

## **The Place of Cities in Canada: Inside the Constitutional Box and Out**

I should begin by disclaiming expertise in these matters. It is as a willing and happy volunteer that I have been involved in issues of the cities in Canada since the late 1980s, when I was involved in starting the Canadian Urban Institute; through the organization of a week-long event in Toronto in 1997, *Jane Jacobs: Ideas That Matter*, which celebrated the work of that great thinker and writer; through organizing a group which developed a Charter for the Greater Toronto Region; and through organizing the C5, a series of meetings of the mayors of Vancouver, Calgary, Winnipeg, Toronto, and Montreal. Along the way, I have had a chance to think about and discuss the place of cities in Canada with a lot of people who are experts, and am happy to share some of what I've heard with you today.

### ***The Problem***

We are living with an anachronism in Canada, a system of government that is probably 50 years out of date, and we don't seem inclined to do anything about it.

If we were designing the proper form of government for Canada at the start of the 21<sup>st</sup> century, it would surely look different than the federal-provincial structure we have now. We would take into account what was the dominant trend of the last century, the move of people from the country to the cities, and the resulting emergence of the large metropolitan regions as the economic, cultural and social engines of modern societies. We would take into account the fact that the 21<sup>st</sup> century will be the first truly urban century, where a majority of the world's people lives in cities. We would surely take into account that Canada is perhaps the most urbanized country in the world. And we would look at our large metropolitan regions, Toronto, Montreal and Vancouver, and a second tier of cities which would include Calgary, and do what we could to empower them.

But we aren't doing that in Canada. In Canada, cities have no power. They are creatures of the provinces, and as such anything they do can be undercut or overcalled by a provincial government. We have seen that in recent years

in Ontario, as the provincial government has dismissed city councils and mayors, restructured governments at its whim and often against the best advice available to them, and set particular parameters around how local government can operate. While this has been most dramatic with the current Ontario government, what they have done is only a matter of degree different from what previous governments have done and have been capable of doing. The problem is that cities have no constitutional power to resist.

This is particularly difficult because there are few people in provincial governments who think very much about cities, or have very much experience in the governing or management of these tremendously complex metropolitan areas. I find it revealing when provincial ministers speak about cities: they seem to be making it up as they go along, with most of their comments displaying an alarming lack of substantive knowledge of what is actually going on. Dealing with cities has just become part of the political scrimmage.

It is also alarming to me when the provincial premiers gather in their semi-annual conferences to demand more power from the federal government. Never is there a mention of the entities in which most Canadian live, the cities. Never is there a realization that the specific issues in cities demand specific attention. It is a continuing political charade that moves further away from reality as the country becomes more urban.

It might be illustrative to talk about money. Recent research commissioned by the Toronto Board of Trade has estimated that the difference between tax dollars leaving Toronto and tax-paid goods and services returning to it is over \$8 billion a year. These are funds that go to the senior governments. The city is asking for some of this money to deal with the homeless, to restore

the transit system to its position of leadership, to develop the lake front, to upgrade infrastructure critical to bolstering the economy, or many of the other things the city wants to do.

At the same time this capital is being exported, cities like Toronto hear lectures from provincial governments about “living within their means.” The fact appears to be that our major cities are living below their means, while the provincial and federal governments are living well above theirs.

The critical point to make about this situation is that our cities are beginning to fall behind their competitor city regions. In the United States, money has been pouring into cities for the last decade or more, as that country has come to realize the drastic effects of ignoring them. From the upgrading of transportation infrastructure through creation or expansion of new cultural facilities, through the reclamation of destitute downtown neighbourhoods, to the building of inner city housing, the investments are plentiful and apparent.

Canadian city regions, of which Toronto, Montreal and Vancouver are good examples, have a long history of good management and smart development, which have rendered them both livable and highly productive. But we stopped investing in cities almost two decades ago, and instead began saddling them with new costs as a way of handling deficits of the federal and provincial governments, the so-called “downloading.” We stopped building low-income housing, we cut back on funding transit, we cut cultural funding to the bone, and we saddled cities with extra costs of settling new immigrants. While the US increased its support of its cities, we decreased it, and in the process began to squander what was a tremendous competitive advantage we enjoyed in our cities.

Once this kind of decline sets in, and gains momentum, it is increasingly hard to reverse. But it takes concerted effort to do so, and some day soon it will be too late.

What are some solutions? To consider them, we can look inside the box, or outside the box. The Box in Canada is, of course, The Constitution.

### *Looking Inside The Box*

This is not a place, the Queen's School of Policy Studies, where someone like me needs to explain the Constitution to people like you. I wouldn't dare. In fact, I think this is one of the very few places in the country where eyes don't glaze over at the mere mention of the Constitution.

What I will say, though, is that since I began organizing people to talk about the place of cities in Canada almost five years ago, the most consistent piece of advice I have had has been to avoid anything that requires constitutional change.

The second most consistent piece of advice, by the way, has been to avoid talking about boundaries and borders. When we were organizing the movement for a charter for the Toronto region, one of the first things people wanted to know was what the geographical boundaries would be. David Crombie, the former mayor of Toronto, suggested that should be one of the last things to settle. He said that people would waste all their time and energy arguing boundaries, and have nothing left for principles and policy. The analogy at a university would be opening a Senate agenda with a discussion of parking.

So, without constitutional change or boundary tampering, what can be done? And in fact can anything be done without changing the constitution?

When we were developing the Charter for the Toronto Region, we were encouraged by the movement of powers from the federal to the provincial governments which has occurred over the last 20 years, and at the powers which have been given to the first nations – all of which were done without changing the constitution. Much can be achieved by a “change of arrangements.”

The biggest problem the federal government faces when dealing with the cities, and a source of their apparent reluctance, is treading on provincial toes, offering up yet one more area of grievance for the premiers in their collective pique. They want to avoid dealing directly with cities as much as possible.

What they can do is deal directly with citizens, and they can deal through intermediaries. It is clear that they can tread on provincial territory by dealing directly with citizens, like the Millennium Scholarships for example, or through intermediaries, like the environmental program funding of the Federation of Canadian Municipalities.

Jane Jacobs and I were asked to prepare a “one pager” for federal finance minister Paul Martin on what he could actually do “within the box” that would not violate the federal-provincial balance. These are some of the recommendations we included, which will give you some examples of what the inside of the box might look like:

### *Transportation*

- We suggested tax deduction of transit passes provided by corporations to employees or purchased directly by citizens.
- And we suggested allowing transit authorities to depreciate their capital assets, with the funds to be applied to maintenance and good repair through the creation of sinking funds and replacement reserves.

### *Housing*

- We suggested the deferral of capital gains tax and permitting the recapture of depreciation upon reinvestment in rental housing.
- We suggested full rebating of the GST for rental projects.
- And we suggested the creation of a refundable tax credit for rental or mortgage payments, aimed at subsidizing market rents for low-income Canadians. This latter idea is a Tom Kent suggestion, in a paper he wrote on these issues [Kent 2002].

### *Education*

- We suggested a grant and loan program for postsecondary education for convention refugees equivalent to existing programs for Canadian residents

### *Culture*

- We suggested tax credits for developers who include cultural space and endowments for operations in new developments and major renovations.
- We suggested a share of a consumption tax, such as the airplane ticket surcharge or airport development fee, to provide capital

pools for the financing of major cultural infrastructure, such as symphony halls, libraries and sporting venues. Provinces could contribute the proceeds of hotel taxes to the same ends.

### *Settlement*

- We suggested a per capita settlement payment that follows refugees and immigrants where they move within Canada, based on an index of costs in various cities. (Current payments tend to get “stuck” in the initial city of settlement, particularly in Quebec.)
- And we suggested the creation of a “table” for the development of settlement policy and program at which the major settlement destinations (Toronto, Vancouver, Montreal) have a seat as full partners.

The federal government might decide to take on greater leadership, and consider such matters as the following:

- Transferring shares of income tax to cities based on a fixed percentage of their net export of capital (5 percent, for example, which for the Toronto region would be 5 percent of \$8 billion, or \$400 million, so tax points that would yield \$400 million would be transferred).
- Taking a strong and visible leadership position on behalf of Canada’s principal urban regions by appearing with the mayors in those cities, and having federal members be involved in cooperation with those municipal governments.
- Designating Toronto as an International Finance/Banking Centre to amend an earlier federal government decision which unreasonably excluded Toronto from this designation.

These things deal with the federal role “within the box.” For the provinces, the box doesn’t constrain them in the same way. They have the responsibility for cities, and there is a great deal more they can do.

### *Looking Outside The Box*

After you parse through all the analysis of the role of cities in Canada, you come down to the question of revenue. And many of us have come to the conclusion that cities in Canada need more secure sources of revenue. Not just more revenue, but more secure sources of revenue.

Canadian cities rely on the property tax to a much greater extent than do cities in the US and Europe: over 50 percent in Canada, about 15 percent in the US and less than 10 percent in Europe. US and European cities have a much broader range of revenue instruments available to them, including income and consumption taxes, debt and debt-like instruments, and fees. Property tax does not reflect or reward the cities’ role in stimulating economic growth. It is also inelastic, and cannot respond to periodic fluctuation in demand.

Vancouver, Montreal and Toronto need to have a much broader array of revenue tools available to them. And, I would argue, that they could use a bit more “downloading.” In fact, Canada’s three large urban regions could manage a great deal more than they do now, and if I were to generally characterize how much, I would say most of what a province does. I would even include in that such major provincial responsibilities as health care and education. Toronto health care people and educators will argue that our diverse population calls for different content in health and education delivery. The diverse

population needs different treatment, both in terms of what doctors are treating, and the protocols of treatment. And in the schools, teachers are faced with different and changing challenges. They need to be able to design and implement programs specific to community needs, and need the resources to pay for them.

Again, for those of you of a practical bent, I know you are saying to yourselves, “No new taxes.” You are about to warn me that, despite Mike Harris slouching off stage right, the public remains averse to taxation. What downloading should imply, although it has not to date, is that when duties move from one level of government to another, the requirement to pay for them moves too. So when a province unloads some roads to a city, for example, it means the province can stop paying for those roads, so can stop collecting the tax dollars that paid for them. If a city has to raise a tax to pay for the new responsibility of those roads, as far as the taxpayer is concerned it should be a wash. No new taxes. Given our recent history of downloading, and the disingenuous rhetoric accompanying it, I know I am being naïve. Again, though, transparency can abet the truth in these changes. But all of that is certainly outside the box.

There is a fundamental opportunity for leadership by the federal or provincial governments to transform Canada’s large cities into fully mature, independently sustainable financial entities.

The solution is not simply kinder, gentler and more generous federal and provincial governments. Until the large urban regions can exercise a fuller responsibility for policy and programs for their citizens, and have the sources of revenue to pay for them, Canada will continue to operate sub-optimally and risk losing to competing urban regions. And as our cities decline

in competitive ability, we risk our sovereignty as a country, as our citizens begin to look elsewhere for the provision of goods and services. It is not enough for the federal government to ask why they should support the cities. Canada needs leaders who recognize the urban reality of the 21<sup>st</sup> century, who will accept the responsibility of communicating it to the country, and who will create an environment that will build

on our greatest strengths. The cities represent this opportunity.

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**Reference**

Kent, Tom. (2002). "For affordable housing: Have Ottawa pay the rent." *Policy Options*, March 2002.

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