Finance and Governance of Capital Cities in Federal Systems

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Overview of Presentation

- Background
  - Policy context for the book
  - 11 capital cities

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

- Governing structure

- Finance

- Final Observations
Policy Context for the Project

- 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?
Choice of case studies

- Population ranges from small to megacities
- Different regions – North America, Latin America, Europe, Asia-Pacific, Africa
- Range of governing structures
- Availability of authors
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
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 Sydney
- Washington: not a financial capital
- Ottawa: far from US border; on border of Ontario and Quebec
The lure 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
<table>
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<th>Federal Districts</th>
<th>City-States</th>
<th>City within a province/state</th>
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<td>Abuja</td>
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<td>Washington, DC</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