

Redefining Central and Local Government Powers After the Birth of Taiwan's Six Metropolises

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With recent administrative reform that elevated Xinbei (formerly Taipei County), Taichung, Tainan, and Kaohsiung to special municipality status, joining the already existing special municipality of Taipei, while Taoyuan County became a quasi-special municipality, Taiwanese local government has entered the era of six metropolitan areas. Taipei and Kaohsiung cities originally controlled an area of 272 square kilometers and 154 square kilometers, respectively. Following the status change, all special municipalities except for Taipei will expand in geographical scope.¹ Local governance will also face a completely new challenge as local citizens will participate in politics on a previously unknown scale. How can local governance become efficient? How can synergies be realized from merging various government activities and operations? How shall towns and villages be merged further once they have been changed into “districts” under a special municipality government? Where are the other 16 county and city municipalities headed that do not enjoy special municipality status? How can these counties and cities, which in a play on words have been called cities “that are nothing (no

municipality) at all,” avoid that already limited resources are stretched further because of the upgrading of the six metropolises? How can they avoid being marginalized? All these are issues that need to be seriously considered.

In August 2009 the Executive Yuan approved the creation of five metropolitan areas. At the end of 2009 it submitted to the legislature draft amendments to the *Act Governing the Allocation of Government Revenues and Expenditures* and *The Public Debt Act*. But since these amendments are highly controversial, they still languish in the legislature. The amendment raised the cap on outstanding public debt extending more than one year taken out by special municipalities or county and city municipalities as share of a government's expenditures, from 45% to 250% and 70%, respectively. Under the amended law Xinbei, for example, may take out loans worth NT\$266 billion. Given that at the end of 2009 the city's outstanding loans totaled only NT\$44.4 billion, there is still room for borrowing another NT\$221.6 billion. This has triggered controversy since it would mean burdening coming generations with high debt, which runs counter to generational justice. The amendments are being put off, yet

the main reason why it is so difficult to push them through is that they are too controversial.

As long as the *Act Governing the Allocation of Government Revenues and Expenditures* awaits amendment, the finances of the six metropolises will remain a far cry from what they expected when they strove for status upgrading. Yet their fiscal needs will increase as the central government transfers a great deal of its activities and operations to the special municipalities and because they need to shoulder additional costs for organizational restructuring and personnel increases. In Xinbei personnel costs already accounted for nearly half of local government expenditure even before the status change. In the wake of the upgrading the number of government employees will almost double so that personnel costs can be expected to rise markedly.² In Taichung personnel costs are forecast to increase by NT\$8.5 billion. The central government's Central Personnel Administration saw no other alternative than decreeing that new recruitments must be stretched over years to avoid personnel costs from exploding against the backdrop of limited fiscal resources. But in the first three years after the upgrading the number of special municipality employees may actually increase by as many as 1,993 people. In Taichung Tainan, Kaohsiung and Taoyuan the

local governments will have to foot the bill for an additional NT\$13.1 billion in health insurance premium subsidies per year for low-income households, members of farmers and fishermen's associations, and professional associations living within their jurisdictions, according to statistics by the Bureau of National Health Insurance.

And while the special municipality mayors enjoy high public support, they will have to assume a huge debt burden left by their predecessors.³ Local governments have accumulated public debt of NT\$768.8 billion with virtually all county and city municipalities having reached the upper limit on public debt stipulated in *The Public Debt Act*. The fiscal plight will handicap the local governments, because they will need to rely on central government support and financing for any undertaking.⁴ The fiscal ability of the local governments has been insufficient in the first place. The local governments have only little own source revenue, while the structure of expenditure is extremely inflexible, given that almost half of their budget spending is used to pay personnel costs. Moreover, in fifteen counties and cities own source revenues are not enough to cover personnel costs so that they have hardly any fiscal autonomy to speak of. As a result any local government undertakings will amount to

empty talk, unless they are supported and bankrolled by the central government.

The upgraded special municipalities still face a government system that highly concentrates power and money in the hands of the central government. They resemble grown-ups wearing kid's shoes, being severely hampered in whatever government affairs they want to carry out. The new situation in local self-government that we face now provides a good opportunity for redefining and establishing a new model for the division

of power between the central government and the local governments. At the same time the distribution of fiscal resources must be adjusted to establish the "fiscal autonomy" of local governments and to realize "localized governance." When considering "localized governance" the European Charter of Local Self-Government, the Maastricht Treaty and the Treaty of Amsterdam Amending the Treaty on European Union could serve as valuable references. **B**

¹ Xinbei has a surface area of some 2,053 square kilometers, Taichung will grow to 2,214 square kilometers, Tainan to 2,192 square kilometers and Kaohsiung will expand to 2,947 square kilometers.

² The total number of Xinbei civil servants will nearly double from 8,732 before upgrading to 13,860 after.

³ As of fiscal year 2009 outstanding debt extending more than one year taken out by county and city municipalities totaled NT\$297.5 billion, amounting to 2.3% of the average gross national product (GNP) of the previous three years, which already exceeds the 2% cap stipulated in *The Public Debt Act*. If NT\$158.5 billion in short-term loans extending less than one year are included—since these are “short-term debt substituting long-term debt” they are actually long-term debt—outstanding debt totals NT\$456 billion. If the public debt of Taipei and Kaohsiung is included, the accumulated debt of local governments hits NT\$768.8 billion with virtually all county and city municipalities having reached the upper limit on public debt stipulated in *The Public Debt Act*.

⁴ Under the current framework for fiscal resource allocation, the central government finances local government needs through general grants, the allocation of tax revenue, and various program grants. In 2010 these three items accounted for 56% of local government revenue, which shows that local governments are highly dependent on financial injections from the central government.