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Municipal Power and the Urban Fiscal Crisis in the US, China and India

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Abstract

This article comparatively examines the different nature of the urban fiscal crisis in the US, China, and India in the aftermath of the 2008 recession. The financial crisis of 2008 has unfolded unevenly in cities across the globe. In the US, cities have experienced massive foreclosures, shrinking revenues, austerity measures, and in extreme cases, municipal bankruptcies. In growing economies such as China and India, the economic downturn has produced very different kinds of urban fiscal constraints. In China, the recession has led to high-levels of municipal debts because of the binge borrowing and overinvestment in infrastructure by municipal governments under the central government's stimulus program, while in India the recession has had little direct impact on municipal finance, largely because cities in India have little fiscal autonomy and have been in a perpetual state of fiscal crisis due to the stalled devolution of power and resources from state to municipal governments. This article calls for a refocus on local governments in the scholarship on urban governance for a better understanding of the new round of the fiscal crisis. It argues that the different power assemblages of municipal governments largely shape the nature and extent of the urban fiscal crisis unfolding in local contexts.

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In late 2008, when the financial and subprime mortgage crisis was quickly spreading in the US, the media was in a frenzy to report how cities in other parts of the world were also affected by the crisis. One evening I was listening to an interview with a city official in Shanghai on the National Public Radio. The host asked if Shanghai—China's booming commercial capital, was also beginning to see signs of a recession. The Shanghai official replied, "we don't have a crisis here, but we are affected." The short comment well captures the situation of cities in emerging economies such as China and India during the recession. Unlike in the US and some European countries, cities in China and India did not experience massive foreclosures, drastically shrinking revenues, and austerity measures. However, the economic slowdown has affected municipal finance in China and India in other ways. It has exacerbated some of the pre-existing tendencies in urban governance in these countries, such as the dominating role of municipal governments in infrastructure investment in China, and the marginal role of municipal corporations in the provision of infrastructure and services in India. In the aftermath of the recession, municipal governments in China have accumulated a large amount of debts, not because of declining revenues, but because of binge borrowing and overinvestment in infrastructure under the stimulus program of the central government. In India, municipal corporations have little authority and very limited revenue sources, have been in a perpetual state of fiscal crisis, and unable to provide adequate infrastructure and services to keep up with the pace of urban growth.

This article examines the uneven nature and extent of the urban fiscal crisis unfolding in the US, China, and India from the perspective of municipal power, defined as the complex bundle of administrative authorities, functional responsibilities, and fiscal resources of municipal governments. Municipal power, or the power of local governments in general, has been one of the glaring gaps in the scholarship on urban governance in recent years. There has been a long tradition of studying "city power" in the field of urban politics and governance, such as the community influence perspective (Hunter, 1953; Dahl, 1961), urban political economy (Stone, 1989; Logan and Molotch, 1987), and the more recent global city network approach (Friedmann, 1986; Sassen, 1991). However, among these various conceptualizations of city power, the power of city governments has rarely received adequate attention among urbanists. This neglect of municipal governments can be largely explained by the turn in urban studies from "government" to "governance" in the early 1980s. The scholarship on urban governance—mostly on Western countries, argues that local governments are no longer the dominating actors in the governance coalitions, and to enhance their capacity to act, they increasingly seek other partners and form alliances with non-state actors in policy implementation, infrastructure provision, and service delivery (Le Gales, 2011; Pierre and Peters, 2011). While acknowledging the increasingly complex urban governance coalitions involving both state and non-state actors, this article argues that a refocus on municipal governments is imperative for better understanding the new round of the urban fiscal crisis in the post-2008 period. As the rest of the analysis will show, the uneven outcomes of the 2008 recession on municipal finance in the US, China, and India are largely mediated through municipal power—i.e. the different assemblages of administrative authorities, functional responsibilities, and fiscal autonomy of local governments. Local governments in China, India, and the US vary greatly in their administrative authority given by upper-level governments, fiscal resources they are dependent upon, and the kind of services they are mandated to provide. This varying mix of resources, authority, and responsibility has generated very different mutations of the urban fiscal crisis in the aftermath of the 2008 recession.

From Local Government to Urban Governance, and Back

City power, or the power of cities, has been conceptualized from various perspectives in the field of urban sociology and politics, but surprisingly, very few have directly focused on the power, or lack of power, of local governments.[1] The studies on city power in the community influence tradition in the 1950s primarily focused on the

[1] This article uses the two terms "local governments" and "municipal governments" as interchangeable, while acknowledging the various types of local governments that are not "municipal" authorities, such as counties, special districts, school districts, towns, and villages in the US; county, town, township, and village governments in China; and rural local bodies in India.

power of individuals, or more specifically, the power of elites (Hunter, 1953; Dahl, 1961). The urban political economy approach since the 1970s gives more consideration to the contexts that constrain decision-making processes of elites (Stone, 1989; Logan and Molotch, 1987; Savitch and Kantor, 2002; Altshuler and Luberoff, 2003). The more recent global city literature conceptualizes the power of cities in network terms, by examining the economic, or more narrowly, the financial power of individual cities in relation to other cities in the global urban network (Friedmann, 1986; Sassen, 1991; Knox and Taylor, 1995). Among all of these major conceptualizations of "city power", local governments—the primary formal political-economic institution that steers and shapes urban development—are only tangentially mentioned, if not completely left aside from the theorization. The study of municipal governments has been largely relegated to other fields, such as public finance and administration. This lack of attention to the power of local governments has to do with the general shift of research focus from "government" to "governance" in the urban field.

Since the 1980s, the field of urban politics and policies has seen a shift in research focus from local governments to urban governance, especially in the studies on urban restructuring of post-industrial cities in West Europe and North America (Brenner & Theodore, 2002). However, to date, there is not yet a systematic theory of urban governance, and instead of a theory, "urban governance" is better described as "an alternative lens through which urban politics can be understood"(Pierre and Peters, 2012, p.83). Different from the classical studies in the urban political science that primarily focused on local government in earlier periods, such as elected officials and political institutions, the urban governance perspective acknowledges that the formal political institutions of the local state are not the only players in urban policy making and politics, the process of which involves a whole range of other actors such as the private sector and civil-society groups. For example, focusing on European cities, Le Gales (2011) explains how the study of local governments—their formal institutional apparatus, functions, responsibilities, and relationships with higher-level authorities—was one of the major areas for urban political science inquiry before the 1980s. Most

European local governments gained legal status in the 19th century in the course of urbanization and industrialization, and they played a key role in providing basic services and amenities, and also in formulating policy programs in housing, health, education, and welfare. In the European context, city governments are viewed as political arenas for enhancing democracy and participation, for formulating public policy, and providing services. But the limits of local governments have become increasingly apparent with the rise of social movements, suburban sprawl, and privatization of infrastructure and services in the second half of the 20th century. Local governments can no longer, or probably have never been able to, completely govern a city, and they have to form partnerships and alliances with market players such as investors and developers, and with civil society actors such as religious groups, NGOs, and community-based organizations (Le Gales, 2011).

Pierre and Peters (2011) further point out the different emphases between the “government” and “governance” approaches, that is, the governance perspective accords the non-elected actors a significant role in policy formulation, implementation, and service delivery. Unlike the classical studies of local governments, the urban governance perspective makes no prejudgment about which actors are more central in the governing coalition. In other words, classical studies on local governments has mostly focused on the question “who governs”, i.e. which actors have the most power, authority, and influence in urban policy formulation, while the governance approach is less concerned with power but more with the mechanisms, alliances, and collaborative strategies of governing among a variety of state and non-state actors. Within the scholarship on urban governance, Pierre and Peters (2011) observe that some have adopted a more society-centered view on governance as self-organizing networks, while others have taken a state-centered view that sees different modes of governance as different strategies used by the state to govern. To summarize, the relative lack of attention paid to local governments is largely due to the “governance” turn in urban studies around the early 1980s, which stems from the limits of local governments and offers an alternative perspective by taking into account of a range of other non-state actors who can also, along the side of the local state, steer and change the course of urban policy directions.

Compared to the studies on Western cities, local governments and urban governance in emerging economies are less well understood, and cross-national comparisons—between global North and South cities—are even more rare.[2] Within the emerging field of urban studies of the global south, neither "local governments"— e.g. political parties, formal institutional architecture, finance, authorities, and responsibilities of municipalities, nor "urban governance"—in terms of collaboration strategies among state and non-state actors, has been systematically studied to date. To fully understand the complex urban governance systems in global South cities, one has to start with local governments and inter-governmental relations, which define the context where interactions and negotiations among state and non-state actors take place. It is, after all, the relative power of municipal governments at the local level, that provides the context for negotiation and alliance building among other players, and together, state and non-state actors form coalitions that shape urban policies and outcomes. In a similar manner, the power of municipal governments, or lack of, largely mediates the impact of the economic recession in cities.

This article examines the different nature of the urban fiscal crisis unfolding in the US, China, and India from the perspective of local government power. In doing so, it does not simply call for a return to localism, but instead, it calls for more research attention to the different assemblages of territorial authorities, functional responsibilities, and fiscal autonomy of municipal governments as they are embedded in the larger systems of regulatory changes at the national and global scale. Refocusing on local governments in a global context is necessary for understanding the new fiscal crisis after 2008, because, for example, to understand how the urban fiscal crisis in Chicago is of a different nature from that in Amsterdam, Shanghai, and Mumbai, one has to look at not only the economic performance of individual cities and countries, but also the power of their local governments as embedded in central-local relations in each national

[2] See Robinson (2006) for a critique of the lack of comparative urban studies across the global South-North divide.

context. In other words, one has to examine the different meanings of “municipality” in each context—what local governments can do, cannot do, and what they are mandated to do. Different power assemblages of local governments, I argue, have a decisive role in shaping the nature and outcomes of the new urban fiscal crisis.

The Uneven Power of Local Governments: A Preliminary Assessment

Local governments in different countries have varying degrees of authority, responsibilities, and fiscal resources. One of the ways to assess the power of local governments is to examine the proportion of the consolidated expenditure of local governments (i.e. excluding intergovernmental transfers) as a percentage of the total general government expenditure (Shah, 2006; UCLG, 2008, 2010). Table 1 shows the ratio of the consolidated local government expenditure in the total government expenditure for the OECD countries and the emerging economies—India, China, Brazil, and South Africa. As seen in the table, India, the US, and China provide excellent cases for examining the varying degrees of municipal power, as they represent three scenarios in which the power of local governments is weak, moderate, and strong, respectively.

<Table 1 here>

Among the 38 countries compared in Table 1, India has the lowest percentage of consolidated local government (i.e. sub-state level) expenditure. The expenditure of municipal corporations makes only 3 percent of the combined public expenditure from the central, state, and sub-state governments, which suggests the lack of devolution of power and resources to local governments in India. At the other end, China is among the most fiscally decentralized countries in the world, with a staggering 51 percent of the total public expenditure made by sub-provincial governments. The only country with an even higher percentage of local government expenditure is Denmark (63.36%). Other Nordic countries such as Norway (33.42%), Finland (39.83%), and Sweden (47.55%) also have high levels of local government expenditure, indicating a clear Nordic model of governance in which local governments assume most welfare responsibilities and have high degrees of fiscal autonomy. The US ranks in the middle of the list—27.4% of the total public spending is made by sub-state governments, indicating the relatively high autonomy of US local governments, which share some social welfare and investment responsibilities with state and federal governments. Other emerging economies, such as Brazil (26.3%) and South Africa (17.4%), have much higher percentages of local government spending compared to India, suggesting the significant progress made in decentralization in these countries.

Table 2 compares how responsibilities of infrastructure and social services are allocated among different levels of governments in India, China and the US. The comparison shows that China is an anomaly in the range of services for which local governments are mandated to provide. For example, there are no other countries in the world where unemployment insurance and pension are solely provided by local governments, except China. These responsibilities are normally shared by the federal and state governments, which is the case in the US and India. In China local governments also bear the costs for education, health, police, investment in infrastructure, and other social welfare services. India presents an opposite case from China, with very few responsibilities devolved from the central and state to local governments.

<Table 2 here>

It is evident that China is among the most decentralized countries with municipal governments having enormous fiscal resources, authority, but also vast responsibilities. The US has a decentralized federalist structure with local governments having relatively high autonomy, whereas India has a middle-heavy federalist structure with local governments having little autonomy, few resources, and responsibilities. These different inter-governmental relations have significant ramifications for municipal finance in the aftermath of the economic recession, which will be examined in the following sections.

The Urban Fiscal Crisis in the US

The subprime mortgage crisis originated in the US in 2007-2008, and the causes and scopes of the crisis have been well examined to date.[3] In an edited volume, Aalbers (2012) examines why US cities are the epicenter of the "twin crises"—i.e. financial and subprime crisis, and he attributes the cause to the financial and institutional underpinnings of the US urban housing market, which is the main site for predatory lending, the securitization of mortgage loans, and absorption of surplus capital. The origins of the dual crisis can be traced to the de-regularization in the financial sector, the securitization of mortgages, and poor ratings from credit agencies, which are paid by the companies whose securities they have to rate (Aalbers, 2012; Gotham, 2012). US cities are particularly hit hard by the subprime mortgage crisis also because their revenue structures are largely dependent on property tax—on the national average, 32 percent of local government revenues in the US come from property tax (US Census, 2002).

The actions taken by US city governments in the aftermath of the crisis are largely determined by the administrative authorities they are granted by their state governments and the kinds of services they need to provide in their jurisdiction. There is a large variation from state to state in terms of authority, responsibility, and sources of revenues of local governments. To take revenues as an example, local governments in the US derive their revenues from three major sources—property tax, sales tax, and income tax. The national average of revenue reliance on these three sources is 32%, 15%, and 4%, respectively (US Census, 2002), with property tax being the most important revenue source for local governments. Some cities are granted more fiscal autonomy than others as they are allowed to control the tax rates of one or more of these sources. For example, New York City and Philadelphia have access to a local option of all three. Therefore, these cities have more fiscal autonomy than those with access to only one or two of the three sources. Municipalities in some states are much more dependent on property tax than others—for example, cities in Rhode Island, Massachusetts, and Connecticut have more than 70% of their revenues coming from

[3] For example, see Keil (2010) for an introduction to a series of articles examining the impact of the recession in several European cities in the *International Journal of Urban and Regional Research*.

property tax. This suggests that cities in these states are especially vulnerable from fluctuations in property values and housing foreclosures. Cities in Ohio, Pennsylvania, and New York are more dependent on income tax than others, suggesting that the fiscal revenues of these cities are more subjective to job losses (Hoene and Pagano, 2008). Just like revenues, there is also a large variation in authorities and responsibilities of local governments across the different states in the US, with some states assigning more authorities to their municipalities and others retaining more decision-making power to themselves.

The different assemblages of municipal power have led to variations in the austerity measures taken by local governments. In the US, cities are not allowed to have deficits and most state laws dictate that municipalities operate under balanced-budget requirements, which means that cities should always end the fiscal year with some surplus funds to carry forward. The most common action taken to enhance revenues and close fiscal gaps is to raise tax rates and increase fees for services (Lobao and Adua, 2011). Pagano, Hoene and McFarland (2012) note that for cities that are authorized to raise tax rates, about one-fifth has raised taxes in order to cover the fiscal gap. On the expenditure side, reducing the size of the municipal workforce is a common strategy to cut spending—from 2008 to 2012, the local government employment in the US had shrunk by 650,000 jobs (Pagano, Hoene and McFarland, 2012). Since more than 50% of public sector workers are women, women are especially adversely impacted by hiring freeze and layoffs (Glasmeier and Lee-Chuvala, 2011). In places where home-rule is broadly interpreted and city governments have more authority in taxing and borrowing, local governments have taken aggressive austerity measures to reduce the fiscal gap. A case study on Chicago finds that the city of Chicago has aggressively adopted austerity measures to increase revenues, such as increasing tax rates and user charges, and cutting welfare benefits (Hendricks, Luby, and Terzakis, 2011). Chicago has also used debt to fund its capital improvement programs and tapped into its reserve funds to close the budget gap. In other and more extreme cases, some municipalities have filed for bankruptcy as they struggle to pay off debts accumulated over years and find themselves with little revenue left for carrying out even the most basic services. Since January 2010, seven local governments in the US have filed bankruptcy, including, for example, Stockton and San Bernardino in California, Jefferson County in Atlanta, and the city of Central Fall in Rhode Island.[4]

To summarize, US cities are the centers of the subprime mortgage crisis and the worsening municipal finance is largely due to the revenue structures of local governments that are highly dependent on property tax. To close the fiscal gaps, local governments have resorted to a wide range of austerity measures, but their ability to do so is largely dependent on the power that they are granted by state governments.

Large Municipal Debts in China

Compared to the US where the economic recession has led to an urban fiscal crisis as municipalities largely rely on property tax, China did not have a recession and the finance of local governments does not rely on property tax—and even if it did, local government revenues would not be hurt as there are no signs of recession in the overheated Chinese housing market. However, in spite of the strong growth and rising revenues, city governments in China have accumulated a large amount of debts since 2008—according to some estimate, the local government debt in the country had jumped from 7 trillion *yuan* in 2009 to 14 trillion *yuan* at the end of 2010 (Wong, 2011). Judging from the debt levels of local governments, clearly there is an urban fiscal crisis in the making. The large amounts of municipal debts are caused by both the long-term structural tendencies in urban governance, such as the mismatch of revenues and mandated, but unfunded responsibilities, and the overinvestment in infrastructure by local governments, and by short-term policy changes—specifically, the 2008 stimulus program of the central government for which local governments had to borrow massively in order to match central subsidies. This section briefly reviews the power of local governments in China—largely defined by administrative orders instead of by law,

[4] Only half of the states in the US allow municipal bankruptcies. See "*Bankrupt cities, municipalities list and map*," at http://www.governing.com/gov-data/other/municipal-cities-counties-bankruptcies-and-defaults.html, accessed on January 23, 2013.

and the massive borrowing of local governments through various financial platforms in the implementation period of the 2008 stimulus package.

There is no constitutional or any other legal basis specifying the authority and responsibilities of local governments in China. The central and provincial governments devolve authorities and delegate responsibilities by executive orders, or "mandates" as often referred as in the China literature. In the socialist years, city governments in China had rather limited authorities, responsibilities, and revenue sources. Most of the infrastructure and social welfare responsibilities were undertaken by state-owned enterprises (also called *danwei*, or work units), which invested in infrastructure and provided welfare benefits to their employees and families. City governments primarily served residents who were not employed by the government or state-owned enterprises and dependents (Saich, 2008). After the collapse of the work unit system, municipal governments in China became the primary provider of infrastructure and services, and as the reform deepened, local governments have been charged with a wide range of responsibilities, such as health, education, infrastructure, unemployment insurance, and pension.

In terms of fiscal revenues, local governments in China, especially for large cities, have seen rapid increases in revenues over the past two decades, due to the strong economic growth. Local government revenues are not dependent on property taxes—until today China still does not have a property tax system and proposals for property tax have met strong resistance from middle-class homeowners. The main revenue resources for city governments are value-added tax, business tax, individual income tax, and company income tax. In recent years, revenues from land acquisition and leasing has become the major source of local government revenues, and some estimate that between 30 and 70 percent of city government revenues come from land-related incomes (Lin, 2009). However, in spite of the growing local government revenues, the rapid urbanization has raised severe challenges for municipal governments, increasing the scale of existing responsibilities with the rising urban population and creating new responsibilities such as taking care of some of the welfare needs of migrants and the newly incorporated urban residents (Kamal-Chaoui, et. al, 2009; OECD, 2010). To meet the vast expenditure demands, most city governments have set up Local Investment Corporations (LICs), which function as private companies on behalf of city governments to borrow from the market (Saich, 2008). The rise of LICs has significantly enhanced the fiscal capacity and autonomy of local governments, but it has also led to an unsustainable level of municipal debts because of binge borrowing of LICs from state banks, especially after 2008.

In China's non-democratic system, state legitimacy largely depends on economic performance, and therefore, the world economic recession in 2008 stirred a strong fear among the top leadership of the country, who worried that China would be dragged into a period of economic stagnation as in the West and feared the consequences on political stability. In response, the central government announced the world's largest stimulus plan of 4 trillion *yuan* (587 billion USD), three times Obama's stimulus package, among which 1.18 trillion was provided by the central government and the rest was to be matched by local governments through bank loans (Wong, 2011). The stimulus package amounted to 12.5% of China's GDP in the year of 2008 and it was planned to be spent to the end of 2010 for a period of 27 months. The top three priority areas for the stimulus spending are transport and power infrastructure, post-earthquake construction, and affordable housing, and the rest includes rural infrastructure, environmental protection, technology, health, and education. This large fiscal injection triggered deregulation in the financial sector, especially regarding bank lending, and also a relaxation of fiscal rules on local debt.

Wong (2011) examined in great detail how the stimulus program has led to local debt overload. She notes that local governments and ministries welcomed the stimulus program with great enthusiasm, and local governments are the key players in charge of the implementation, as they prepared lists of infrastructure projects for inclusion in the stimulus plan. To help local governments to raise capital and co-finance these projects, the central government made a series of deregulatory moves. For example, the State Council approved a 200 billion treasury bond on behalf of local governments, and the

Ministry of Finance relaxed the standards on what is eligible as counterpart funds for qualifying for stimulus projects—basically all sources at the discretion of local governments can be used for co-financing. One particular deregulatory measure that needs special mention here is the role of Local Investment Corporations (LICs). Since local governments themselves are not allowed to borrow from the market, they set up LICs, variously called Urban Development Investment Corporations (UDICs), to borrow from banks and raise funds through corporate bonds, in order to invest in infrastructure and also to enhance city revenue in general. They bundle together bank loans and other funds raised, and use municipal assets as equity and collateral. Due to the public ownership of urban land, land has become the principal asset backing LICs and city governments have used incomes from land leasing for debt service in LICs. No national agencies, not even the Ministry of Finance, have oversight on the tens of thousands of LICs in the country formed by local governments. During the stimulus-spending period from 2008 to 2010, local governments borrowed massively through LICs and have accrued a large amount of local debts. Serving the debt has become a problem for many cities where the economic growth is less robust and there are fewer tax revenues available.

To summarize, an urban fiscal crisis of a very different kind is in the making in China. Local governments have accumulated large amounts of debts through Local Investment Corporations to co-finance the projects they proposed under the stimulus program. The deregulatory measures taken by the central government have significantly expanded the borrowing power of local governments and caused an escalation of debt overload.

Marginal Municipal Finance in India

Compared to the US and China, the direct impact of the recession on municipal finance in India is minimal. This is not because cities in India are more resilient to the fluctuations of the economy, but simply because the sector of municipal finance in India is so small—municipal spending is less than one percent of the GDP—so that the impact of the recession is hardly felt. Urban development in India is primarily state, instead of municipal government responsibilities. Municipal corporations in India are faced with chronic fiscal pressure, which is largely structural rather than cyclical, i.e. the outcome of economic recessions. Most Indian municipalities cannot meet their expenditure demands with their current revenue sources (Mathur, 2006; Nallathiga, 2008; Bandyopadhyay and Rao, 2009). The 73rd and 74th Constitutional Amendment in the early 1990s has urged state governments to devolve substantial authority to municipal governments, but very little progress has been made until today, and Urban Local Bodies (ULBs) in India remain the weakest link in the three-tiered government system composed of federal, state and local governments.[5] The perpetual urban fiscal crisis in India is largely due to the stalled devolution of power from state governments to Urban Local Bodies.

In terms of functional responsibilities, although the 74th Constitutional Amendment has significantly expanded the range of functions to be performed by ULBs, compared to other countries, the functional domain of Indian local governments are limited. Education, health, and social welfare—common responsibilities for local governments in many developed and developing countries—are within the domains of state governments in India (Bardhan and Mookherjer, 2006). Among the functions to be performed by municipal bodies by law, less than half of them have a corresponding revenue source (Mohanty, et. al, 2007). Moreover, many of the functions specified in the 74th Constitutional Amendment are still performed by state departments and para-statal agencies, such as urban planning, regulation of land use and construction, slum upgrading, urban poverty alleviation, and infrastructure provision. In spite of some variations, in general, the functional scope of the municipal governments is largely confined to basic service delivery and maintenance of infrastructure built by state departments and agencies.

Municipal governments in India also have extremely limited administrative authorities. Most major decision-making power, again, rests in the hands of state

[5] India has 3,723 Urban Local Bodies, of which 109 are municipal corporations (for large metropolitan areas), 1,432 are municipalities, and 2,182 are Nagar Panchayats (Mohanty, et al, 2007).

government departments, development authorities, and various para-statal agencies, for which municipal governments have no control of. The approval rights for major projects, Special Economic Zones, municipal bonds, and foreign investment are firmly in the hands of central and state governments. Mayors in India have largely symbolic and ceremonial roles, and with only one-year in term, they have little executive power to even slightly influence the formulation and implementation of urban policies and programs.

The fiscal capacity of municipal governments in India is also extremely weak compared to most other countries. The tax revenues are divided between the central and state governments, and there is no constitutional mandate for sharing of the center or states' own tax revenues with municipal governments, in spite that cities are the main generators of tax revenues. The power for determining the tax base of urban local bodies is largely left to state governments, which are reluctant to share tax revenues with ULBs. State governments are required by the Constitution to form a State Finance Commission (SFC) once every five years to make recommendations for devolving more fiscal resource to ULBs, but in practice, in many cases, recommendations from SFCs are often not followed. Major tax revenues such as property tax and profession tax are controlled by state governments and not shared with ULBs (NIUA, 2011). The tax base of municipal governments in India is narrow compared to most other countries. Municipal revenues typically come from two resources—own source revenues and intergovernmental transfers. Own revenues include taxes (e.g. property tax, income tax etc.) and non-tax revenues (e.g. user charges and fees, sales proceeds of land, rent from municipal properties etc). Inter-governmental transfers include assigned revenues and grants from central and state governments. According to the National Institute of Urban Affairs, the share of own-source revenue in the total revenue was about 63% in the 2002-2003 fiscal year, and it dropped to 53% in the 2007-08 fiscal year, indicating the increasing dependency of municipal finance on governmental transfers. Some municipalities are more dependent on transfers than others. In some states such as Orissa, for example, more than two thirds of revenues of municipalities come from grants and transfers. In extreme situations, municipal governments are reduced to state government departments and they cannot even pay the salaries of their own employees (NIUA, 2011).

In spite of the state-to-state variations, what characterizes municipal finance in India as a whole is the narrow fiscal domain of urban local bodies, as compared to most developed and many developing countries (Mohanty et al, 2007; also see Table 1). ULBs are not assigned adequate revenue sources to provide services needed and intergovernmental transfers are often ad hoc and based on negotiations instead of needs. In a widely cited study of 35 municipal corporations between 1999 and 2004 by the Reserve Bank of India, the researchers point out a systematic mismatch between revenues sources and responsibilities of municipal governments in India (Mohanty et al, 2007). State governments are required to devolve resources to their cities, but they are often reluctant to do so for political reasons and their own financial constraints. Since ULBs in India are not allowed to have deficits in their budgets, resource gaps do not show in budget documents. Instead of deficits and debts, the main issue faced by ULBs is inadequate revenue sources with which to provide essential services and infrastructure. Between 1999 and 2004, municipal revenues composed only 2.3% of the central and state revenues combined, and only 0.75% of the GDP, this casts a sharp contrasts with the US and China, where 27 and 51 percent of total general public spending is made by local governments. In the 13th Central Financial Commission report (2010-2015), the estimated municipal revenue has increased slightly to reach 0.94% of the GDP. [6] The total revenue of ULBs was growing at a lower rate compared to central and state revenues—a sign of a further decline of municipal finance in the overall fiscal structure of India (Mohanty et al, 2007).

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[6] The 10th Central Finance Commission (CFC, 1996-2000) allocated Rs. 1,000 crores to ULBs based on the 1971 slum census. This is the first step since the 1992 CAA toward strengthening the revenues of ULBs. States with a higher share of slum population received more funds. The 11th CFC (2001-2005) allocated Rs. 2,000 crores to ULBs for improving services. The 12th CFC (2006-2010) assigned Rs. 5,000 crores to ULBs, of which 50% was earmarked for solid waste management. The 12th CFC also especially encouraged the use of public-private partnerships for improving service provision. The most recent 13th CFC (2010-2015) recommended that the central government should share some of its own sources with ULBs, in addition to offering grants. The 13th CFC recommended transferring Rs. 23,111 crores to ULBs to improve their finance, but how this will be implemented remains to be seen (NIUA, 2011).

To recapitulate, the direct impact of the 2008 recession on municipal finance in India is minimum, not because of the resilience of local governments, but due to the extremely narrow fiscal domain of Indian cities, which have been in a chronic fiscal crisis as state governments are unwilling to let go their power for local governments.

Conclusion

This essay has examined the different nature of the urban fiscal crisis in the US, China, and India as it is mediated through the power of local governments. The urban fiscal pressure faced by US cities is directly caused by the financial and subprime mortgage crisis, which severely affected the property and income tax revenues that municipalities largely depend on. The various austerity measures taken, such as spending cuts, layoffs, and increases in user charges and fees, are largely shaped by the authority of local governments as given by their states. China and India did not have a recession to the degree as seen in the US, but the economic downturn in each country has exacerbated preexisting structural problems in municipal finance and urban governance. In the Chinese case, the offloading of responsibilities from the central and provincial governments to local governments are not matched by revenue resources, so that local governments have to raise funds by themselves in order to cover the expenditure needs. To cover the mandated but unfunded responsibilities, one of major "innovations" in municipal finance in China is Local Investment Corporations, which are quasi-private financial platforms set up by local governments to borrow from state banks and issue corporate bonds on their behalf. Under the stimulus program from 2008 to 2010, the central government deregulated the banking sector and also made these LICs official, which have since borrowed massively and led to high levels of local government debts. In the Indian case, municipal governments have been the weakest link in the country's federalist structure, as state governments jealously guard their power and are unwilling to devolve some of the power to local governments. Indian cities have in general a very small fiscal base—municipal expenditure is still less than 1 percent of the national GDP as specified in the 13th Finance Commission (2010-2015), which is insufficient to cover the most basic services and expenditure. The lack of progress of decentralization in India renders municipal governments as puppets of the states. The urban fiscal crisis is a structural and chronic issue in India and it will continue to pose significant challenges in the midst of India's explosive urban growth.

This article has compared the multiple urban fiscal crises in the making. To fully understand the different causes and consequences of these crises, one has to examine not only the economic performance of individual cities, I argue, but also, and the different power assemblages of local governments that mediate the impact of the recession on localities. The article provides a first examination of the variegated landscape of the urban fiscal crisis in the post-2008 period from the perspective of municipal power. Further comparative analyses of local government power—in cities in both the global North and South—are needed to fully expose the impact of the recession on local communities in world cities.

Table 1. Consolidated Local Government Expenditure as Percentage of Total General Government Expenditure

Country	Percentage
India*	3.00
Greece	5.52
Australia	6.00
New Zealand	9.00
Mexico	9.02
Ireland	9.72
Turkey	11.10
Luxembourg	11.42
Israel	11.79
Chile	12.80
Belgium	13.12
Spain	13.46
Portugal	13.90
Austria	14.03
Germany	15.91
South Africa	17.40
Slovak Republic	18.20
Canada	19.77
Slovenia	20.06
France	20.32
Switzerland	20.62
Estonia	24.52
Hungary	25.39
Iceland	25.82
Brazil	26.30
Czech Republic	26.90
United States*	27.40
United Kingdom	27.65
Italy	31.12
Poland	32.75
Netherlands	33.25
Norway	33.42
Finland	39.83
Japan	40.00

Korea	43.14
Sweden	47.55
China*	51.00
Denmark	63.36

Source: OECD Fiscal Decentralization Database; Local Government Finance (The second report on decentralization and local democracy) from United Cities and Local Governments (UCLG, 2010), and Shah (2008).

Notes: For most OECD countries, the data are for the year of 2010 and from the OECD Fiscal Decentralization Database. The figures for some countries are missing in the OECD online database—such as Australia, New Zealand, and Japan. For these countries, and together with Brazil, Chile, South Africa, the data are obtained from another source—UCLG (2010) for the most recent year available, i.e. 2005. For India and China, the data are obtained from Shah (2006). The figure for India excludes rural local government expenditure, as there is no statistics available for India on the combined urban and rural local government expenditure as percentage of total general government expenditure.

Table 2. Responsibilities of Federal, State, and Local Governments: A Comparison

	Unemployment Insurance	*Education*	*Health*	*Social Welfare*	*Police*	*Highways*
China	L	L	L	L	L	F,S,L
India	F,S	F,S,(L)*	S,(L)*	F,S	S	F
US	F,S	S,F	S(F)	F,S,L	F,S	F,S

Source: Adapted from Mountfield and Wong (2005) and Bardhan and Mookherjee (2006).

Note: F: Central/Federal; S: Provincial/State; L=local.
*Financing comes from federal and/or state governments, but local governments are required to provide the services; there are regional variations in terms of education and medical care responsibilities across the states in India.

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