
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
Forum of Federations

January 28, 2011

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

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
-

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