intergovernmental grants affect the level of efficiency in lower-level governments? The existing literature on this topic provides inconclusive evidence regarding the underlying relations of cause and effect as well as its direction. We shed light on this question by suggesting a more general framework on administrative discretion within local governments. Two hypotheses are developed and tested for a panel of municipalities in the German state of Baden-Württemberg. Our dual estimation approach includes parametric Stochastic Frontier Analysis (SFA) and non-parametric Data Envelopment Analysis (DEA). This constitutes a valuable robustness check of the results regarding the choice of the reference technology. The findings confirm the decisive character of local administrative discretion and self-interest lead behaviour, inducing an either positive or negative efficiency effect of grants. Besides providing novel insights for the literature, the conclusions are relevant for the architecture of grant policies since intergovernmental transfers are nowadays among the most important sources of income at the local level.

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Abbreviations

BW	Baden-Württemberg
CPE	State Centre for Political Education Baden-Württemberg
DEA	Data Envelopment Analysis
DMU	Decision-making unit
FDH	Free Disposal Hull
<i>iid</i>	Independently and identically distributed
OLS	Ordinary Least Squares
p.c.	per capita
SFA	Stochastic Frontier Analysis
UMP	Utility maximisation problem
US	United States of America
VAT	Value added tax
VRS	Variable returns to scale