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## **From The Uneven De-Diversification Of Local Financial Resources To Planning Policies: The Residentialization Hypothesis**

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### **Abstract**

This paper builds a theoretical framework to question the ramifications of the rise of consumption-based economy also known as residential economy in the context of a growing circulation of populations and income. We propose the term residentialization to describe the self-reinforcing and spatially uneven expansion of the residential economy, and its intertwined impacts on land use and tax revenues that are likely to influence future local planning policies.

In local areas with a developing residential economy, demographic attractiveness and urbanization strongly affect the fiscal bases of property taxes and of household-related taxes in general as opposed to business taxes. This process provides local governments with new fiscal revenues but also induces a growing dependence on these incomes, especially in an austerity era. This de-diversification of local financial resources results in inequalities that weigh on local governments' financial leeway and hence on planning policies.

Using a comprehensive database of the fiscal and financial resources of France's 35 000 municipalities over the last fifteen years, we provide cartographic and statistical evidence of this uneven fiscal de-diversification. We build a multivariate classification of France's municipalities and show strong links between the structure and evolutions of local financial resources and the pace and forms of urbanization. These results draw attention on the economic, social and environmental sustainability of consumption-oriented planning strategies in an austerity era.

**Local tax revenues – austerity – regional development – planning policies – France**

In a post-Fordist context, the geography of economic activities and populations has experienced major changes due to the growing mobility of populations and firms. The territorial shift from declining industrial regions and cities to attractive sun belts (Saxenian, 1994; Strom, 2017), the postproductivist transition of rural areas attracting amenity migrations (McCarthy, 2008), or intra-metropolitan shifts such as gentrification (Lees et al., 2013) offer examples of the wide diversity of local areas affected by such changes. They have led scholars and local policy deciders to question the dominant regional development patterns (Pike et al., 2017). As part of this theoretical renewal, two families of regional development models have emerged. Scholars studying metropolitan areas have focused on innovation and attractiveness in the context of globalized economies and territorial competition (Sassen, 1994; Moulaert and Sekia, 2003; Scott and Storper, 2003). Meanwhile, the demographic and economic renewal of rural and peripheral areas (Nelson, 1997; Phillips, 2004; Gosnell and Abrams, 2011) has highlighted the role of local consumption as opposed to export-based activities. With the growing mobility of populations comes a growing mobility of income that fuels what has been theorized as a “consumption-based economy” (Markusen, 2007: 15) or a “residential economy” (Davezies, 2009; Segessemann and Crevoisier, 2016). These two families have had a strong influence on regional policies (Florida, 2003; Cooke et al., 2011) and have given birth to competing development models, since attracting populations could appear to be a substitute for traditional development policies focused on firms and export-based activities.

Regardless of the theoretical debates opposing them, these two approaches both focus on the location of economic activities and on regional development drivers. In this paper we argue that, since land-use planning and fiscal policy have been transferred to local governments in most OECD countries (Gualini, 2006; Négrier, 2006; Tira, 2011), regional theories should question the impact of such territorial shifts on local financial leeway. The growing residential economy provides local governments with new fiscal revenues but also induces a growing dependence on these incomes, especially in an austerity era (Peck, 2012). Since fiscal incomes are closely linked to land-use changes, these quantitative and qualitative shifts in local financial revenues are highly likely to affect local planning policies.

In other words, in a post-Fordist rescaled context (Brenner, 2009) the study of residential economy should go beyond the issue of regional development drivers and question its implications for fiscal strategies as well as for local land planning. It requires a thorough

conceptualization of the links between economic and demographic evolutions, local financial resources, and land planning. This is why we propose the term residentialization for the self-reinforcing and spatially uneven expansion of the residential economy, and its intertwined impacts on land use and tax revenues that are likely to influence future local planning policies. The aim of this paper is to build a theoretical framework to help understand how the uneven dependence on residential economy may lead to growing regional inequalities on the one hand, and to path dependent land planning on the other.

Section 1 proposes a review of post-Fordist territorial dynamics and regional development, and shows how the residentialization hypothesis may help to go beyond the two competing economic models of consumption and production. Section 2 builds a theoretical framework to demonstrate how residentialization is a land planning issue. Section 3 applies this framework to the French case in order to indicate possible future research paths.

## **1. Two competing local economic models: a review of post-Fordist regional development drivers**

Recent shifts in the geography of jobs and economic growth have been challenging the role of industrial activities in regional development. Most developed countries have experienced a spatial shift since the crisis of Fordist industrial regions, with the rise of metropolitan economies and of the so-called sunbelts (Scott, 1988; Essletzbichler, 2004). A massive redistribution of jobs and population has unfolded on national scales but also within metropolitan areas and between metropolitan and non-metropolitan areas.

### **1.1 The spatial circulation of population and incomes**

A key driver (and consequence) of this “population turnaround” (Gosnell and Abrams, 2011: 305) lies in the massively growing and diverse forms of individuals’ mobility (Bernard et al., 2014; Rees et al., 2017). This mobility has resulted in a growing disconnection between places of production and places of residency (Aguilera et al., 2009). It has long affected suburban spaces (Champion, 2001) and is now fuelled by “amenity migration, and closely related phenomena such as exurbanization, rural gentrification and rural rebound” (Gosnell and Abrams, 2011: 303). These “post-productivist migration patterns” (Gosnell and Abrams,

2011: 306) have been monitored in various spatial, political, and economic contexts throughout the Global North (McCarthy, 2008).

The rapid and uneven demographic growth of exurban (Taylor, 2011) or rural space (Nelson, 2005) has been linked to changing residential preferences, mostly of affluent middle-aged or retired populations who tend to favour natural and/or cultural amenities, quality of life, and scenic rural areas (Bennett, 1993). The aging of western societies is highly likely to reinforce these migration streams (Nelson, 2004; Plane and Jurjevich, 2009). Through the use of a gentrification framework (Phillips et al., 2008), scholars have shown that newcomers strongly differ from oldtimers in their demographic, socio-economic and cultural characteristics (Nelson, 1997). These migrations therefore result in significant changes in the spatial distribution of incomes. Ullman had already pointed out the potential role of nonearning income in regional growth (Ullman, 1954), but more recent works have shown that with the growing mobility of individuals comes an uneven circulation of income (Davezies, 2009). In France, Davezies showed that Paris and its metropolitan region account for 29% of national economic growth but for only 23% of total incomes (Davezies and Talandier, 2014). In the USA, non-metropolitan areas have benefited from a continuing growth in “mobile income sources through migration” (Nelson, 2005: 1632). Works on migration incomes and on rural transition have documented the spatial circulation of these “footloose incomes” (Nelson, 1997: 428) and the resulting uneven distribution of certain types of income (Shumway and Otterstrom, 2001; Newbold, 2008). The uneven spatial distribution of nonearning incomes appears to be a revealing marker of the transition of rural spaces to post-productivism. In the USA, Nelson has monitored the gains and losses of social security and investment incomes, and shown a “distinct Rustbelt-to-Sunbelt shift” and “a consistent movement down the urban hierarchy” in favour of non-metropolitan areas (Nelson, 2005: 1628). As Segesseemann and Crevoisier put it, “incomes are therefore available to households right where traditional regional development theories do not expect them” (Segesseemann and Crevoisier, 2016: 1392).

## **1.2 From uneven circulation of incomes to development drivers**

This growing spatial circulation of population and incomes challenges regional development models. Three main frameworks have been built to account for such regional economic trajectories: export base theory, consumption base theory, and residential economy.

The export base theory historically assumes that local growth depends on export growth. 1950s economists theorized the need for a local economy to specialize in exportable products in order to capture revenues from outside (North, 1955; Hoyt, 1954). These external revenues were expected to induce a multiplier effect on local activities, occupations, and spending. Export base theorists had to deal with the limitations of this production-centered approach: amenity migrations, tourism, and commuting have highlighted the need to encompass other revenues, despite the difficulty in measuring them (Harmston, 1981).

Building upon the profound changes in industry and the spectacular growth of non-basic activities, Ann Markusen proposed a “consumption base alternative theory” for regional growth (Markusen, 2007: 10). She argued that non-basic activities (also described as residentiary activities or resident-serving sectors) can generate local growth. These effects are viewed in Markusen’s work through an “occupational analysis” (Markusen and Schrock, 2006: 1313). USA trends are fairly revealing: “in a period where overall employment grew by a third, employment in resident-related metro occupations increased by 40 per cent, while in basic sectors it grew by only 10 per cent” (Markusen and Schrock, 2006: 1312). Studies have drawn similar conclusions for rural spaces in France (Talandier, 2008) or in the USA (Nelson and Beyers, 1998). The merit of this consumption base theory is to link local economic trajectories and socio-demographic evolutions, insofar as it takes into account changes in consumption, i.e. demand.

Even though the consumption base theory acknowledges the possibility of alternative paths of development, it is still limited by its occupational approach. This is why Laurent Davezies chose to go back to the roots of economic base theory – the spatial circulation of incomes – and to take into account the recent developments of the consumption base theory. His framework (Davezies, 2009) has since begun to disseminate in international literature under the name of “residential economy” (Segessemann and Crevoisier, 2016). Using disaggregated local data, Davezies identified four sources of circulating incomes (Davezies, 2009): 1) the “productive base” (manufacturing activities and corporate services), 2) the “public base” (wages of public employees), 3) the “welfare base” (transfer incomes and social benefits), 4) the “residential base” (commuters’ wages, pensions, tourists’ spending). His model is known as residential economy because of the growing importance of the residential base at a local scale and its tendency to substitute for production activities in

many territories. This focus on income circulation enabled Davezies to account for both the spatial dynamics of production and households, and the complexity of income transfers in a post-Fordist context. More importantly, these new economic theories have contributed to shaping regional planning policies.

### **1.3 Beyond the produce-or-consume dilemma**

Economic growth based on local consumption and amenities (Markusen and Schrock, 2009) has become a major inspiration for regional development strategies in exurban or rural areas (Marsden and Sonnino, 2008). Through the attraction of commuters, seasonal migrants, tourists, and new inhabitants, their aim is to capture the subsequent flows of income. Since scholars have pointed out similar processes in urban areas due to the growing propensity of urban dwellers to spend locally (Persky and Wiewel, 1994), new urban policies have been designed around the idea that “big cities are having a renaissance as places of consumption, not production” (Glaeser and Gottlieb, 2006: 1275-1276). The seminal theorization of urban entrepreneurialism by Harvey (Harvey, 1989) had already pointed out that “the development of new mass consumption activities, such as tourism and other attractions” was a cornerstone of the new pro-growth urban policies (Phelps and Miao, 2020: 305). Through the efforts of urban governments to generate income and rebuild their local tax base, “industrial strategies [gave] way to the lubrication, by way of more symbolic policies, of market-friendly modes of consumption, gentrification, and play” (Peck, 2014: 398). Such consumption-oriented policies have been considered as a new silver bullet for struggling areas such as rural areas or declining industrial regions (Nelson, 1997), but coastal as well as metropolitan areas have also adopted regional development strategies based on population attraction and local consumption.

Attracting nonearning income seems to present several benefits. As opposed to production activities, consumption-oriented activities provide jobs that may seem less exposed to relocation or outsourcing since they are characterized by low labour costs, low knowledge intensity, and a need for proximity to consumers. These strategies do not come without any drawbacks: the lower qualification requirements and lower wages compared to production jobs, the socioeconomic problems raised by gentrification, the social heterogeneity of newcomers (Nelson and Nelson, 2011) or the “cost of community services (e.g. fire fighters, roads, police, schools)” required to provide the amenities and the quality of life expected by



affluent middle-aged or retired migrants (Travis, 2013). Such strategies carry the threat of an increased local competition between municipalities to attract inhabitants or consumers. Lastly, the growing amount of nonearning income may create a dangerous dependency on public and social security transfers or on financial market movements in the longer term (Nelson, 2005). These consumption-oriented strategies have also been questioned by recent works showing that “the export/consumption-base distinction may be less useful for shaping economic development practice than has been assumed, because certain key growth sectors appear to be heavily mixed in their orientation” (Markusen and Schrock, 2009: 360)<sup>i</sup>.

Most of these scholars, however, still focus on development drivers and on the contribution of both production and residential approaches to economic growth. These approaches suffer two main limitations. First, they apply a normative and quantitative approach to these processes and focus on growing and attractive regions. They thus neglect the case of struggling or depressed areas. In the latter areas, because of the loss of manufacturing jobs due to relocation or industrial crises, the relative weight of resident-serving jobs and nonearning income (public transfer and social security) tends to grow, sometimes dramatically. The same may occur in unattractive aging rural areas where the flight of young populations results in a growing dependency on retirement incomes and/or on public jobs. The consumption-oriented angle adopted in most studies may lead to overlooking such areas where the strong weight of the resident-serving sector does not come with economic growth. Secondly, these approaches mostly consider local spaces as census units used to monitor the flows of population and incomes or as competing economic agents struggling to attract them. The impact of these spatial dynamics on local planning policies still remains a black box, since the intertwined relationships between residential attraction, land-use changes, and local finances are under-theorized. This is why a broader conceptualization of residentialization and its strong implications for land planning is needed.

## **2. Framing residentialization as a local planning issue**

This section argues for the need to open the black box of the fundamental process underlying the spatial and economical shifts described in the literature review above. This is why we call residentialization the self-reinforcing and spatially uneven expansion of the residential economy and its impacts on the evolution of local land planning policies in a

context of austerity. This theoretical proposal is based on three embedded hypotheses summarized in figure 1 and discussed in the following subsections.

## **Figure 1. Theoretical framework of the residentialization hypothesis**

### **2.1 Local financial leeway in a devoluted post-Fordist context**

*Hypothesis 1: the rise of a residential economy occurs in a context of central state austerity which results in a de-diversification of local governments' financial resources and in an uneven dependence on household taxation.*

In order to fully understand the implications of residentialization for local planning policies, we first need to take into account the broader picture of the financial relationships between central states and local governments (OECD, 2016c). Local governments' financial resources are divided between state allocations and equalization funding on the one hand and local tax revenues on the other. Chernick *et al.* state that "a state that grants its local governments authority to use a broader range of revenue sources may provide its local governments with less financial assistance in the form of direct grants" (Chernick *et al.*, 2011b: 5). Viewing the de-diversification, not only of fiscal revenues, but of local financial resources is an indispensable prerequisite when examining local financial leeway.

The resources of local governments have recently been dramatically affected by what has been described as a paradigm shift towards austerity: "[neo]liberal austerity measures operate downwards in both social and scalar terms: they offload social and environmental externalities on cities and communities while enforcing unflinching fiscal restraint by way of extra-local disciplines" (Peck, 2012: 650). This central state austerity entails a counter-intuitive dynamic. While local governments acquire more and more power and competences, we observe a "tendency of nation states to respond to fiscal shocks by passing responsibility to lower tiers of government" (Hastings *et al.*, 2017: 2009). This is obvious in countries such as the UK (Hastings *et al.*, 2017), Spain (Davies and Blanco, 2017), or France (Navarre, 2017). The process stems from several factors, including sharp reductions in central states' allocations, and local tax system reforms (Gray and Barford, 2018).

This austerity can lead to a de-diversification of local government revenues. Far from a revenue diversification that would mean "higher revenues over the long run" (Chernick *et al.*, 2011b: 30), some countries show evidence of a growing dependence of local

governments' revenue upon residents' household taxation. In the USA, property tax revenues grew faster than other local government revenues between 1997 and 2008 (Chernick et al., 2011a). The same happened in France in the 2000s: the share of property taxes in the total local tax revenue increased by 4.3% (Grandclement and Boulay, 2015). At the same time, the share of local tax incomes in French municipalities' revenues rose from 45.5% in 1995 to 51% in 2016, while the share of central state grants declined from 28.5% to 21.5% (OFGL, 2000; OFGL, 2017).

The amounts and the structure of local financial resources are therefore facing major changes which affect the financial leeway of local governments. This is why it is all the more important to analyse how this de-diversification may combine with the impacts of the rise of residential economy on the composition of local fiscal resources.

## **2.2 Spacing residentialization: the link between land use and local taxation**

*Hypothesis 2: the growing weight of a residential economy and its impact on land use changes result in a spatially-uneven reshaping of the composition of local government fiscal revenues.*

Most of the works cited in section 1 that study the residential economy use two sets of indicators: jobs and economic multipliers, and income circulation. In doing so they tend to leave out the impact on – and the role of – local governments and planning policies. A thorough conceptualization of residentialization should encompass two of its major issues for local governments: local fiscal revenues on the one hand and land use changes on the other. In examining these aspects, the residentialization hypothesis distances itself from the most common conceptions of local taxation. In the field of standard local public economics, local taxation is first and foremost seen as a tool used by local governments when in competition to attract jobs and people (Wildasin, 1987). Since residentialization is strongly linked to two major powers of local governments (that is to say land use regulation and local taxes), we need to better understand the fiscal implications of the residential economy.

Beyond its economic impacts on jobs and local development drivers, the growth of a residential economy entails deep changes in regional land use patterns. In suburban areas, post-productive rural areas, or tourist regions, demographic attraction fosters the sprawl of commercial or residential land, as opposed to industrial land. These changes have a major impact on local fiscal resources since they induce a differentiated growth of the fiscal bases

of each local tax. Due to the spatially-selective land use changes, the fiscal bases of property taxes and of household-related taxes in general (which we call “residential taxes”) should grow faster than those of business taxes. As a result, the structure of local government fiscal revenue should change: the share of residential tax revenue can be expected to grow.

These tight links between land use changes and local fiscal resources are of key interest: in most Western countries the process of devolution has resulted in the transfer to local governments of competences regarding both land law and the local taxation system (Pike et al., 2012; OECD, 2016a; Rodríguez-Pose and Krøijer, 2009). Depending on the demographic attractiveness of municipalities, on the amount of mobile incomes they can bring in, and on their ability to turn this into economic growth and jobs, the fiscal spillovers of residentialization are not homogeneously distributed across space. These inequalities are all the more important since recent austerity policies have impacted their fiscal and financial resources. The urgent need to find new fiscal resources faced by local governments is highly likely to redesign the land planning policies they implement.

### **2.3 Path-dependent land planning?**

*Hypothesis 3: residentialization is a self-reinforcing and spatially-selective process that may induce path-dependent land planning policies.*

Firstly, residentialization appears to be a self-reinforcing process since the search for fiscal resources and the dependence on household taxation may drive consumption-oriented development policies, at the expense of production activities. Moreover, even though scholars have shown the organic links between consumption- and export-oriented activities, residential and production activities can appear to local authorities to be mutually-exclusive or even competing activities. Numerous studies (Been et al., 2014) have for instance shown that new inhabitants often influence land planning strategies in order to protect the quality of life and the amenities that attracted them in the first place. Because of the environmental hazards and disamenities linked to industry, residentialization may speed up the eviction of former production activities and strengthen the nimby effects regarding new industrial setups. In the context of a search for fiscal incomes, a decrease in business taxes’ revenue could fuel the transition towards post-productive spaces through feedback effects. Studying residentialization more broadly requires a reconsideration of local growth machines and of the “mosaic of competing land interests capable of strategic coalition and action” (Molotch,

1976: 311) which influence on local policies has been shown in urban as well as in in suburban and rural areas (Pfeffer and Lapping, 1994; Phelps and Wood, 2011). Indeed residentialization adds up to ongoing reconfigurations of local socio-economic power relationships in post-industrial economies (Cox, 2017; Kirkpatrick and Smith, 2011).

Secondly, local governments are experiencing growing inequalities regarding their financial resources. These inequalities can be expected to influence both local tax policies and land planning. For some local areas, residentialization means increased resources whereas for others, it combines with central austerity policies to increase their dependence on household taxation. Municipalities are facing various drivers of de-diversification that depend on past planning choices and that may determine future policies. The fact that municipalities are (and will be more and more so) unevenly dependent on household-related fiscal resources may, for instance, introduce a bias in favour of urbanization and the attraction of new populations to struggling territories such as former industrial areas or peripheral rural regions.

This is not to say however that residentialization would lead to homogeneous local policies. The process in common in all of these sub-trajectories is de-diversification and a growing dependence on residential fiscal resources, but the impacts on local government financial leeway and on land planning policies need to be investigated locally. These policies could take several forms depending on local determinants, such as the amount of natural amenities, the social composition of the population, land reserves, or past economic activities. Residentialization may for instance lead either to Malthusian policies regarding land consumption in gentrified scenic coastal areas or to sustained urban spread on urban fringes.

Theorizing the links between economic and demographic evolutions, land choices, and local financial resources is a key condition to better understanding the various sets of feedback effects triggered by residentialization. As shown in figure 1, aspects of socioeconomic as well as fiscal and political feedback are at play through the reconfiguration of local growth machines and of local planning and tax policies. They may lead to path-dependent planning policies that will in turn increase the dependence on residential fiscal resources, and make alternative policies less likely. Residentialization raises key planning policy issues, such as social polarization, growing urbanization, environmental protection, and local conflicts. This approach also needs to be implemented locally in order to throw light on the diverging sub-

trajectories of, on the one hand, territories where residential resources are just one form of income among others, and on the other, territories facing a de-diversification of their financial resources.

### **3. Assessing residentialization: first insights from the French case**

#### **3.1 Residentialization and fiscal data**

In most OECD countries (OECD, 2016a), local taxes can be divided into business taxes and those paid by resident households (table 1). The latter can be considered as “residential taxes” since their growth is linked to new population attraction and to urbanization. Property taxes on unbuilt land do not fall into this group since they mainly concern agricultural land. This division makes it possible to monitor the share of residential taxes in the total amount of local fiscal resources, the evolutions of this share over time, as well as the fiscal wealth (for example fiscal revenue per capita) provided by residentialization. Such efforts on fiscal data face recurring challenges such as the instability of fiscal and geographic perimeters. In order to operate within a constant fiscal and geographical perimeter, Chernick *et al.* suggest to add up all the local taxes collected within a municipality regardless of the local public body (such as school districts in the US or intermunicipal governments in France) that receives these revenues (Chernick *et al.*, 2011a). Comparing the ways in which residentialization unfolds in various countries would also require to encompass the legal frameworks of local tax systems and their national specificities, such as the level of decentralisation, the revenue mix of local governments or the valuation and assessment of immovable property (OECD, 2016b). In the following subsections however, our aim is to further examine the residentialization framework. This is why we confine our analysis to broad fiscal categories that would apply in most OECD countries (table 1). We only use French Data to provide a first empirical assessment of our three hypotheses.

#### **Table 1. Residentialization and fiscal data**

We built a comprehensive database of the 35357 French municipalities’ fiscal and financial resources between 2002 (first data available) and 2016. French municipalities are the smallest body levying taxes and collect a wide range of local taxes but four of them listed in

table 1 account for 90% of their direct fiscal revenue (Bouvier, 2013), making it easier to test the residentialization hypothesis than in other countries. To remove any possible short-term evolutions, we used biannual averages: 2002-2003, 2008-2009 and 2015-2016. The break in the time series aims at cancelling out the impacts of a reform of business taxes in 2010. According to OECD's data, France stands just under the top half of the rankings for the level and the pace of fiscal devolution or for sub-central taxing powers. Although the share of central state transfers in municipalities' revenue is rather low in France, its anticyclical transfer system for local governments is much stronger than in other OECD countries (OECD, 2016c): France is thus a relevant case to study de-diversification in the context of austerity.

### **3.2 The uneven de-diversification of local financial resources**

According to hypothesis 1, we should witness a de-diversification of local governments' financial resources and an uneven dependence on residential taxes. In France this process is fuelled by two concomitant drivers: on the one hand the growth of the share of revenues from taxes paid by households in the total amount of local fiscal revenues, and on the other the impact of state austerity on local budgets. At a national level, the share of residential tax income has been growing, from 55.6% of the four main tax revenues in 2002-03 to 58.7% in 2009-2010 and 73.8% in 2015-16. The huge increase in the most recent period is partly due to a business tax reform in 2010. Nevertheless a sustained growth occurred after this reform: residential tax bases which are not affected by changes in fiscal and geographical perimeters grew by 11% between 2011-12 and 2015-16<sup>ii</sup>.

This dependence of French municipalities on residential tax revenue is all the more important since it has been heightened by central state austerity policies. These affect not only local governments' fiscal resources, but also their financial resources from central state transfers. In France, these transfers include state funding granted to local governments depending on their population, the characteristics of their territory, and the powers transferred to them. They also serve a redistributive purpose. These transfers had been growing steadily in France as well as in other European countries since the beginning of the devolution process, but this trend has reversed in the wake of the 2008 financial crisis and of the public finance crisis it triggered. National transfers to French local governments were reduced by 16% between 2014 and 2017 (OFGL, 2017). The total amount of the main national funding granted to municipalities fell from 41.5 billion euros in 2013 to 30.8 billion

euros in 2017. As a consequence, local fiscal resources now account for a growing part of municipalities' fiscal resources (table 2).

### **Table 2. State austerity and local financial resources in France**

Moreover recent fiscal reforms have undercut the fiscal autonomy of local governments and may mean forthcoming spatial inequalities. The 2010 reform of business taxes has weakened the fiscal levers of municipalities. Prior to this reform, they could set the rate of a business tax, but they lost this rate-setting power to the central state for one the new taxes. It has also resulted in a growing spatial concentration of fiscal bases. The Paris metropolitan region accounted for 32.8% of income from one of the new taxes in 2011, compared to 13.3% before (French Senate, 2012). As a result, austerity policies and recent fiscal reforms may mostly affect areas that depend on public transfers as opposed to thriving metropolitan areas. These changes are both quantitative and qualitative, since they undermine the ability of municipalities to search for new fiscal incomes to compensate for falling state transfers. Considering that they concern business taxes and not residential taxes, they can be expected to increase inequalities regarding municipalities' dependence on residential taxes – which have actually been growing steadily in the recent years.

### **3.3 The geographies of fiscal residentialization**

This ongoing de-diversification of local financial resources conceals major spatial differences. As stated in hypothesis 2, the growing weight of the residential economy and its impact on land use changes result in a spatially-uneven reshaping of the composition of local government fiscal revenues.

In order to test the de-diversification hypothesis, we built a classification of French municipalities. We chose 6 variables to document three components of de-diversification and dependence: (i) the degree of fiscal residentialization in 2015-6 (i.e. the share of residential taxes in total fiscal revenues) and the fiscal wealth it provides (residential fiscal incomes per capita), (ii) the pace of fiscal residentialization in the past 15 years (growth of the share of residential taxes in total fiscal revenues), (iii) the dependence on state transfers (share of state transfers in total financial revenues). Using principal component analysis and hierarchical clustering, we were able to identify 5 types of municipalities (figure 2).



## **Figure 2. A classification of French municipalities and their financial resources**

The first two types stand out due to the high share of residential taxes in their fiscal revenues. It comes as no surprise for type 1, which includes coastal areas and France's sunbelts, as well as tourist-attractive mountain areas such as the Alps, and metropolitan regions such as Paris. Type 2 municipalities in tourist hinterland or urban periphery also have highly residentialized fiscal resources but earn significantly lower per capita incomes. It shows that fiscal residentialization does not always come with fiscal wealth and masks strong inequalities. Although their share of residential taxes is still ten percentage points lower, type 3 municipalities have experienced a strong catch-up effect in the 2000s: they are found in remote rural areas that have undergone a recent demographic growth and post-productivist turn. Yet, similarly to type 2, this process has not been enough to provide high fiscal revenues and to offset the high dependence on state transfers. Type 4 and 5 municipalities exhibit low-residentialized fiscal revenues. Type 5 especially gathers areas with a strong export-based economy (the heart of the Paris metropolitan region, industrial regions): most of the growth of the share of residential taxes they experienced in the past 15 years is due to the 2010 reform of business taxes rather than to economic transformations.

## **Table 3. Residential fiscal incomes in municipalities' budgets**

As shown in table 3, the ongoing growth of residential fiscal resources conceals major spatial differences. Not only do the intensity and the speed of this process vary across territories, but they come with major wealth inequalities. Residentialization is not a guarantee of fiscal wealth as demonstrated in revitalized rural areas. Despite catch-up effects, these rural areas are still much more dependent on public state transfers than urban and coastal areas. As a consequence, some areas enjoy sustained fiscal and financial leeway whereas others are exposed to the impacts of austerity policies.

### **3.4 From financial leeway to planning policies**

The third hypothesis is harder to test, since it would require thorough case studies on a local scale to unravel the links between the evolution of fiscal resources and land planning

choices. In the limited space of this paper, our goal is twofold. First, the aim is to identify some of the links between the fiscal and financial resources of local governments and the making of planning policies in order to provide first insights on how they may trigger path-dependent trajectories. Secondly, the aim is to avoid any kind of fiscal determinism by showing that the fiscal types identified in the previous section can be found in very different local contexts (socio-demographic, economic or land-use trajectories). These local contexts can result in diverging planning policies within the same fiscal type. In order to do so, we focus on the three types of the classification that present either a high degree of residentialization (type 1 or 2) or a growing rate of residentialization (type 3). We put forward three geographic ideal types derived from these fiscal types and build on the existing literature to identify the mechanisms that may lead to path-dependent land planning policies.

The combination of central state austerity and of the de-diversification of local resources constrains the choices of local governments towards either resource-seeking strategies in disadvantaged areas or resource-preservation strategies in wealthy areas. Residentialization may thus be a self-reinforcing process since the search for fiscal resources and the dependence on household taxation may drive consumption-oriented development policies, at the expense of production activities. It does not mean however that all areas follow the same trajectory and implement similar planning policies. The residentialization hypothesis calls for a thorough analysis of local financial leeway as well as of local determinants such as socio-demographic evolutions, land-use patterns or socio-political contexts. Several works have shown the ability of local growth machines or homevoter coalitions (Been et al., 2014) to steer planning policies. In the context of residentialization, they may contribute to cumulative effects. As shown in table 4 for type 1 areas, a wide range of local determinants can be expected to lead to Malthusian land planning policies (preventing the urbanization of new land): the fiscal wealth of local governments, the need to preserve natural amenities to maintain tourist attractiveness, landowners' rentierism strategies (van Dijk and van der Wulp, 2010), nimby effects (Fischel, 2001)... In the wholly different but equally residentialized context of type 2 municipalities, housing demand and the search for fiscal resources may combine to support policies based on urbanization and new population attraction (Ekers et al., 2012). Type 3 includes rural areas experiencing a post-productivist

turn and political debates between emerging residential strategies and former industrial and agricultural specialization, widely discussed in the literature (Gosnell and Abrams, 2011).

#### **Table 4. Residentialization and planning policies: 3 ideal types**

Even though the planning policies of all these subtypes differ, the feedbacks effects they triggered by these policies and their impacts on land-use changes and fiscal resources shown in figure 1 would all strengthen residential specialization and the de-diversification of local resources. In all cases, residentialization may appear as path-dependent since it reduces the opportunities for alternative strategies (*e.g.* the contradiction between industrial activities and living environment) and increases the political cost of such bifurcations (*e.g.* homevoter or landowner coalitions).

## **Conclusion**

The aim of this paper was to question the links between residential economy, local finances, and land planning policies in a post-Fordist context. The residentialization hypothesis states that the increasing circulation of people and income results in a growing share and amount of household-related taxes in local fiscal resources. Combined with austerity, these transformations affect local financial leeway and may reshape land planning strategies. The literature on austerity urbanism, gentrification processes, and urban redevelopment (Peck, 2012; Lees et al., 2013) has already questioned and assessed the impact of local economic constraints on land planning strategies. The residentialization hypothesis, however, throws light on an often-overlooked driver of local resource dynamics, the rise of resident-serving sectors. It also enables a more comprehensive approach to the links between local resources and land planning, since unlike most of the works cited above, it does not solely focus on metropolitan or dynamic areas. The third section provided first insights based on the French case. We have shown that local areas are experiencing a spatially-selective de-diversification of their fiscal and financial resources. Since equalisation policies are especially developed in France, we can expect these inequalities to grow faster in other countries. The residentialization hypothesis now needs further inquiries, and opens up several lines of research.

We first need comparative qualitative local studies to better understand the links between the de-diversification of local fiscal income, the search for financial resources, and the design of land planning policies. These studies should address the heterogeneity of national political and legal frameworks and its influence on de-diversification. Our study confined to broad fiscal and financial categories but local governments' strategies strongly depend on the specific mix of state transfers and fiscal resources they are granted in each country as well as on their planning and fiscal powers. We also need to document the wide array of planning strategies that may stem from a spatially-uneven residentialization, especially in non-metropolitan or suburban areas. Several local parameters such as local amenities, land reserves, real estate markets, local growth machines, urbanization costs, and economic structures can be expected to influence urban forms and planning models.

Last but not least, the residentialization process and the path dependency it may induce, raise questions as to the sustainability of such planning strategies for three main reasons. The first is the balance in local development strategies between resident-serving and export-based activities. These may appear incompatible, since residential strategies rely on amenities and may increase nimby effects especially in rural or suburban areas. Metropolitan areas may seem preserved, but these exclusion effects may occur on a smaller scale within urban areas. This in turn raises a second major issue, i.e. residentialization as a socially-excluding process. In thriving areas residentialization may result in rises in land and housing prices. Land planning choices might be driven by rent-seeking strategies and exclude low income populations, who are however the workforce involved in poorly-qualified resident-serving jobs. Finally, the environmental sustainability of residentialized land planning is in doubt, since the search for fiscal resources may lead to natural and agricultural land consumption.

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**Table 1. Residentialization and fiscal data**

	Business taxes	Residential Taxes
Property taxes	Corporations' land or physical assets/machinery <i>(CFE: contribution foncière des entreprises)</i>	Land, property and/or buildings <i>(TH: taxe d'habitation, FB: taxe sur le foncier bâti)</i>
Income taxes	Corporations' income <i>(CVAE: Contribution sur la valeur ajoutée des entreprises)</i>	Personal income (-)
Consumption taxes	Goods and services (-)	Goods and services (-)

*Corresponding local taxes in France in italic*

**Table 2. State austerity and local financial resources in France**

	2012	2018
<b>Municipalities' total revenues (billion €)</b>	77.97	79.95
<b>Share of fiscal resources (%)</b>	52.1	57.3
<b>Share of central state funding (%)</b>	24.7	17.7

(Data: OFGL, 2019)

**Table 3. Residential fiscal incomes in municipalities' budgets**

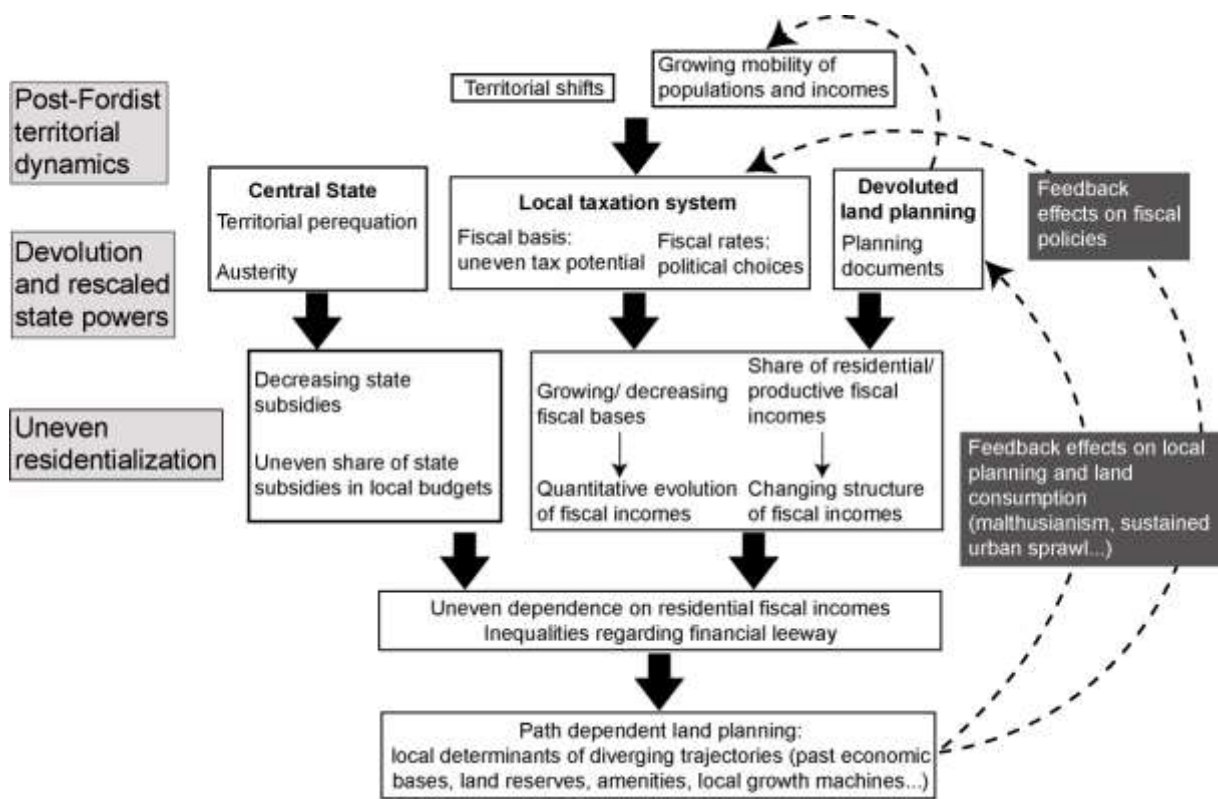
Classification		Share of residential fiscal incomes in 2016 (%)	Growth of the share between 2002-03 and 2008-09 (%)	Growth of the share between 2011-12 and 2015-16 (%)	Growth of the share between 2002-03 and 2015-16 (%)*	Residential fiscal revenue in 2015-16 (€ per capita)	Share of local taxes in municipalities total revenues in 2016 (%)
Municipalities with highly residentialized fiscal resources	Type 1. Rich municipalities	81,0%	2,9%	0,6%	22,0%	790,35	52,1%
	Type 2. Lower fiscal resources and dependence on state transfers	81,0%	6,8%	1,2%	30,6%	446,56	43,9%
Municipalities with a medium share of residential fiscal resources	Type 3. Poor municipalities with a growing share of residential fiscal resources	71,2%	17,4%	3,2%	58,6%	306,81	39,7%
	Type 4. Stable residential resources	70,2%	6,0%	-4,5%	23,8%	566,11	48,2%
	Type 5. Municipalities with very limited residentialization despite business tax reforms	58,6%	5,0%	0,0%	52,3%	583,83	44,5%

\*Contrary to other columns, the comparison between 2002-3 and 2015-6 includes the impact of the business tax reform of 2010

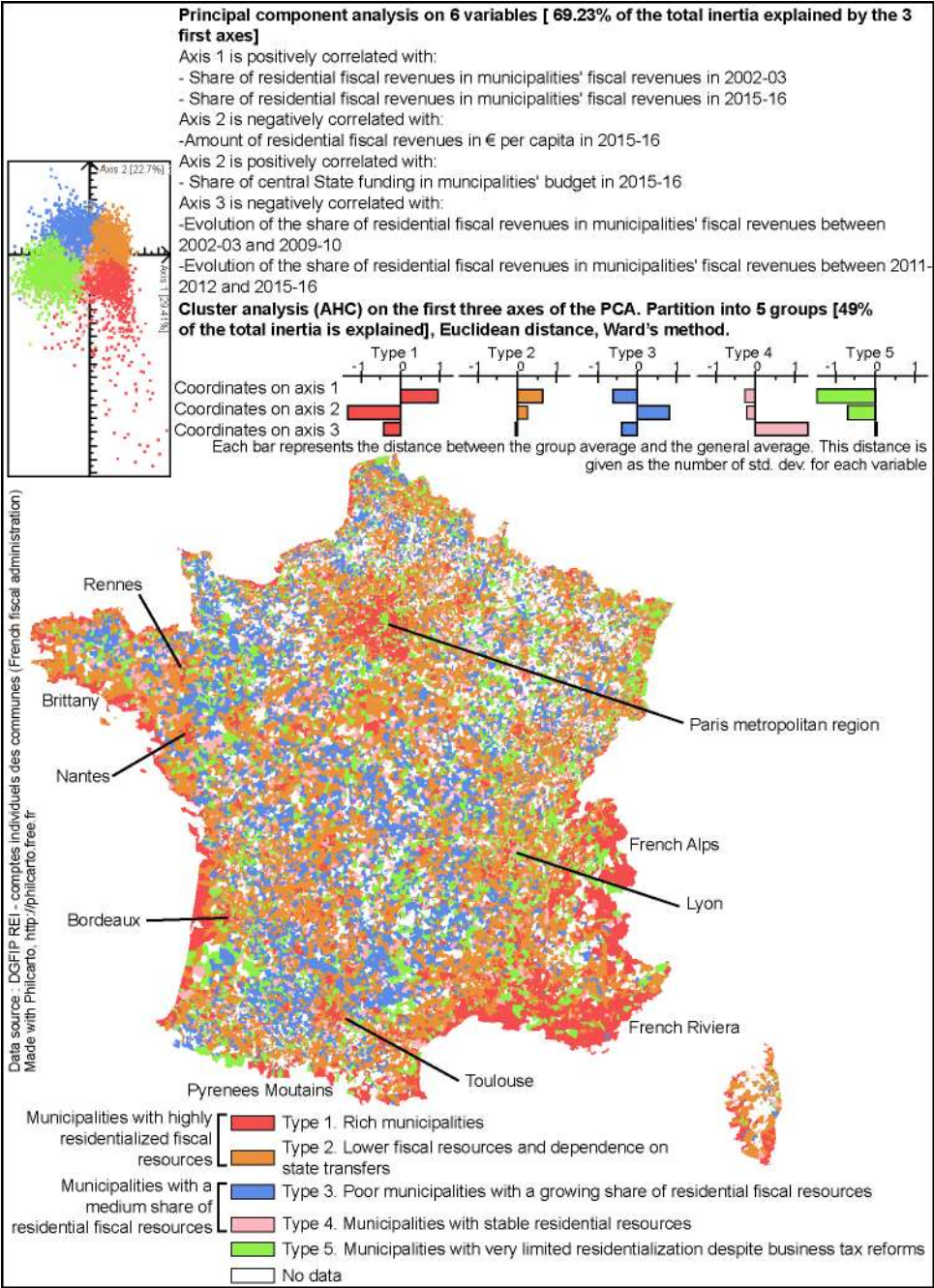
**Table 4. Residentialization and planning policies: 3 ideal types**

<b>Classification</b>	<b>Economic drivers</b>	<b>Land use changes</b>	<b>Population</b>	<b>Local growth machines and socio political dynamics</b>	<b>Local planning policies</b>
Type 1 Ideal type = coastal areas (Robert et al., 2019)	Tourism Construction industry and real estate	Highly urbanized Land saturation Tight real estate market	Wealthy populations Retirees and holiday home owners Tourist attractiveness	Rentierism Landlords and homeowners Social filtering	Densification Land malthusianism Preservation policies
Type 2 Ideal type = urban periphery (Ekers et al., 2012)	Resident-serving sector Construction industry	Ongoing urbanization Densification	Sustained demographic attractiveness Young families	Agricultural landowners First-time home buyers	Urbanization to increase fiscal bases Focus on living environment and public services
Type 3 Ideal type = post-productivist rural areas (McCarthy, 2008)	Natural amenities Emerging resident-serving sector Decreasing industrial and agricultural activities	Emerging urbanization of natural and agricultural areas	Recent demographic attractiveness Retirees and older workers, families	Rural gentrification Industrial and agricultural firms and workers	Fiscal resource seeking to provide public infrastructure Hesitation between industrial redevelopment and residential strategy

**Figure 1. Theoretical framework of the residentialization hypothesis**



**Figure 2. A classification of French municipalities and their financial resources**



<sup>i</sup> Architectural services can mix of export and local-serving activities

<sup>ii</sup> In France, property values have not been updated since the 1970s, thus diminishing the influence of real estate prices