Inter-municipal cooperation and fiscal federalism.

First results of a research on the case of Lyons.
1. Foreword

This paper is the first step of a larger inquiry on metropolization, inter-municipal cooperation and social justice in the French context. The scope of this research is to look whether the progress of inter-municipal co-operation in the last ten years paved the way for a reduction of socio-spatial disparities in French large cities. For this project, I have chosen the case of the conurbation of Lyons and Saint-Étienne who should enable me to assess the effects, benefits and costs of both institutional integration and non-integration at the metropolitan level. Indeed, the two cities form a singular example in France of a metropolis composed of two large cities separated by only 37 miles. Both cities are the center of territories governed by large inter-municipal institutions: the Communauté urbaine du Grand Lyon (1,2 million inh.) and the Communauté d’agglomération Saint-Étienne Métropole (390 000 inh.), but so far no metropolitan institution has been established in order to govern the whole metropolis and the increasing contradictions generated by the functional integration of the two urban areas (uncontrolled urban sprawl, congestion, stress on infrastructures, etc.).

The aim of the reasearch is twofold. First, I intend to test the hypothesis according to which the building up and the progressive reinforcement of inter-municipal institutions in French large cities has consented to compensate socio-spatial disparities through fiscal redistribution, investments in infrastructures in deprived municipalities, spatial redistribution of social housing, technical supports to small municipalities and the progressive, yet difficult, building up of a metropolitan interest that tame individual municipal interests. The comparison between a quite old inter-municipal cooperation institution such as the Grand Lyon and a much more recent one, Saint-Étienne Métropole, is a good way to the long term positive effects of inter-municipal cooperation.

Second, the objective is to demonstrate that, on the contrary, the absence of metropolitan cooperation structure at the metropolitan level has led to growing disparities between the two cities despite their effective functional integration. One of the objectives of the research will be to gather the proofs of the divergent trajectories of the two cities. The other will be to see whether the origin of these disparities lies in the unequal competitive assets of the two cities (a more diverse economy and a better geographical position for Lyons; the presence of

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1 I would like to thank William Six, Stéphane Riou, Matthieu Leprince, Rémi Dormois and Valérie Sala Pala for their help and advices in the first times of this research. Of course, all the interpretations contained in this paper are of my sole responsibility.
derelict industries and a relative geographical isolation for Saint-Etienne) but also in the absence of metropolitan institution.

In this paper, I would like to present the results of the first step of the research that consisted in assessing the redistributive effect of the transformation of the local taxes system through the establishment of a single rate business tax system in the “communauté urbaine” of Lyons, also called the Grand Lyon.

**Map 1: Lyon city region (Source: Région Urbaine de Lyon)**
2. **Introduction: Inter-municipal cooperation and social equity**

2.1 The “inter-municipal revolution”

In the recent years, the French system of local government has gone through important changes (Pinson, 2008). The most impressive of these changes is what some observers called the “inter-municipal revolution” (Borraz, Le Galès, 2005). It is well known that the French municipal organization is characterised since the revolutionary times by its extreme fragmentation (more than 36 000 communes). The successive attempts to rationalise the municipal map has always been confronted to the resistance of the lobby of local elected officials who are well represented at the national level and inside the Parliament through the system of multiple office holding. In particular, the central government attempts to amalgamate communes have always encountered tremendous failures.

<table>
<thead>
<tr>
<th>Population</th>
<th>Municipalities</th>
<th>Inhabitants</th>
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<tbody>
<tr>
<td></td>
<td>Number</td>
<td>Per cent</td>
</tr>
<tr>
<td>Less than 1 000</td>
<td>27 794</td>
<td>76.0</td>
</tr>
<tr>
<td>1 000 to 5 000</td>
<td>6 922</td>
<td>18.9</td>
</tr>
<tr>
<td>5 000 to 10 000</td>
<td>975</td>
<td>2.7</td>
</tr>
<tr>
<td>10 000 to 30 000</td>
<td>633</td>
<td>1.7</td>
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<tr>
<td>30 000 to 100 000</td>
<td>205</td>
<td>0.6</td>
</tr>
<tr>
<td>100 000 to 300 000</td>
<td>31</td>
<td>0.1</td>
</tr>
<tr>
<td>Over 300 000</td>
<td>5</td>
<td>0.01</td>
</tr>
<tr>
<td>Total</td>
<td>36 565</td>
<td>100.0</td>
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</tbody>
</table>

Source : DGCL.

This high degree of institutional fragmentation did not prevent communes to invent new forms of co-operation. Single or multi purpose(s) intermunicipal co-operative bodies (*syndicats intercommunaux*) were created to manage utilities and services. Those instruments had the advantage of realising scale economies and avoiding the creation of supra-municipal institutions who would have threatened the legitimacy and political visibility of the mayors. Rather than creating an incentive to engage in more ambitious and institutionalised forms of co-operation such as the *communautés urbaines*, the decentralisation reform of the early 1980's pushed mayors towards municipal chauvinism and encouraged competition amongst
them. In 1980, there were more than 14000 bodies of this kind in France producing and/or providing public goods and services such as water, waste collection and treatment, transportation, public equipments management, etc. By 1992, they were more than 17000. In some pioneers cities, however, there were innovative forms of more integrated co-operation. Some were imposed by the State in the late 1960's, the (communautés urbaines), but others, the districts urbains in particular, were created in a more spontaneous manner in cities where a propensity for co-operation emerged following the involvement of communes in such practices as city-visioning or strategic planning, or due to the political alignment among communes.

It was only in the 1990's that the central State started to legislate in order to foster inter-municipal co-operation, increasingly seen as the most reasonable and realisable solution in a context that made the creation of metropolitan government (UK style) unlikely (Lefèvre, 1998). Two first laws had very modest effects, but had the merit creating both a political incentive for inter-municipal co-operation and legal frameworks for it. In 1992, the "Administration territoriale de la République" Act created two formulas of co-operation – the communautés de communes for rural areas and the communautés de ville for medium size cities- both levying their own tax and undertaking functions like planning and economic development with which syndicats did not deal. With this law, the number of inter-municipal co-operation bodies levying their own tax rose from 232 in 1993 to 1102 in 1995. In 1995, the Pasqua Act (from the name of the Minister for Aménagement du Territoire of the Balladur cohabitation government) created the notion of pays. The law indicates that the State's territorial development policies, in particular those targeting rural areas, would finance the projects emerging on the pays scale, i.e. at a coherent territorial scale embodying economic and cultural basins and organised in inter-municipal bodies. Nevertheless, in the absence of consequent funds provided by the central State, the law had structuring effects only in places where the départements or the region did relay financially the State's call for the creation of those pays.

Another law, voted in 1999 and baptised with the name of the Jospin government Home affairs Minister, Jean-Pierre Chevènement, had a much more decisive impact on the redesign of the local government map. This act aimed to reduce the number of institutionalised co-operative bodies created by successive laws to rationalise the landscape of inter-municipal co-operation. The choice was reduced to three co-operation formulas, two of them fit for urban agglomerations (CU and CA), and the last being designed for small communes in rural areas.
This act was a great success, mainly because it articulated strong legal constraints with attractive financial incentives. On one hand, the act compelled every existing multipurpose tax-raising co-operative body to shift to one of the three formulas by 2002. The prefect had the power to force one commune to enter new bodies if it would otherwise be an isolated enclave within the new entity. Furthermore, the communautés urbaines and communautés d'agglomération were expected to define a uniform business tax rate (Taxe Professionnelle Unique) to put an end to fiscal dumping, a common practice between communes in urban agglomerations. On the other hand, the central government guaranteed a very attractive financial transfer bonus. The more integrative the chosen formula, the more interesting was the transfer bonus.

The ingenious device had a spectacular impact during the years following its voting. Two new urban communities were created in two major cities, Marseilles and Nantes, neither of which were known for their co-operation tradition. This is the most ambitious formula for co-operation since CUs are legally required to undertake such functions as economic development, urban planning, transportation, housing, urban regeneration, sports and cultural facilities, roads, environment, and water treatment and distribution. The second formula, the communauté d'agglomération (CA), was created ex nihilo by the Chevènement Act. It was designed for second range urban areas and is less constraining in terms of the "communitarisation" of functions. Nevertheless, CA administrations have compulsory strategic functions such as economic development, urban planning, transportation, housing and urban regeneration. Furthermore, the communes integrated in the CA are compelled to transfer three functions among the following five to the inter-municipal body: sports and cultural facilities, roads, environment, water treatment and water distribution. Last but not least, a single rate business tax has to be enforced across the CA. Between 2000 and 2006, no less than 164 CA have been created, covering almost 21 millions inhabitants. Finally, the Chevènement Act conserved and reshaped the communautés de communes (CC) created by the 1992 Joxe law. Specifically designed for rural areas and small communes, this formula limits compulsory functions to economic development and land-use planning and regulation; three other functions having to be chosen among road management, environment, social assistance, housing and sports and cultural facilities. With the fiscal incentives linked to the "new CC" the number of such co-operative bodies has risen from 756 in 1995 to 2389 in 2006. Nowadays, 26 millions Frenchmen live under the umbrella of a CC.

In 2006, 32 913 communes (53,3 millions inhabitants for a total population of 62 millions) have been integrated into an inter-municipal co-operative structure, among which 15 130
(40,9 millions inhabitants) are integrated in a structure raising a single rate business tax. It should be noted that in this amalgamation process, the central government officials, i.e. the prefects had very rarely to impose integration on communes. Instead they acted as a facilitator (Baraize, Négrier, 2001).

Table 2: The evolution of the number of inter-municipal co-operation establishments between 1988 and 2006.

<table>
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<tbody>
<tr>
<td>- Communautés urbaines</td>
<td>9</td>
<td>9</td>
<td>12</td>
<td>14</td>
<td>14</td>
</tr>
<tr>
<td>- Communautés d'agglomération</td>
<td></td>
<td></td>
<td></td>
<td>143</td>
<td>164</td>
</tr>
<tr>
<td>- Communautés de communes</td>
<td>193</td>
<td>1241</td>
<td>2195</td>
<td>2389</td>
<td></td>
</tr>
<tr>
<td>- Syndicat d'Agglomération Nouvelle</td>
<td>9</td>
<td>9</td>
<td>9</td>
<td>8</td>
<td>6</td>
</tr>
<tr>
<td>- Districts</td>
<td>153</td>
<td>252</td>
<td>310</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Communautés de villes</td>
<td>3</td>
<td>5</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>171</td>
<td>466</td>
<td>1577</td>
<td>2360</td>
<td>2573</td>
</tr>
<tr>
<td>- Number of communes gathered</td>
<td>5071</td>
<td>17760</td>
<td>29754</td>
<td>32913</td>
<td></td>
</tr>
<tr>
<td>- Population gathered (millions inhab.)</td>
<td>16.1</td>
<td>31.8</td>
<td>48.8</td>
<td>53.3</td>
<td></td>
</tr>
</tbody>
</table>

**With a single rate business tax**

<table>
<thead>
<tr>
<th></th>
<th>18</th>
<th>92</th>
<th>934</th>
<th>1161</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Number of communes gathered</td>
<td>179</td>
<td>869</td>
<td>11958</td>
<td>15130</td>
</tr>
<tr>
<td>- Population gathered (millions inhab.)</td>
<td>2.1</td>
<td>3.8</td>
<td>35.4</td>
<td>40.9</td>
</tr>
</tbody>
</table>

Source: DGCL
Map 2: The evolution of inter-municipal co-operation between 1993 and 2007 (Source: Association des Communautés de France)
Map 3: The different kinds of inter-municipal co-operations institutions in 2007 (Source: Association des Communautés de France)
2.2 Inter-municipal integration and the struggle against “urban apartheid”

As Estèbe (2004) clearly showed, the voting of the Chevénement Act in 1999 intervened in a very particular social and political climate characterised by the growing concern among the political class and the citizenry for the phenomena of social polarisation between urban spaces. The most famous illustration of these phenomena is the situation in the high rise social housing estates in the outskirts of French cites whose recurrent outbursts have become a central issue on the political agenda. More generally, those riots and the growing socio-spatial disparities that they are supposed to express, with other phenomena like urban sprawl, middle class spatial secession and “gated communities”, were interpreted as a break in the Republican and universalist model on which the French political and social system is supposed to be based and as a signal of the rise of an “anglo-saxon” communitarian model of social and spatial organisation.

According to the words of the Minister himself, the stake of the law was nothing less than to address the problem of the gradual transformation of some neighbourhoods in “quasi-ghettos”, to stop the process of “ethnicization” of the social body and the rampant edification of an unequal society whose spatial expression was the growing urban segregation.

« Exprimant sa volonté de refuser un modèle communautariste à l'anglo-saxon, si contraire au génie égalitaire de la France, le Ministre a estimé qu'il existait un autre choix, consistant à mobiliser tous les moyens, dont la coopération intercommunale, pour combler l'écart entre l'idéal d'une société citoyenne et la réalité quotidienne. Partant de ce constat, il a reconnu que la réalité physique des agglomérations ne reposait aujourd'hui sur aucune entité politique et juridique, alors même que c'est à l'échelle de l'agglomération que devraient être pensées les mesures de nouvelle répartition de l'habitat, de remodelage des banlieues, de reconstitution du tissu urbain, ou de politiques ciblées de l'emploi et de formation »².

One of the solutions figured out by the minister was to incite the municipalities to gather into more integrated co-operation institutions that would levy their own tax and would be thus be able to redistribute the revenue of this tax to communes according to criteria of socio-economic deprivation.

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2.3 Fiscal federalism as a tool for socio-spatial justice

One of the mechanisms identified by the designers of the Chevènement Act as being at the origin of socio-spatial disparities was the local tax system and, in particular, the local business tax (\textit{Taxe professionnelle}, TP). This system is based on four taxes ("les quatre vieilles"): the \textit{taxe d’habitation} is levied on households, the \textit{taxe professionnelle} is levied on businesses (fix capital), the two last, \textit{taxe sur le foncier bâti} (built property tax) and \textit{taxe sur le foncier non-bâti} (unbuilt property tax) are levied on landowners, being they households or enterprises. The business tax has been considered as the most unfair of the local tax since, first, it was based on the presence on the municipal soil of industries and services on which communes have limited influence, second, it was a strong incentives for tax dumping and triggers sterile competition between communes. Before its transfer to inter-municipal structures, the TP was representing ca. 30\% of communes tax revenues.

The focus on the uneven effects of the TP led the designers of the law to designate it as a primary target. The Chevènement Act thus generalised a device that was already present in the 1992 law –but never really enforced- and was in vigour in inter-municipal cooperation structures: the \textit{Taxe professionnelle unique} device. The newly created \textit{communautés urbaines} and \textit{communautés d’agglomération} and the \textit{communautés de communes} of more than 500 000 inhabitants were compelled to establish a single rate for the business tax, whose revenue would benefit to the sole inter-municipal structure. Two benefits were expected from the new device. First, the competition between municipalities through tax dumping would be tamed by the single rate system. Second, by transferring large amounts of fiscal resources to the inter-municipal structures, the new device would give them the capacity to implement redistributive policies through financial transfers to deprived communes or by concentrating investments in these communes.

Another device created by the 1992 Act and that the Chevènement Act generalised was also expect to have redistributive effect: the \textit{dotation de solidarité communautaire} (DSC) or inter-municipal solidarity transfer. Mandatory for the CU and facultative for the CA, the DSC is a transfer from the inter-municipal structure to the communes according to criteria of fiscal solidarity that are to the inter-municipal assemblies to determinate. This device was seen by many observers as the tool that would enable inter-municipal structures to give more to the most deprive, to help poor communes to improve their level of services without increasing the tax pressures on households.
The Chevènement law gave the communes three years to choose between the three inter-municipal formulas. Nowadays, as we saw previously, most of the national territory is covered with inter-municipal cooperation structures, some of them having shifted, on a mandatory or voluntary basis, the TPU system. Today, more than forty millions French people live inside the perimeter of an “intercommunalité” levying a single rate business tax (see Table 2). It is now time to assess the redistributive effect of these measures. Many studies have been made on the “democratic deficit” plaguing these new institutions, since their assemblies are not directly elected and since they are governed according to an inter-governmental system of opaque negotiations and bargains between mayors (Baraize, Négrier, 2001; Desage, 2005; Pinson, 2005; Territoires, 2003), but researches about the redistributive effects of the reinforcement of intercommunality are much more rare (Estèbe, 2004; Gilbert, Guengant, 2006).

In the following lines, I will focus on the equalizing effects of the transformation of the local tax system. I will first identify several methodological and empirical difficulties that have to be bear in mind when addressing this issue. I will then present the first results on the case of Lyon. I will finish by evocating the further of the research.

3. **Methodological and empirical difficulties and precautions**

3.1 What is a rich/poor commune?

When dealing with socio-spatial inequalities and the way public policies are dealing with them, the first choice to make is to choose the optimal scale to observe these inequalities and the effective efforts and investments national and local governments actually consent to compensate them. In this research, we have chosen the municipal scale. It is a disputable choice since important inequalities can divide different areas in same communes and since it is possible, from a statistical point of view, to observe these inequalities at this scale. But, first, the tiny size of French municipality makes the communal scale acceptable when dealing with inequality. Second, the fixing of tax rate is made at a municipal level which consent to establish a relation between the socio-economic status of the municipal population and political choices made in the field of taxation. Third, inter-municipal transfers are made in favour of communes.
The second difficulty when dealing with this topic is to identify the true nature of socio-spatial disparities between communes and to know exactly what we are talking about when we are using categories like “poor communes” and “rich communes”. In this much needed preliminary work, the researcher is not helped by the public discourses about social disparities. In particular, the Chevènement Act is based on the assumption that there are only two categories of communes, the poor ones and the rich ones, and that socio-spatial inequalities are linked to the growing gap between these two categories. The difference between the two categories would lie in the presence or absence of firms on their territory. The rich ones would be the communes with loads of firms’ headquarters, commercial centres and industrial zones; the poor ones were those that were deprived of these elements. The other assumption that goes with the first is that the communes who host firms are those chosen by the upper classes for their residence. On the contrary, the communes that lack the presence of firms and are thus deprived of business tax revenue are also were poor populations are concentrated. To put it briefly economic and social prosperity were necessarily linked, as were economic and social deprivation.

As Estèbe (2004) clearly demonstrated, the link between what will now call “economic wealth” and “social wealth” of the communes is far from evident. Elaborating on Préteceille’s work on the Ile-de-France region (1993), Estèbe explains that it is necessary to distinguish tax wealth (or poverty) from social wealth (or poverty). If there are communes that are rich from the two points of view (like the extreme example of Neuilly-sur-Seine in the western first peripheral ring of Paris), there are also a lot of cases of communes that socially poor but that are rich from a tax capacity point of view because of the historical presence on their soil of firms; and there are also communes that are socially rich and do not host any firms.

If we want to assess the redistributive impact of the shift to TPU, we need to have a clear vision of what was the initial situation. And a clear view of this initial situation requires distinguishing those two types of wealth and the different type of municipality specialisation. On one hand, there might be communes that are socially rich but economically poor but that are nevertheless able to offer a high standard of services if their residential tax bases and revenues are high. Furthermore their fiscal charges might be reduced by the presence on their soil of a population that is less dependant on the provision by the commune of socialised services. On the other hand, there might be communes that are economically rich and socially poor communes might offer a mediocre level of public services if the deprivation of their population implies charges that can be covered in spite of the presence of firms providing high level of business tax revenues. This pretty tricky situation, Estèbe warns, might lead to
situations were the creation of the TPU benefits to socially rich communes and penalises socially poor ones. That is why it is very important to bear the initial situation of the communes from the both point of view of their social and economic wealth, when one want to evaluate the redistributive effect of the fiscal federalism.

3.2 Fiscal federalism and how to neutralise it.

I have already mentioned that the Chevènement Act created a mechanism of redistribution of the tax revenues of the inter-municipal structures: the “Dotation de Solidarité Communautaire” (DSC). This grant is supposed to be a tool to redistribute tax revenue from rich communes to poorer ones. The amount of the DSC and its calculation methods is decided by the community council through a 2/3 majority vote. The criteria that can be taken into account to calculate the amount are, in general, the tax potential of the commune and the charges it bears, but also the share of social housing it hosts on its territory. Some “communautés” have also decided to take other criteria into account such as the effort made to host enterprises. Indeed, since the business tax is not levied by the commune themselves, there is a pervasive temptation to concentrate on the attraction of households who generate tax revenues that stay in the communes’ budget.

But I did not mention that the law also introduced subtle mechanisms that were conceived as ways to render the integration into inter-municipal structures more politically acceptable for local elected officials but which are likely to annihilate the project of equalization through tax system integrated in the law. Indeed, since the autonomy of the 36 000 French communes is a highly sensible political issue, the discussions about the Chevènement Act have been the occasion for the defenders of the municipal liberties –well represented in the Parliament- to introduce numerous amendments that tend to annihilate the redistributive effects of the TPU and to make the reinforcement of inter-municipal co-operation structure politically more acceptable. One of the most efficient of this amendment was the creation of an “Attribution de compensation” (AC), compensation grant whose aim is to make the loss of TP revenue unpainful for the municipal finances. When an EPCI chose the TPU system, it has to give back to each of the commune gathered a financial compensation that corresponds to the revenue of the TP the year before the shift to the TPU minus the cost of the charge transferred to the EPCI and the compensation received by the commune. To put it briefly the AC annihilate the potential redistributive effect of the shift to the TPU system. Let’s add that if
the DSC is mandatory only for the existing Communautés urbaines, the AC is facultative for the Communautés d’Agglomération that made the choice of the TPU system.

**Table 3: The calculation of “Attribution de Compensation” (AC)**

<table>
<thead>
<tr>
<th>Attribution de Compensation</th>
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<th>TP revenues perceived by the commune the year preceding the shift to TPU</th>
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</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Amount of the share of the three other taxes (TH + TFB + TFNB) perceived by the inter-municipal institution the year preceding the shift to TPU and transferred to communes</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Costs of functions transferred to the inter-municipal institution</td>
</tr>
</tbody>
</table>

Nevertheless, the law stipulates that the grant must be recalculated at every transfer of functions and charges towards the inter-municipal level. Furthermore, and maybe more decisively, the AC cannot be indexed on the inflation or on the evolution of the TPU bases. That means that if the inter-municipal institutions are to recover a fiscal room for manoeuvre that might enable them to develop redistributive policies, it will through the widening of the gap between the TPU revenues (indexed on inflation and tax basis evolution) and the AC (that is stable).

Estève (2004) showed that there was a grosser way to escape the fiscal federalism that the Chevènement Act was eager to establish. This way is the creation of inter-municipal cooperation institutions gathering municipalities of the same socio-economic status in order to avoid “paying for the poor”. Estève calls this kind of reunions “homogamic gatherings”. He has shown that a little majority of the inter-municipal cooperation structures existing in 2004 were “homogamic gatherings”, i.e. institutions gathering communes with the same socio-economic profile, with very marginal difference in terms of social wealth (see Table 4). That is to say that the dominant profile of the inter-municipal co-operations structures are institutions regrouping whether rich communes or poor communes. It is obvious that, in this case, the redistributive effects can only be quite limited. There is a solidarity between rich and
a solidarity between poors. Nevertheless, when we look a the figures of the population living in “homogamic structures” and those living in “heterogamic structures”, the difference is much less important. We can interprete that as the fact that heterogamic gathering are more the rule in large (provincial) cities.

Table 4: Typology of inter-municipal cooperation institutions in function of the disparities of incomes. “Établissements Publics de cooperation intercommunale” (EPCI) under TPU system on the 1st January of 2003 (Source: Estèbe, 2004)

<table>
<thead>
<tr>
<th>Nombres d’EPCI</th>
<th>Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Homogames</td>
<td>Hétérogames</td>
</tr>
<tr>
<td>Pauvres</td>
<td>260</td>
</tr>
<tr>
<td>Riches</td>
<td>168</td>
</tr>
</tbody>
</table>

Bearing in mind these subtleties, we can now look at the Lyons’ case. In the following section, I try to give an account of what are the main socio-spatial disparities in the second largest French metropolis, to distinguish different kinds of communes and to evaluate which categories took benefit of the shift to the TPU system that occurred in 2003.

4. A first research program: comparing the effects of inter-municipal integration and fiscal federalism in Lyons

4.1 Socio-spatial inequalities and inter-municipal co-operation devices in Lyon

Lyon is the second French largest city. The population of the inner commune, Lyon, is 445 452 inhabitants. Lyon is part of an “aire urbaine” area hosting 1 648 216 inhabitants. The « aire urbaine » is a statistical entity conceived by the national statistics office, INSEE. It is supposed to describe city-region. An « aire urbaine » is a grouping of communes made of an « urban pole », the inner commune and the peripheral commune of the first ring, and the surrounding communes in which at least 40% of the resident population work in the urban pole or in the communes attracted by the urban pole.

The metropolitan area of Lyon is governed by a “communauté urbaine” since 1967, also called the “Grand Lyon”. The communauté urbaine de Lyon was one of the 12 inter-municipal co-operation institutions imposed by the central State in the late 1960’s to deal with
the enduring problem of the French political and administrative system: the municipal fragmentation. Today, the Grand Lyon gathers 57 communes and circa 1 200 000 inhabitants.

Map 4: The perimeter of the Communauté Urbaine de Lyon

As a communauté urbaine the Grand Lyon is endowed with functions in policy fields like economic development, urban planning, transports, housing policies and social balance of the housing stock, urban regeneration (Politique de la Ville), sports and cultural events, roads building and management, environment (waste collection and treatment), water treatment and distribution. For 2007, the Grand Lyon budget was 1 567 millions. This fiscal capacity is important compared to the one of the other local tiers: City of Lyons (679 million € in 2007); département du Rhône (1 652 million € in 2008); region Rhône-Alpes (2 300 million € in 2008).

The territory of the commune of Lyon and of the Grand Lyon presents a clear socio-spatial divide between the north-western part and the south-eastern part of the city and of the city region. The former gathers hilly and green areas and hosts a dominant proportion of middle class and affluent populations; the latter is flat and has been the historical space of expansion of the city throughout the 19th and 20th century. It therefore hosts most of the industrial zones of the city region and is characterised of a great deal of infrastructures (motorways, airport, etc.). These south-eastern also traditionally hosts most of the working class population and
most of the stock of social housing. Therefore, it is also contains the majority of areas that are object of urban regeneration projects.

Map 5: Urban regeneration operations (Source: Agence d’Urbanisme du Grand Lyon)
This neat spatial divide has had for more than one century a clear political impact. The northwestern part being controlled by conservative parties and the south-eastern one by the leftwing parties. The last 2008 municipal elections has confirmed this historical trend.

Map 6: Political control of the municipalities of the Grand Lyon (Source: Lyon Capital, 18 mars 2008)

4.2 The shift to the TPU system

In 2003, the Grand Lyon adopted the single rate business tax (TPU) scheme. Before that, a system of additional tax system was in vigour. The “communauté urbaine” was receiving its share of the revenue of the 4 traditional local taxes (TP, TH, TFB, TFNB). The CU was establishing the rate for its share of each tax. With the shift to the TPU scheme, a principle of tax specialisation will now apply. The communes renounce to their share of TP to the benefit
of the CU; the CU renounces to its share of three other tax revenues to the benefit of communes.

In 2003, a single rate for the TPU has been established: 20,01% (of the rent value of fixed capital). But this rate did not apply immediately. A “convergence period” has been decided by the CU assembly, during which the commune rates will converge progressively towards the single rate. In 2002, the highest municipal rate was 28,86% and the lowest was 14,12%.

To accompany this shift, the two mechanisms mentioned above, i.e. the "Attribution de compensation” and the “Dotation de Solidarité Communautaire”, has been established. For the first one, the same kind of calculation mentioned above (table 3) applied. This calculation was eased in Lyons by the fact that the communauté urbaine had reached a relatively high degree of functional integration and that, as a consequence, no function transfer occurred when the TPU was established. In 2007, the amounts of monies redistributed through the AC mechanisms reached almost 160 millions €, i.e. 10% of the Grand Lyon total budget. This amount is stable since 2003.

The Grand Lyon established a DSC in 2001. Its mode of calculation has evolved over time. Nowadays, it integrates no less than 7 fractions:

- A first “social” fraction of the DSC aims at correcting social deprivation: a share of the DSC is distributed according both to the tax capacity of the communes (the revenues of local taxes it would get if the national average rates were applied to its tax bases) and the average income of the households.

- A second “minimum resource” fraction aims at ensuring a minimum municipal tax capacity per inhabitant: it consents to transfer resources to communes who are unable to reach a minimum threshold of fiscal capacity per inhabitant. This index is supposed to benefit above all to tiny communes with low tax capacity.

- A third “economic” fraction aims at creating an incentive for the communes to host firms despite the fact that do not get any tax reward for this anymore: it is directed towards communes which business tax bases are increasing and those who host activities generating environmental nuisances.

- A fourth “population” fraction aims at redistributing resources to the most populous communes who are supposed to bear more charges.

- A fifth “growth guarantee” fraction is meant to guarantee a growth of their resources proportionate to the growth of the inter-municipal institution’s resources. Due to the currently low level of resources growth, this fraction is now disactivated.
- A sixth “evolution” fraction aims at maintaining the evolution of resources transferred to the communes between a “floor” (90% of the grants of the year n-1) and a “ceiling” (125% of the grants of the year n-1).

- A seventh “nomads” fraction is meant to reward the communes who made efforts to develop facilities and services to host nomad communities. Its amount is very symbolic.

For 2008, the amounts of funds transferred to communes within the DSC device reaches 16.5 millions, i.e. circa 1% of the Grand Lyon budget. Despite this very limited share of budget dedicated to redistribution, its amount is constant increase since 2004 (see graph 1).

**Graph 1: Amounts of transfers operated by the Grand Lyon within the DSC device (Source: Grand Lyon)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Amounts (€)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>2000000</td>
</tr>
<tr>
<td>2002</td>
<td>4000000</td>
</tr>
<tr>
<td>2003</td>
<td>14000000</td>
</tr>
<tr>
<td>2004</td>
<td>12000000</td>
</tr>
<tr>
<td>2005</td>
<td>10000000</td>
</tr>
<tr>
<td>2006</td>
<td>12000000</td>
</tr>
<tr>
<td>2007</td>
<td>14000000</td>
</tr>
<tr>
<td>2008</td>
<td>16000000</td>
</tr>
</tbody>
</table>

### 4.3 The impact of the shift to the TPU on municipal taxation

What I intend to check now is the impact of the shift to the TPU device on the fiscal capacity of communes. To make this kind of test more heuristic, it is necessary to distinguish the different communes according to the criteria of social and economic wealth we mentioned above. To do so, I crossed an index of the socio-economic status of the households residing in the commune with an index of the economic wealth of the commune. The “social wealth” index is the average of household income declared for the payment of the income national tax in the commune. The average income per inhabitant on the whole territory of the Grand Lyon is 10,546 €/inhabitant in 2006. A socially rich commune is beyond this average figure; a
salaried poor commune is below it. The “economic wealth” index is the business tax bases of the commune par inhabitant. The average bases per inhabitant is 1978,80 € per inhabitant. An economically rich commune is beyond this average figure; a economically poor commune is below it. Crossing this index, I obtained the following classification.

Table 5: Typology of communes according to their social and economic wealth (Source: DGCL, DGI)

<table>
<thead>
<tr>
<th>Economic wealth</th>
<th>Social Wealth</th>
<th>Socially and Economically Poor (12 communes)</th>
<th>Socially Poor but Economically rich (12 communes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>-</td>
<td>-</td>
<td>ALBIGNY SUR SAONE ; BRON ; GIVORS ; GRIGNY ; JONAGE ; MIONS ; OULLINS ; RILLIEUX LA PAPE ; SATHONAY CAMP ; VAULX EN VEIL ; VERNAINON ; VILLEURBANNE</td>
<td>CORBAS ; COZON AU MONT D'OR ; DECINES-CHARPIEU ; FEYZIN ; IRIGNY ; MARCY L'ETOILE ; MEYZIEU ; NEUVILLE SUR SAONE ; PIERRE BENITE ; SAINT FONS ; SAINT PRIEST ; VENISSIEUX</td>
</tr>
<tr>
<td>+</td>
<td>+</td>
<td>CAILLOUX SUR FONTAINES ; CALUIRE ET CUIRE ; CHARBONNIERES LES BAINS ; CHARLY ; CRAPONNE ; FLEURIEU SUR SAONE ; FONTAINES SAINT MARTIN ; FONTAINES SUR SAONE ; FRANCHEVILLE ; LYON ; MONTANAY ; POLEYMIEUX AU MONT D'OR ; ROCHETAILEE SUR SAONE ; SAINT CYR AU MONT D'OR ; SAINT DIDIER AU MONT D'OR ; SAINT GENIS LAVAL ; SAINT GENIS LES OLLIERES ; SAINT GERMAIN AU MONT D'OR ; SAINT ROMAIN AU MONT D'OR ; SAINTE FOY LES LYON ; SATHONAY VILLAGE ; TASSIN LA DEMI LUNE ; LA TOUR DE SALVAGNY</td>
<td>CHAMPAGNE AU MONT D'OR ; CHASSIEU ; COLLONGES AU MONT D'OR ; DARDILLY ; ECUULLY ; GENAY ; LIMONEST ; SOLAIZE</td>
</tr>
</tbody>
</table>

NB : données manquantes pour La Mulatière (6724 inhabitants)

The first striking result of the dispatching of the communes according to the two criteria of economic and social wealth/deprivation is that the communes that are both socially and economically rich are far from being the majority of the panel. On the contrary, the rule of
The function specialisation of communes seems to apply. The largest number of communes are specialised in the residence for rich classes.

Let’s note that the inner commune, Lyon, appears among socially rich and economically poor. In actual facts, the commune of Lyon is very near from the average from both points of view of social and economic wealth. We will thus give it a special treatment in the following tests.

Now that I have this four categories, I am in measure to test the hypothesis according which:
- the redistribution effect of the shift to TPU varies according to the specialisation of the communes (residence/production ; affluent population/poor population)
- the redistribution through TPU and DSC is partially neutralised through compensation measures (AC)
- this neutralisation effect is itself neutralised through time (thanks to the effective convergence of TP rates; thanks to the non-indexation of compensation measures; thanks to a growing room for manoeuvre for the CU to use the DSC tool)

The first test consists in checking the effect of the establishment of the TPU on the municipal tax policies. If the shift to the TPU has had a real redistributive effect, we may expect that the poorest communes have been able to release the tax pressures on their households and that the richest ones are constrained to increase this pressure. The way to check that is to look at the evolution of the rates of the *taxe d’habitation* (TH) since 2002.

**Graph 2: Evolution of TH rates by categories of communes (Source: DGI)**

![Graph 2: Evolution of TH rates by categories of communes (Source: DGI)](attachment:image.png)
At first sight, the shift to TPU seems to have no real effect on the tax pressures exerted on households. The rates of TH were higher in the inner commune of Lyons and in the socially and economically poor communes than in the communes with one or two forms of wealth, and they remain so after the shift to TPU.

Nevertheless, the evolution of TH rates might not be the better index to check whether TPU has had a redistributive effect. Indeed, the TH calculation system is based on a rate, but also on a multiplier, i.e. the rent values of the housings and neighbourhood, which is supposed to reflect the socio-economic status of the inhabitants. These values are high in rich neighbourhoods and low in poor ones. Thus, a high rate of TH does not mean that a high level of tax pressure exerts on households. Furthermore, there are now many exemptions rules that apply to the TH and enable many poor households to escape the payment of this tax. To put it briefly, only a part of the households pay this tax and they do not pay a lot.

As a consequence, a better index to check the redistributive index through the evolution of the municipal taxation on households is to look at the revenue of this tax, rather than at the rate, and to compare the evolution of this revenue in the different categories of communes. Indeed, through the mediation of different rent values and of the rules of exemption, the evolution of the TH rates can have different effects in rich and poor communes. We can formulate the hypothesis that despite the similar evolution of rates, the revenues of the TH has increased in a larger extent in rich communes than in poor ones, which could be interpreted as a redistributive effect.

**Graph 3: Evolution of TH revenues by categories of communes (Source: DGI)**
Table 6: Evolution of the TH revenues per inhabitant, absolute values and increase percentages (Source: DGCL, DGI)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Soc P Eco P</td>
<td>104</td>
<td>170</td>
<td>178</td>
<td>186</td>
<td>196</td>
<td>88,46</td>
<td>15,29</td>
</tr>
<tr>
<td>Soc P Eco R</td>
<td>73</td>
<td>139</td>
<td>145</td>
<td>153</td>
<td>157</td>
<td>115,06</td>
<td>12,94</td>
</tr>
<tr>
<td>Soc R Eco P</td>
<td>131</td>
<td>237</td>
<td>246</td>
<td>255</td>
<td>264</td>
<td>101,52</td>
<td>11,39</td>
</tr>
<tr>
<td>Lyon</td>
<td>143</td>
<td>248</td>
<td>256</td>
<td>265</td>
<td>274</td>
<td>91,60</td>
<td>10,48</td>
</tr>
<tr>
<td>Soc R Eco E sans Lyon</td>
<td>100</td>
<td>210</td>
<td>218</td>
<td>228</td>
<td>236</td>
<td>136,00</td>
<td>12,38</td>
</tr>
<tr>
<td>Soc R Eco R</td>
<td>62</td>
<td>179</td>
<td>185</td>
<td>195</td>
<td>203</td>
<td>227,41</td>
<td>13,40</td>
</tr>
</tbody>
</table>

What we can see in the graph and the table above is that the communes whose social and economic wealth enabled until 2003 to maintain a low level of tax pressure on their inhabitants have been compelled to increase this pressure. This is notably the case for the socially and economically rich communes and the socially rich and economically poor communes without the inner city. According to this test, the reform seems to have benefited, not to an astounding large extent though, to socially and economically poor communes and, more neatly, to the socially poor and economically rich communes.

Another kind of graphic representation consents to observe what seems to be a gradual evolution towards a more equitable progressivity of households local taxes thanks to the shift to the TPU system. In the two next graphs, we put in relation two series of data: the first relates again to the revenues of the main local tax on the households, the TH, the second reflects the socio-economic status of the inhabitants of the communes. A socially equitable situation would be one where the communes with a higher average household income (calculated according to the average of the amounts of incomes declared for the calculation of national income tax) levy the highest amount of TH per inhabitant; and the poor ones (with a low average income declared) would exert a lower tax pressure on their household (because they get transfers from the inter-municipal structures or the State). This equitable situation would appear on the graph as a scatterplot (nuage de point) extended from the south-western angle to the north eastern angle of the graph.
Graph 4: Crossing of a “social wealth” index (average income) and a tax pressure index (TH revenue per inhabitant) in 2002 (Source: DGI)

Graph 5: Crossing of a “social wealth” index (average income) and a tax pressure index (TH revenue per inhabitant) in 2006 (Source: DGI)
The first graph, reflecting the situation in 2002, presents quite a “messy” situation in which an unequal organisation of points appears. Indeed, the scatterplot is vaguely oriented from north-west to south-east, which is typical of an unequal situation in which rich communes have lower or equal level of tax pressure on households than their poorer counterparts. The second graph presents the 2006 situation which presents a “cloud” that seems to be progressively reorienting itself in a more equal situation.

Globally speaking, if we used the indicators of the evolution of the municipal taxation on households, the shift to TPU seems to have had a redistributive effect. The tests I have made so far proved that, before looking at the policy of financial transfers operated by the Grand Lyon, there is already a discrete redistributive effect linked to the mechanisms of tax bases transfer or “tax specialisation”. This kind of redistributive effect was already mentioned by Gilbert and Guengant in a recent survey (2006). The exchange of economic bases against households’ basis consented socially poor communes to lower the tax pressure on households. It remains to be seen whether this release of tax pressure generated a degradation of communes resources and services.

4.4 The transfers of the Grand Lyon to the communes and their redistributive impact

Let’s look now at another potential factor of redistribution that is also linked to the installation of the new system of the TPU. We have already mentioned that the law generalised two devices already in operation in several EPCI and which organise transfers from the EPCI to the communes. The first is the “Attribution de Compensation” (AC) and aims at the maintaining of the revenues of the communes before and after the reform, in particular those communes who have previously large business tax bases. The second, the “Dotation communautaire de solidarité” (DSC) is the true redistributive tool of the law, and aims at transferring a part of the Grand Lyon’s resources to the most needy communes.
Having a look at how these transfers are distributed to the different categories of communes, we can observe several interesting things. First of all, the Grand Lyon has anticipated the law and already set a redistributive device before it. Nevertheless, before 2003, the DSC has a very marginal redistributive effect as we can see looking at the two first year. The policy of resources transfer really made a start with the establishment of the TPU scheme, the creation of the AC and recalculation of the DSC.

Next, what is striking in the table is the fact that the categories of communes that really benefit from the transfers system are those with a large business tax bases. The socially poor but economically rich communes are massively benefiting from the transfer scheme, which tends to invalidate Estèbe’s hypothesis, as far as the case of Lyons is concerned. The communes that are both socially and economically rich also greatly benefit from the system.

We can infer from these data that the transfer scheme is, for the time being, mainly orientated towards the compensation of the loss of revenues that the communes with an important economic bases underwent through the shift to the TPU. The transfer scheme is two a lesser degree orientated towards the compensation of social deprivation.
Graph 7: Structure of the transfers of the Grand Lyon to the socially poor but economically rich communes (Source: Grand Lyon)

The graph 7 shows clearly that the system is made to compensate the loss of TP revenue. Nevertheless, the graph 8 shows that the structure of transfers are specialised according to the type of communes.

Graph 8: Structure of the transfers of the Grand Lyon to the socially and economically poor communes (Source: Grand Lyon)

A last test enables to relativize the redistributive effects of the transfers operated by the Grand Lyon within its TPU scheme towards economically and socially poor communes. When we
evaluate the share of the Grand Lyon transfers in the operating budget of the communes ("charges de fonctionnement"), we can see that this share is not more important for the socially and economically poor communes than for the socially and economically rich ones (see table 7).

Table 7: Typology of communes according to their social and economic wealth (Source: DGCL, DGI)

<table>
<thead>
<tr>
<th>Share of Grand Lyon transfers (AC+DSC) on municipal operating budget (in %)</th>
<th>2003</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bron (Soc P Eco P)</td>
<td>0,23</td>
<td>0,24</td>
</tr>
<tr>
<td>Pierre Bénite (Soc P Eco R)</td>
<td>0,51</td>
<td>0,47</td>
</tr>
<tr>
<td>Lyon (Soc R Eco P)</td>
<td>0,11</td>
<td>0,11</td>
</tr>
<tr>
<td>Sainte-Foy (Soc R Eco P)</td>
<td>0,14</td>
<td>0,12</td>
</tr>
<tr>
<td>Limonest (Soc R Eco R)</td>
<td>0,23</td>
<td>0,24</td>
</tr>
</tbody>
</table>

5. **Conclusion and further inquiries**

For the time being, we can say two main things about the equalizing effects of the shift to a federal fiscal system based on the business tax, as far as the case of Lyons is concerned. First, the main redistributive effect seems to be linked to the phenomenon of “tax bases exchange” or “tax specialisation”. The withdrawal of business tax revenues from the communes and their specialisation in households’ tax seems to have created a more equitable distribution of the tax pressure according to the type of communes. The pressure on households has increased in the socially rich communes whereas it seems to have remained stable in poorest ones.

The equalizing effects of the transfers policy that the Grand Lyon initiated to accompany the establishment of the TPU is much more ambiguous. It has been mainly used to compensate the loss of revenues for the communes that were previously getting large amounts of monies through the business tax. It remains to see whether the share of the transfers with a genuine equalizing effect will rise in the next years.
5.1 The infrastructures policy inside the metropolitan area

Another way to evaluate the redistributive effect of the establishment of a metropolitan government is to look whether the investment choices of this government have an impact on the values and the image of the different areas in the city region. The redistribution between communes of tax revenues levied by the inter-municipal co-operation institutions is not the only way a metropolitan institution can act on socio-spatial disparities. One can expect that the improvement of poor communes finances will have a direct impact on the quality of public services delivery but there is other ways to improve the existence of deprived populations. Urban policies such as investments in infrastructures and facilities or a better spatial repartition of social housing can also have a redistributive effect on their existence through the change of the image and the rise of land and estate values of the communes: locating infrastructures that have a negative effect on the land and property values in highly valued places; locating infrastructures that have a positive effect on the land and property values in places with low values; locating infrastructures that provide a “social salary” to poor people in poor communes.

Thus, a further step in the research will be to make an evaluation of the investment policy of the Grand Lyon looking at the infrastructures and facilities whose construction or management is partly (financed through “fonds de concours”; i.e. subsidies granted by the EPCI to the communes to build or operate infrastructures) or entirely (in the frame of supramunicipal perimeter of functions) financed by the EPCI on the metropolitan territory, distinguishing:
- Those who can be considered as negative externality for residents, and can have potential negative effects on land and property values;
- Those who can be considered as positive externality for residents, and can have potential negative effects on land and property values.

5.2 The housing policy inside the metropolitan area

One of the functions of communautés urbaines and communautés d’agglomération is to ensure a social and territorial balance in the housing policies, i.e. to favour housing programmes that answer to the needs of the deprived populations and to struggle against socio-spatial segregation by avoiding the concentration of the social housing in specific areas. One of the instrument of the duty is the “Programme Local de l’Habitat” (PLH). Furthermore,
in the same period when the Chevènement Act was voted, another important law, the “Solidarité et Renouvellement Urbain” Act was passed whose article 55 compel the communes of large city regions to have a share of 20% social housings in their housing stock. Another stage of the inquiry will be thus to locate the programs of social housing on the metropolitan territory. Bearing in mind that “social housing” is a very vague notion in France, since the public authorities are financing the construction of housings whose rent prices can vary greatly, it will be necessary to distinguishing the different kinds of social houses built: the upper tiers; the middle tiers; the lower tiers.

5.3 The access to expertise and technical resources

The integration into an inter-municipal institution might also give the peripheral communes free access to resources in expertise useful to implement their own policies; resources that they would otherwise find on the market.

5.4 The limits to the “spatialist thinking”

In this section, I would like to raise a methodological question about the possibility to evaluate and to address socio-economic disparities through a local and spatial approach. Is it really serious to think that acting on local environment through the manipulation of local tax, through fiscal redistribution from metropolitan institution to communes or by investing more in deprived areas can lead to more social equity? This doubt has been formulated by scholars whose researches have highlighted the “territorial” obsession of French social policies (Estèbe, 2004; Donzelot, Mével, Wyvekens, 2003; Maurin, 2004; Genestier, ). An obsession which consists in thinking that treating the problems of the space is an efficient way to address the problem of population. The problem is that by improving the fiscal health of poor communes, you make the municipality richer but not the people. By making the commune or the local environment richer, better infrastructured, more attractive, you might enrich the place but not the people, above all the poorest ones who might be compelled to leave for a less attractive and equipped place (gentrification). Social equality is also and quite surely above all determined by macro-economic and macro-social choices made at other scales than the urban ones, through national income policies or welfare policies. A study made by the regional economist Laurent Davezies (2006) showed that the efforts made by the local authorities in the city-region of Lyons to compensate was neutralised by the growing
disparities of incomes between individuals in the area. And this growing disparities of incomes is likely to reinforce the specialisation of communes in the residence of rich households.

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