THE FISCAL (MIS)FORTUNES OF CANADA'S GLOBAL CITY REGIONS

By

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Atelier 4:

La fiscalité:

constitue-t-elle un avantage comparatif pour Montréal?

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OUTLINE

Canada’s Global City Regions

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VI: Cities, Energy, NAFTA, and the $C: Opportunities and Challenges

Comparative Perspective

GCRs as Dynamic KBE Motors

- **The Information Age (globalization + knowledge/informatics revolution) leads to the economic, political and democratic ascendance of GCRs.**

- **Globalization front: GCRs are the new dynamic economic engines**
  - **Their export platforms are spearheading the integration of their provinces and regions in NAFTA space and beyond.**

- **Knowledge front: GCRs have requisite dense concentrations of human capital, R and D, high-value-added services, etc,**
  - **Human capital is at the cutting edge of competitiveness and well-being**
  - **GCRs to become the integrating and coordinating networks in their regional economies and national nodes in the networks that drive trade, growth, trade, innovation and ultimately productivity.**

- **A doubling of a city's population leads to a 4-5% increase in productivity (revenu per capita) (Strange, 2003)**

- **Caveat: With the resurgence of resource and commodity prices, Canada's rural areas have made a comeback**

Global City Regions are Dynamic KBE Motors

Richard Florida's "creative human capital theory of growth"

Industries will be attracted to those cities that will fare best in terms of the Florida's three T's—Technology, Talent and Tolerance. Canada ranks high in the 3rd T, but trails in the other two. Therefore, cities can create environments that will allow the 3 Ts to interact and create a learning environment. (see attached table, where Talent is % of pop with U degree, Technology is high-tech concentration, and Tolerance includes Mosaic index (% of foreign born), Bohemian Index (% of artistically creative citizens) as well as the Gay Index.

Ontario's Institute of Competitiveness and Prosperity ()

Ontario's gap with the US is an URBAN gap, related to the weakness in Technology and Talent

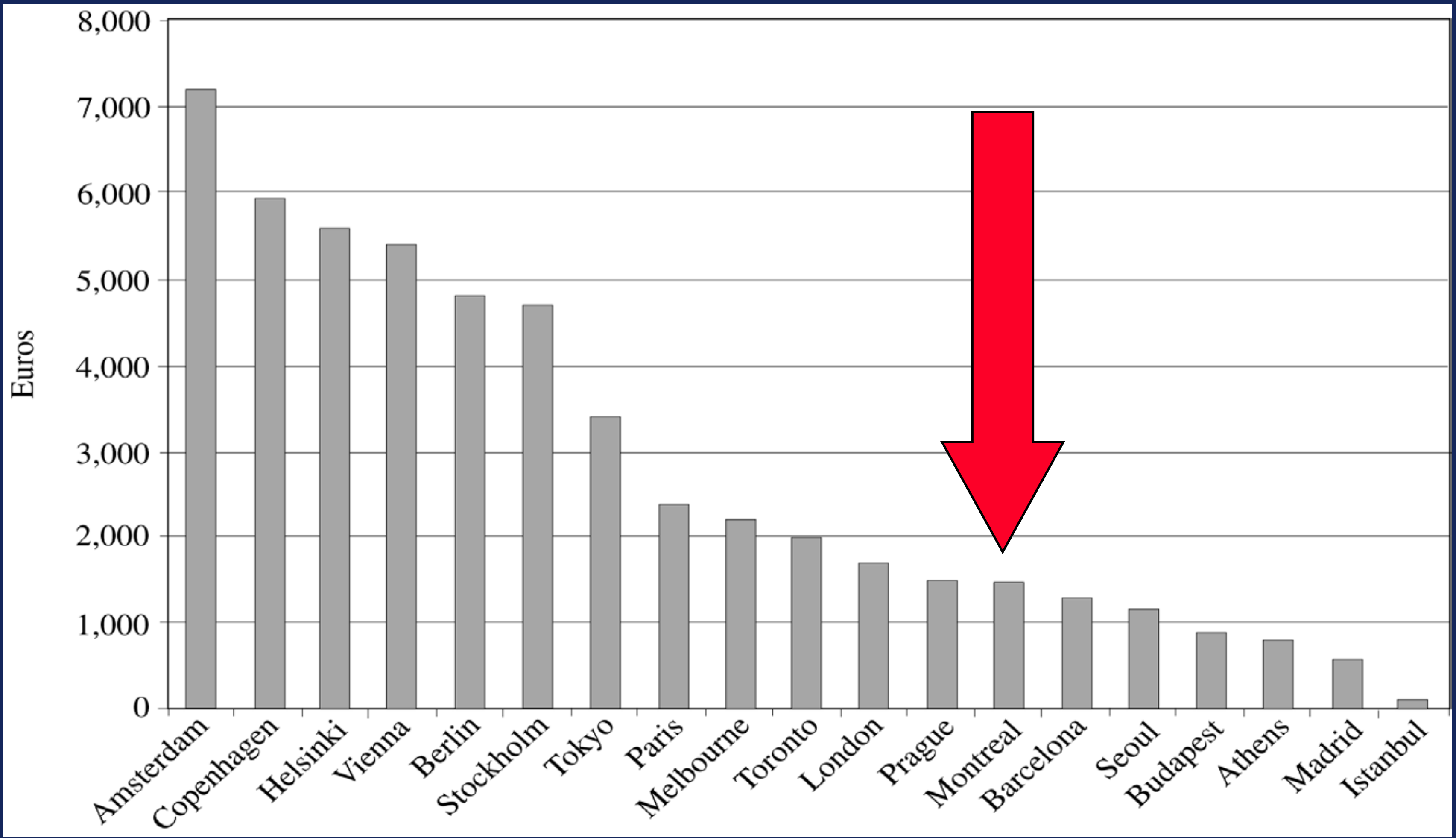
Roger Martin & James Milway

GCRs as Dynamic KBE Motors: Conclusion

- **Conference Board's "Hub Cities"**
  - ***The growth in Canada's large cities that serve as provincial or regional "hubs" drives an even faster rate of growth in smaller communities within the same province or region." They conclude: A strategic needs-based approach to hub city investment would also yield a bigger economic impact than the per capita funding approach used in the federal government's 2005 budget which allocated a gas tax rebate to Canadian communities on a uniform per capita basis***

- **SUMMARY:**
  - **Our collective futures depend on how our GCRs fare relative to US and Global GCRs.**
  - **Unfortunately, our CGRs appear to be performing well beneath of their potential, as they are…**
    - **fiscally weak in comparative international context,**
    - **constitutionally jurisdictionless in the Canadian context**

Global City Regions[1]
Per Capita Expenditures in OECD, Various Years (euros)



Source: **Based on OECD data and financial statements from the cities concerned. Reprinted from Chernick and Reschovsky 2006, figure 3.6.**

Fiscal Powers of Canada's GCRs
Expenditure Assignments in Global Perspective

- **Canadian cities have fewer responsibilities than many cities (2,000 € per capita in Toronto, 1,750 for Montreal , 7,000 € in Amsterdam)**

- **Unitary state GCRs have larger spending than federal GCRs,**
  - The exception: administrative federations (Germany, Austria)
  - local administers most of laws legislated by Lander and nationally.

- **Why is decentralization in Canada only to provinces?**
  - Are we truncating the operations of the principle of subsidiarity at the provincial level
  - The experience elsewhere (+ the information revolution) suggests that GCRs could bring the delivery of many more public goods and services much "closer to the people"?

- **Is this constitutionally determined? Is it caused by the fact that cities are creatures of the provinces with no independent constitutional role?**

Local Tax Powers in Global Perspective

- "Anglo"countries rely primarily on property taxes
  - Australia (100%), Canada (92.7%), USA(73%), (unitary) UK (99.5%).
  - Is there something important here about the difference between communitarian capitalism and individualist capitalism? (Or between civil law and common law countries?)
  - Sweden's cities have 100% income taxation (along with most Nordic countries), with federal Germany not far behind.

- Casey Vander Ploeg (Canada West) compares Canadian and US cities.
  - Seattle and Denver (Tables 2A, 2B) have access to an incredibly large range of own source taxes and shared taxes compared with Calgary and Edmonton.

- Table 3: an overview of the Denver and Edmonton tax profiles,
  - Nearly 90% of Edmonton taxes come from property
  - About 70% of Denver's come from sales taxes.

- Fidure 2 shows the impact of greater revenue access Denver's growth in tax collections clearly dominate that for Edmonton
  - Denver's per capita spendingalso growth dominates Calgary's

OCDE countries

Local Tax Sources, Selected Federations and Unitary States

	Tax source as a % of total local tax revenues				*Local taxes as a % of GDP*
	Income	*Sales*	*Property*	*Other*	
Federations					
Australia	0.0	0.0	100.0	0.0	1.1
Canada	0.0	1.5	**92.7**	5.7	**3.3**
Germany	79.1	5.7	15.0	0.2	2.8
Switzerland	84.3	0.3	15.4	0.0	5.2
United States	6.3	21.0	72.8	0.0	3.5
Unitary states					
Denmark	93.6	0.1	6.3	0.0	15.8
France	0.0	10.2	50.6	39.1	4.7
Hungary	0.1	76.6	22.6	0.7	1.7
Italy	12.9	14.9	17.3	54.9	4.9
Japan	47.2	20.8	31.1	1.0	7.2
Netherlands	0.0	37.1	62.8	0.0	1.2
Spain	26.4	35.4	34.6	3.5	5.7
Sweden	100.0	0.0	0.0	0.0	15.8
Turkey	27.7	30.1	2.3	39.9	4.7
United Kingdom	0.0	0.0	99.5	0.5	1.4

Source: Based on data from the OECD. Reprinted from Chernick and Reschovsky 2006, table 5

Municipal Tax Tools

Comparing Calgary, Edmonton, Denver and Seattle

LOCAL TAXES IN PLAY

Calgary Edmonton	***Denver***	***Seattle***
Property tax	Property tax	Property tax
Business tax (property based)	Franchise and utility taxes	Franchise and utility taxes
	General retail sales tax	General retail sales taxes
Franchise and utility	Sales tax on lodging	Sales tax on events
	Sales tax on restaurants/alcohol	Sales tax on gambling
	Sales tax on alcohol off-sales	Sales tax on bars and pubs
	Sales tax on vehicle rentals	Sales tax on car rentals
	Sales tax on aviation fuel	Gross receipts business tax
	Sales tax on entertainment events	Motor vehicle excise tax
	Employee head tax	Real estate excise tax
	Auto Ownership tax	

Source: Casey Vander Ploeg (2005) “Rationale for Renewal: The Imperative Behind a Big City Partnership” Canada West Foundation

Municipal Tax Tools in Selected Cities

TAX SHARING

Calgary *Edmonton*	*Denver*	*Seattle*
Provincial fuel tax	State fuel tax	State liquor tax
	State tobacco tax	State fuel tax
	State vehicle registration tax	State lodging tax
	State lottery revenue tax	State insurance premium tax
		State general retail sales tax
		State leasehold excise tax
		State hazardous waste tax
		State utility tax
		State timber tax

Source: See Table 2A State solid waste tax

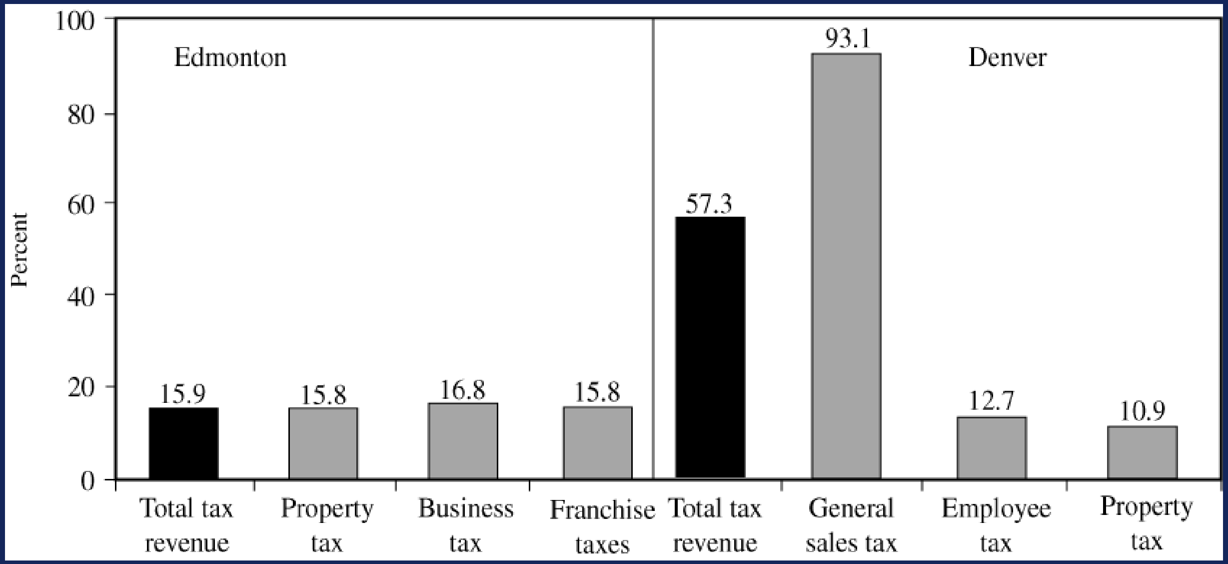
2000

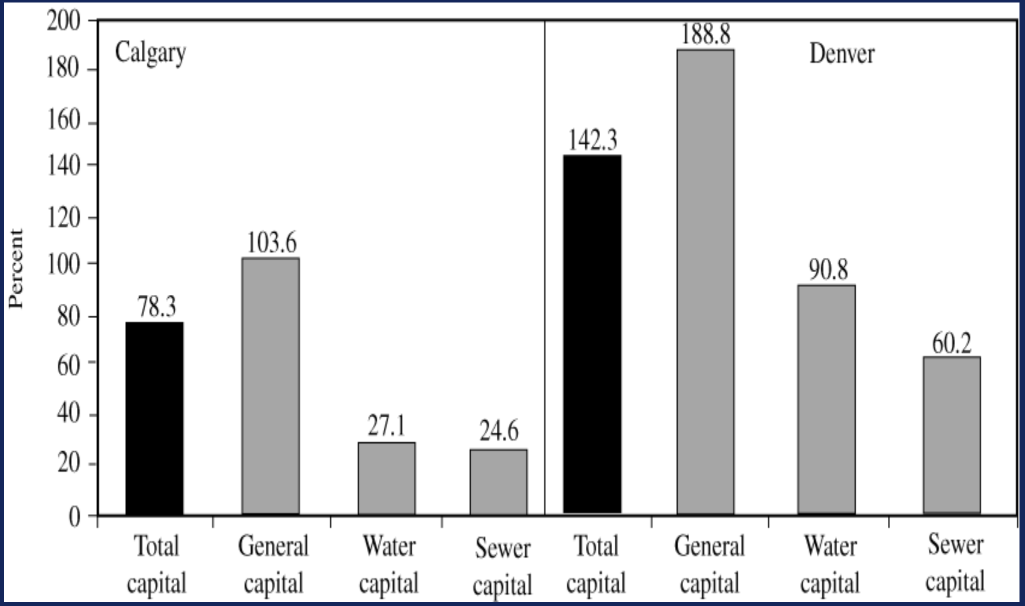
Tax Revenue Profile, Edmonton and Denver,

Total municipal tax revenue	%
Edmonton	
Property tax (general residential and commercial)	71.8
Property tax (square footage business tax)	16.9
Property tax (local improvement taxes)	5.1
Franchise and utility taxes	5.6
All other taxes	0.6
Denver	
General retail sales tax	63.5
Property tax	21.1
Employment head tax	6.4
Selective sales tax on hotels and lodging	4.7
Franchise and utility taxes	3.1
All other taxes	1.2

Source: See Table 2A

Figure 2: Growth in Per Capita Taxes (upper panel) and Capital Spending, Edmonton (Calgary) and Denver, 1990-2000





Assessment

Fiscal Powers of Canada's GCRs

- **Best practices call for greater fiscal autonomy for GCRs**
- **But Canadian cities tend to have weak mayor systems**
  - **They also lack the discipline of party systems (Montreal is an exception)**
- **Canada's lack of cities-rooted's national political parties**
  - **Uunlike in the US, this leads to a weaker political role for cities at the center and a diminished interest in CGRs on the part on the central government.**
- **An agenda to get GCRs closer to their full potential will involve federal-GCR relationships**
  - **But addressing the needs of the GCRs will probably have to rely more on creative processes than on redesigned structures**

Federal-Municipal Relations

Sharing the Federal Gas Tax

- **An important catalyst, embarrassing many provinces**
  - Stimulating some of them to share their gas taxes
  - Lending momentum to greater tax autonomy for municipalities.

- **The challenge: moving away from equal-per capita sharing**
  - As it causes GCR to up subsidize the smaller communities.
  - GCRs seek derivation-based tax sharing
  - A solution: Ottawa transfering tax points (GST or personal income taxes) to the provinces
  - Then the Provinces pass them through GCR on a derivation basis (not garanteed, but more likely)

- **Supported by the Mike Harcourt Report**
  - “External Advisory Committee on Cities and Communities”
  - Support a consensus toward more subsidiarity and its financing

The Harcourt Report on Cities/Communities

- A Report commissionned by the Martin government

- Subsidiarity is much more advanced in Europe
  - Current arrangements penalize Canadian competitiveness
  - Affecting both people and places

- Key recommendation is for a Double Devolution.
  - Shifting responsibilities and resources from the federal government to the provincial and territorial governments,
  - And then from them to the local level.
  - Double devolution ensures that choices about how to raise and use resources, including tax choices, move to the most appropriate levels, where accountability to citizens is most direct.

- This would presumably be based on the derivation principle

Cities and Open Federalism

- **Many Cities responsibilities are NI/PJ**
  - In the National Interest but within Provincial Jurisdiction
  - Ex.: Early childhood development, day care,   K-12 education, etc

- **Harper's open federalism hinders federal support for NI/PJ**
  - Would require creative ways to exercise the federal spending power
  - The 2009 budget stimulus package embraces shared-cost "boards and mortar" infrastructure in provinces and municipalities (bridges, water, etc)
  - But excluded "mortarboards" infrastructure (day care, k-12, etc.)

- **Ottawa should find ways to address NI/PJ issues**
  - A deux nations framework is one way (the CPP/QPP approach)
  - .eg., ROC "opts in" to federally integrated programs
  - Quebec operates its own programs with compensation

An interesting model

The Greater Toronto Charter

- **Prepared by a private initiative**

- **Alan Broadbent, defined the challenge as follows:**

  "*There is a huge number of issues where the city is the key point of delivery, where it has greater knowledge and experience, or where it can exercise the flexibility and responsiveness that leads to better delivery…. But the city cannot structure its own solutions, because these solutions must pass the test of acceptability by a level of government with less specific knowledge, experience, or motivation*"

- **The Charter adresses the money and power deficit issue**
  - **Along the line of Bremen, Berlin and Hamburg in Germany (citistate)**
  - **Why should PEI wield more fiscal and political power than Montreal or Toronto**

The Greater Toronto Charter Orientations

1. GTR should forms an order of government that is a full partner of the Federal and Provincial Governments of Canada.
2. GTR and its municipalities should be empowered to govern and exercise responsibility over a broad range of issues
    1. ***child and family services; cultural institutions; economic development; health care; education; environmental protection; housing; immigrant and refugee settlement; land-use planning; law enforcement, emergency services, recreation revenue generation; taxation and assessment; transportation; sewage treatment; social assistance; waste and natural resource management; water supply***
    2. ***Exceptions are possible by mutual agreements .***
3. GTR should have the fiscal authority to raise revenues and allocate expenditures with respect to those responsibilities outlined above.
4. GTRshould be governed by accessible, democratic governments, created by their citizens and accountable to them for the exercise of the government's full duties and responsibilities.
5. GTR should continue to fulfill its obligation to share its wealth, innovation and other assets with the rest of Canada, through appropriate mechanisms developed in concert with other levels of government.

The Greater Toronto Charter: Assessment

- **The principle of subsidiarity is applied (efficiency – based)**
  - **Canadian cities are much better positioned than US cities to pursue their competitive futures because areas like Medicare and child support are national programs linked to citizenship, not to place.**
- **Income distribution: handled by senior governments.**
  - **Were EI changeed to confirm more to insurance principles, Ottawa could embark on a negative income tax for adults, allowing greater leeway for GCRs to focus on efficiency issues.**
- **Representative of the real GCRs issues**
  - **Even if it reads like a blueprint for a Canadian Citistate**
  - **Smaller communities would not have the territorial scope and professional expertise.**
- **Any implemention implies changes in both structures and processes, (with many concurrent roles)**
  - **More of a bargaining tool than an action plan**

Accessing Provincial Taxes

- **Canada has an enviable record of provincial piggy-backing on federal taxes.**
  - **Can t be also done at the   municipal-provincial level.**
  - **This is what the Harcourt Report had in mind.**

- **Obvious candidates: PIT and PST**

- **Initially , fixed shares determined on a derivation basis.**
  - **Iit took nearly forty years for the provinces to get rate-and-bracket freedom under the PIT. Tax rate flexibility can come later.**

- **Some rate flexibility on some minor taxes**
  - **The Seattle example (shown earlier)**

Accessing Provincial Taxes, continued

- **These transfers need not increase additional city revenues**
  - **Offset by less reliance on property tax especially for the growing set of services that have little relation to property,**
  - **Replace provincial grants (40% of GTA revenues)**
  - **But over time, however, they will grow.**
- **Meanwhile, no need for the cities to wait for a handout**
  - **Untapped/underutilized revenue sources: user fees, better pricing**
  - ***Toronto is one of the few cities in the world that still operates these services [electricity, water, garbage, transit] as mainline businesses. The ability to use the potential of the very substantial asset values and cash flows of these municipal businesses is perhaps the only financial option to provide the city-region with what it is unlikely to be obtainable from other sources: its own pool of reinvestment capital … with remarkable leverage potential, both from public-sector pension funds and from private sector institutions.*** **(Joe Berridge)**

- **Are there lessons for Montreal here?**

Better Democracy and Accountability

- **Canadian cities have a democratic deficit**
  - Although democracy tends to flourish in cities
  - Being an administrative unit will not spur democratic interest
  - Much better to engage in rent-seeking from the provinces

- **With more political autonomy, responsibility and fiscal flexibility, citizen engagement will be stimulated**
  - the stage will be set for more accountability, and democracy

- **The implementation of the principle of subsidiarity will be result in more asymmetry**
  - Each city will flex its creative forces in their own ways,
  - A good parallel provincial government
  - Efficiency enhancing in both static and dynamic terms.

Toward a New Municipal Reality: Only for GCRs?

- **Many features of the GCR analysis apply to all cities.**
  - **Moreover, it may be difficult to privilege GCRs relative to other cities.**
- **The Canada West Foundation proposal**
  - **A "best-of-both-worlds" approach**
  - ***Apples and Oranges? Urban Size and the Municipal-Provincial Relationship,***
- **A regime for GCRs within an open opt-in framework**
  - **Flexible enough to enable any municipality that desire greater autonomy or new fiscal tools in certain areas to adopt them**
  - **But does not require smaller communities to abandon the security of their current arrangements.**

Opportunities

Cities, Energy, NAFTA, and the $C

- High energy prices + carbon pricing → de-off-shoring
  - Curtailment of supply chains and long-distance outsourcing
- The US market will become more attractive to Canada
  - Canadian exporters will benefit
  - Foreigners will also find Canada more attractive for DFI
  - More so if ever Canada join the US in a C&T system.
- Canadian cities could do very well in this environment

- Ontario's Prosperity Institute views the Windsor-Quebec City corridor as having the potential to rival any mega-region anywhere.
  - A great opportunity for Montreal and Toronto alike.
  - But two necessary conditions are

Two Challenges

A. Ensuring an open + secure border with the US

- For the US, Homeland Security trumps trade
- *For our internal borders to remain free, our external borders must be secure.* Brian Mulroney
- If we accommodate the US away from the border, they are more likely to accommodate us at the border.

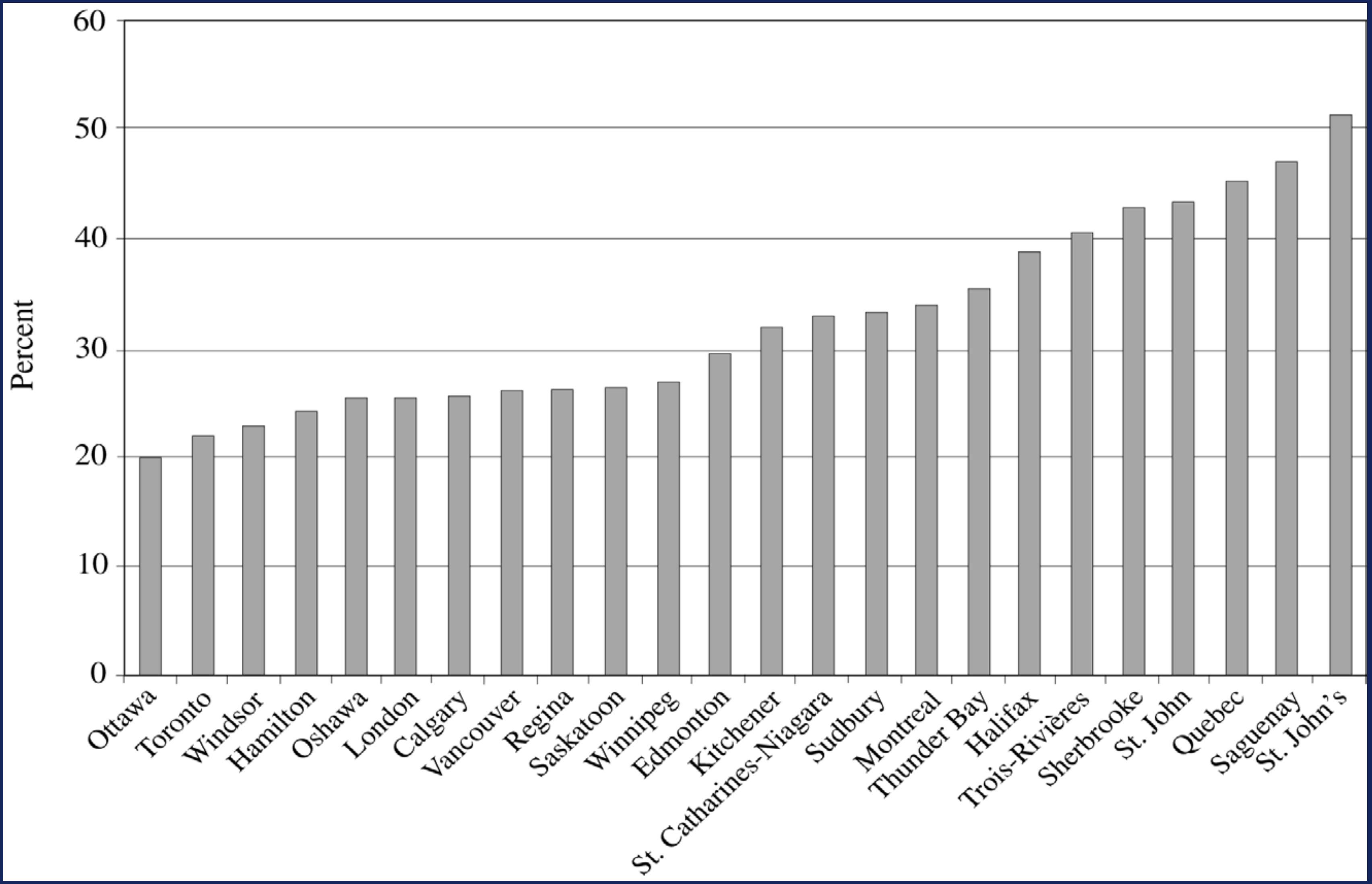
B. Canada should fixed its currency with the US $

- Canada is not an optimal currency area: too small to accommodate both a global resource/energy powerhouse and a world class manufacturing nation
- The loonie is a Petro currency (Dutch Disease)
- $C appreciation clobbers manufacturing

The $ C Challenges

- **The Dutch Disease and exchange rate uncertainty hurts Montreal**
  - it deter foreigners from using Canada as a site for accessing NAFTA.
  - Apparently, Canadians are happy to effectively tie the price of our currency to the price of oil
  - the most important price in the economy tied to the most volatile price on the globe
  - This cannot make economic sense for an exporting nation
- **My solution: fixed rate in the short term, a North American Monetary Union, anchored on the greenback.**
  - Little support now, specially in Ontario, despite that it is the biggest loser.
  - Quebec is nicely balanced between being at the same time a manufacturing and a resources/energy province, and it will want both to prosper.
- **In the long run, a common NA currency would play a key role in ensuring that Montreal will achieve its potential as a GCR.**

Proportion Unemployed Receiving Regular Employment Insurance Benefits, by Major City, Canada, 2004



Source: Battle, Mendelsohn, and Torjman 2006

References