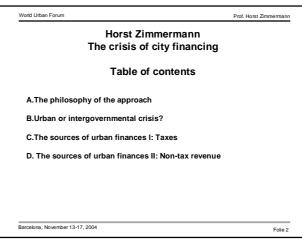
World Urban Forum Prof. Horst Zimmermann Horst Zimmermann The crisis of city financing Introduction to the subject. UNHPF World Urban Forum, Open Forum on "The crisis of city financing" Barcelona, September 15, 2004 Prof. Horst Zimmermann President of the Academy of Spatial Research and Planning University of Marburg **Public Finance Group** Email: horst.zimmermann@debitel.net

Barcelona, November 13-17, 2004



World Urban Forum Prof. Horst Zimmermann Prof. Horst Zimmermann World Urban Forum A. The philosophy of the approach C. The sources of urban finances I: Taxes Land-related taxes: the born local tax A normative statement: "Fiscal equivalence" as objective for agriculture as well as business As much "own revenue" as possible for agriculture: make it simple, think of remote areas As much transfer as is unavoidable for business: catch the growth element in cities Which sustainability? For cities important: keep the "balance of interests" social sustainability first? Where would this lead? between business and private households therefore: one tax on business (CIT? Sales tax? VAT???) "growth versus equalization - the necessary balance" one tax on private households B. Urban or intergovernmental crisis? in general: the charm of tax sharing Example of Shanghai The German example: cities only temporarily worse off Not advisable: Separate tax sources by types of local governments If almost all local governments are poor: maybe the central government is too rich? like "Tax Y for cities only". leads to inefficient race to "become big" (Nepal example) Barcelona, November 13-17, 2004 Barcelona, November 13-17, 2004 Folie 3

Folie 1

| D. The sources of urban finances II: Non-tax revenue Fees and charges first | | |
|--|---------------------------------------|------------------------------|
| | | |
| | Highly autonomous "own revenue | |
| | If socially desirable: support incor | ne, but keep prices in place |
| | Careful: The temptation of public of | enterprises |
| Borro | wing as a way out? | |
| | Only warranted, if growth is certai | n – and then unnecessary |
| | Most widely used, if pressure from | n expenditure, esp. social. |
| | German example! | |
| | Then no way out! Can on | |
| | Consequence: no upper-level bail | out (like in Germany) |
| | possibly introduce | strict limits (zero?) |
| Trans | fers only as far as necessary (see "p | hilosophy") |
| | Their method/distribution formula | a subject of its own |
| | Thank you! | |

Folie 4