

## Horst Zimmermann The crisis of city financing

Introduction to the subject.  
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### A. The philosophy of the approach

A normative statement: „Fiscal equivalence“ as objective  
As much „own revenue“ as possible  
As much transfer as is unavoidable

Which sustainability?  
social sustainability first? Where would this lead?  
„growth versus equalization – the necessary balance“

### B. Urban or intergovernmental crisis?

The German example: cities only temporarily worse off  
If almost all local governments are poor:  
maybe the central government is too rich?

### C. The sources of urban finances I: Taxes

Land-related taxes: the born local tax  
for agriculture as well as business  
for agriculture: make it simple, think of remote areas  
for business: catch the growth element in cities

For cities important: keep the „balance of interests“  
between business and private households  
therefore: one tax on business (CIT? Sales tax? VAT???)  
one tax on private households  
in general: the charm of tax sharing  
Example of Shanghai

Not advisable: Separate tax sources by types of local governments  
like „Tax Y for cities only“.  
leads to inefficient race to „become big“ (Nepal example)

### D. The sources of urban finances II: Non-tax revenue

Fees and charges first  
They match demand and public cost  
Highly autonomous „own revenue“  
If socially desirable: support income, but keep prices in place  
Careful: The temptation of public enterprises

Borrowing as a way out?  
Only warranted, if growth is certain – and then unnecessary  
Most widely used, if pressure from expenditure, esp. social.  
German example!  
Then no way out! Can only worsen the situation  
Consequence: no upper-level bailout (like in Germany)  
possibly introduce strict limits (zero?)

Transfers only as far as necessary (see „philosophy“)  
Their method/distribution formula: a subject of its own

Thank you!