Finance and Governance of Capital Cities in Federal Systems

Enid Slack
Director, Institute on Municipal Finance and Governance,
Munk Centre for International Studies, University of Toronto
and
Rupak Chattopadhyay
Vice President, Forum of Federations
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Overview of Presentation

- Background
  - Forum of Federations
  - Policy context for the book
  - 11 capital cities

- Capital cities are different
  - Every capital city has a story
  - The allure of being the capital

- Governing structure

- Finance

- Final Observations
Forum of Federations

- Learning organization set up by the Canadian government in 1999
- Internationalized with nine partner governments since 2005:

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- Mandate to promote intergovernmental learning on federalism by bringing together practitioners and academics
Policy Context for the Book

Request from the Chief Minister of Delhi:

- How are other federal capitals organized?
- What is the nature of their relationship with the federal government?
- How are they financed?
Capital Cities in Eleven Federal Countries

- Australia – Canberra
- Belgium – Brussels
- Canada – Ottawa
- Ethiopia – Addis Ababa
- Germany – Berlin
- India – Delhi
- Mexico – Mexico City
- Nigeria – Abuja
- South Africa – Tshwane (Pretoria); Cape Town
- Switzerland – Bern
- United States – Washington, DC
Why these capital cities?

- Population ranges from small (Bern) to large (Delhi)
- Different regions – North America, Latin America, Europe, Asia, Africa
- Range of governing structures
- Availability of authors
Capital cities are different than other cities

- Host national government and principal national institutions
- Play unique cultural and symbolic role
- Promote national pride through ceremonies and commemorations; experience more public protest
- Symbolize the actions of the national government: “Washington raised taxes” or “Canberra introduced a new transfer”
Capital cities in federal countries are different than in unitary countries

- Federal countries are large and diverse
- Capital cities have to reflect diversity and also be neutral with respect to states/provinces
- Issues around location of capital, governance arrangements
- Conflict between national capital role and local role; role of province/state
Every capital city has a story

- Cape Town and Tshwane (Pretoria): two capital cities
- Abuja: in the middle of the country
- Berlin: symbolic of re-unification of Germany
- Canberra: not Melbourne or Adelaide
- Washington: not a financial capital
- Ottawa: far from US border; on border of Ontario and Quebec
The allure of being the capital city

Advantages to being a capital city:

- employment stability
- high quality jobs (public and private sector)
- tourism
- prestige
- cultural and other infrastructure
- other elements of beautification
Do the benefits outweigh the costs?

- Costs of being a capital city
  - Loss of tax income from federal properties and foreign embassies
  - Extra charges for capital city tasks (e.g. public security, transportation and parks)

- Keen competition among cities to be the capital; compensation for those who lose out
## Governing Structure

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<th>Federal Districts</th>
<th>City-States</th>
<th>City within a province/state</th>
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<tbody>
<tr>
<td>Abuja</td>
<td>Berlin</td>
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<tr>
<td>Addis Ababa</td>
<td>Brussels</td>
<td>Ottawa</td>
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Federal Districts

- National seat of government not under jurisdiction of any one state/province
- Extent of federal control ranges from Abuja (tightly controlled by federal government) to Canberra (largely an autonomous city-state)
- Issues of local democratic and accountability deficit
- Limited fiscal autonomy
- Direct access to federal funds
City-States

- Combine local and state functions
- Face no restrictions on state functions
- Less federal influence over city-state than other governing structures
- Limited fiscal capacity due to small size
- Limited access to discretionary federal funding due to constitutional parity with other states/provinces
Cities in a Province/State

- Provincial/state government has more control than federal government
- Federal government can influence through national capital commissions, federal spending powers and federal land ownership
- Limited institutional interaction with federal government; informal mechanisms for federal-state-municipal coordination
- Complaints about lack of federal recognition and support
Financing Capital Cities

- City expenditures: police and fire protection, water and sewers, transportation, waste collection and disposal, recreation and culture, land use planning …

- City revenues: taxes (property, income, sales), user fees, intergovernmental transfers, investment income, other revenues
Financing Capital Cities – Exceptions

- Delhi – federal government is responsible for public security, policing, and land use planning in federal district

- Canberra – policing is provided under contract with Australian Federal Police
Special Case of Property Tax

- Significant source of revenue in Canberra, Ottawa, Tshwane and Cape Town, and Washington
- Some national governments pay property taxes (e.g. South Africa)
- Some make payments in lieu of property taxes (e.g. Canada, Belgium)
- Some do neither (e.g. Australia, Mexico, US)
Federal Compensation to Capital Cities

- Grants for specific services such as transportation, parks, culture (e.g. Berlin, Bern, Brussels)
- Limited federal grants but rather provincial/state grants to cities (e.g. Ottawa)
- No federal compensation for capital cities (Tshwane and Cape Town)
- Costs directly assumed by federal government (e.g. Delhi, Ottawa, Washington)
Final Observations

- Diversity in financing arrangements, federal compensation and governing structures make it difficult to create general theory
- No patterns e.g. with respect to federal compensation and government structure
- Different models have worked in different places at different times
Final Observations: Issues

- Balance national interests and local interests
- Federal compensation for capital city functions
- Revenue shortage for cities that rely on property taxes
- Geographic boundaries of the capital do not generally coincide with economic region:
  - reduces ability of federal government to influence planning, budgets, service delivery
  - Many federal employees commute to capital, use services, do not pay for them
Final Observations: Policy Choices

- Elected councils to achieve local autonomy
- Sufficient revenue-raising authority to meet expenditure needs
- Federal compensation of extra costs associated with capital city functions e.g. security
- Property taxes or payments in lieu on federal properties
- Cooperation with neighbouring municipalities