
Finance and Governance of Capital Cities in Federal Systems

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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:



- Mandate to promote intergovernmental learning on federalism by bringing together practitioners and academics
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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
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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

Federal Districts	City-States	City within a province/state
Abuja Addis Ababa Canberra Delhi Mexico City Washington, DC	Berlin Brussels	Bern Ottawa Tshwane/ Cape Town

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
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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)
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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
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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
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