

**"Excellence, Leadership and Urban Growth:
It's About the Money"**

Greater Halifax Partnership

Lunch Keynote Speaker

**Check against delivery*

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I am honoured to be here and especially to have the chance to share my perspective on the future of Canadian cities with members of the Greater Halifax Partnership. There is much we can all learn in Canada from the way other countries and federations afford their cities the political and fiscal clout they need to grow and prosper. There is even more Canadian cities and cities around the world can learn from the work done here by the Greater Halifax Partnership. The combination of careful and targeted research, strategic alliance and focus building initiatives and a coherent pursuit of the instruments and intra-region and intra-occupation alliances necessary to move the Halifax Regional Municipality ahead, not only as an engine for its own residents, but as a creative and economic engine for this entire region, are all truly compelling and instructive. The work done by the Partnership has become, in my judgement, the kind of instrument of leverage other cities might well consider, and is I think a collective agent of positive change that is unparalleled in Canada and beyond. Leverage, strength, and making choices, like the high leverage areas of energy, life sciences, and information and communication technology, like addressing transportation and educational infrastructure – all reflect not only the instruments of smart growth, but the momentum of strategic direction. Never have so many other cities and regions had so much to learn from one coherent initiative.

That being said, you share with other cities the challenge of what I would call the most compelling governance disconnect of our time.

That challenge is reflected in the difference between how we really live our lives as Canadians and how we are actually governed. And, it is the urbanization of Canada, with all the attendant benefits and challenges of that urbanization, that is least addressed by both our constitutional structures and our fiscal realities.

And, I want to be clear with you about the appropriate response to provincial premiers who assert that the principle of federalism requires that all direct transfers be made only to the provinces who will then decide how much money the municipalities created by provincial statute should receive and on what basis.

It has always been my experience in public life, that when ever someone launches a determined advocacy position on the basis that “It is the Principle, not the money”... it is almost always about the money.

Last I checked the constitution was created and amended as our basic law in Canada because it was there to serve us and our needs as free citizens in a parliamentary democracy made up of provinces that agreed to form a federal union. We do not as citizens live our lives to serve the constitution... the constitution is there as the basis of those laws and regulations and conventions that serve us. It is vital that the debate about the economic and fiscal future of cities be rephrased in this context. Over 80% of Canadians live in cities. To have cities go forward with no formal fiscal status in the national accounts of Canada is to create an unending barrier to growth and quality of life where the overwhelming majority of our people live.

Another critical challenge going forward is to make a clear policy decision as to whether we see cities as simply arrangers, organizers and accumulators of wealth, services and goods creation, or whether we believe that cities are creators of wealth,

services and goods. If, as I deeply believe, cities and the communities and quality of life they nurture are actually producers and creators of wealth, then the tax system in place must allow the creation of that wealth to produce the revenues necessary for cities to do their job. Taxes on place-like property taxes do not reflect economic activity except in the most oblique, several years out of date way. The fact that they need to be a component of any municipal tax system does not mean that they must be the only component, along with user fees, that are really available to municipalities. Provincial or federal governments that embraced that view are, through sins of commission and omission facilitating the decline of the communities the overwhelming majority of Canadians have chosen to call home. And, that quite frankly is unacceptable.

And as creators of wealth, not only for their own residents and regions but for the entire country, it is absolutely essential that cities have the capacity to provide incentives for, and derive benefits from the creation of that wealth in ways that are both realistic, economic and creative. Property tax, in and of itself simply does not afford the cities the scope they need.

There are similarities that all cities in North America face, even if they go by different names in different places. In the United States, State governments and municipal councils have often complained about the famous “unfunded mandate”. This comes classically from the federal government in Washington, and usually reflects a positive effort to be helpful – such as with the “No child Left Behind” mandate or important initiatives to protect the rights of the physically disadvantaged. The problem is, these mandates may have initial funding that is usually temporary or inadequate. The cities are then left with the carrying of the unfunded mandate from their own fiscal resources.

In Canada, we call this “downloading”. The federal government downloaded huge social costs on a largely unfunded basis in the early to mid-nineties, as they embraced religion on the deficit. Social transfers were cut by a third, and while Ottawa has now begun to re-invest in health, the full real dollar value of those cuts is far from being replicated any time soon. That gap is carried by the provinces, and in many provinces, that gap was passed on to the cities without anything like the financial capacity to deal with it.

There is one core difference between the United States and Canada-in the US many cities can use income and sales taxes to reconstruct a sustainable cash flow balance actually related to real client service demand. In Canada, cities simply do not have that option.

I am reminded of a wonderful story I heard from the late Robert L. Stanfield in Ottawa just a few years ago. A few of us had gathered in Ottawa to pay tribute to another Nova Scotian, Eric Kierans who was to be invested with the Order of Canada the next day. Mr. Stanfield, Eric Kierans and the others were reflecting on a federal provincial meeting, which took place in the 1960's, which Eric Kierans was attending as part of the Lesage Liberal government, who was hosting the meeting at the Quebec National Assembly. Mr. Stanfield was attending as the Premier of Nova Scotia, fresh from a successful provincial election. Without notice or fanfare, Prime Minister Pearson announced a new federal initiative-a nation wide youth summer job programme, 50% of the cost of which Ottawa undertook to pay. The provinces were caught by surprise, Quebec saw this as an intervention into provincial jurisdiction. Nova Scotia's Bob Stanfield leaned into his microphone to make the following point, which I paraphrase here:

I have just finished travelling the length and breadth of Nova Scotia, and while many issues and challenges were raised I have no recollection of any demand for a youth summer job programme. Nevertheless, I do not want to seem ungrateful for the generosity of Ottawa in offering to pay the first 50% of the cost. If the federal government has any idea where we might find the other 50%, I would appreciate that even more!

I reference this bit of history because I think it reflects the seeds of the anxiety that provincial premiers may very well share relative to direct Ottawa funding of municipal activity. If that funding is not formulaic and therefore structurally embedded in the fiscal system, provinces have every historical right to fear that having responded to municipal concerns as a pre-election issue of the day, expectations and client needs will be left in the end for provinces to face long haul without dependable federal support. And, if the provinces do not need this kind of 'prime the pump' then 'head for the hills' cities plan from Ottawa, let me suggest here today that city governments and business coalitions should want this kind of initiative even less.

You remember the classic definitional difference between how a socialist, a conservative and a liberal approach the challenge of a drowning man fifty feet from shore: The conservative throws out a forty foot line and hollers at the drowning man to just swim a few strokes himself to grab on... the socialist throws out a seventy foot line and tries to instruct the drowning man, in some detail not to get too entangled in the excess... and the liberal throws out a fifty foot line, makes sure the drowning man grabs on... then drops his end on shore to go off and do another good deed...

It is precisely that risk that we need our evolving policies on cities to avoid.

Now I very much believe that Prime Minister Martin is quite serious and sincere in his commitment to find a way to bring cities to the table... and I have little doubt that the federal budget on March 23, will have some GST and perhaps gas tax initiatives that will be encouraging to the cities. I also believe that these initiatives might create the completely unjustified perception that the fiscal issues of our cities are actually being addressed, which would serve to dilute the real sense of urgency with which a fiscal realignment around cities needs to be underlined.

If we are talking seriously about impetus for growth, then cities must have options beyond the property tax base and ever increasing rates for user fees. The core problem for a property tax base is that its structure is often beyond the control of cities, and, as was pointed out in an IRPP study on urban governance and finance in 1997 (Hobson, St-Hilaire, IRPP, 1997) a property tax system only facilitates moving differential rates from where the creators of wealth as residents live to where they work in the commercial sector. I would add that often, this can be extremely unprogressive and unrelated to both real income and ability to pay. If the generation of wealth in a community generates little revenue growth from which cities can nurture and facilitate the growth of more wealth, what infects cities instead are dis-incentives for wealth creation, where wealth generators move away - because local social and physical infrastructure cannot cope, and the raising of user fees reaches the point of diminishing returns. This is what the lack of access to sales tax and income tax revenues does to municipalities. And, this is a huge reflection of the disconnect between how we really live our lives in Canada, and how our society is governed. And just so we are clear, municipal tax points cannot

simply be added on to existing tax rates of other levels of government. This is about agreements to share – which, by the way, need violate no constitutional reality.

And, let us step out of the fiscal sphere just for a moment and reflect on social, economic and national security issues as they engage our municipalities, throughout North America.

We have seen in the last 36 months, floods and forest fires, snow emergencies, chemical spills, even terrorist attacks as on the twin towers in New York: First on the scene? Municipal and Regional Municipality police, fire, ambulance, maintenance workers etc... I remember the multi day power failure caused by the ice storm of the late 90's - when large parts of Eastern Ontario and Quebec were out of power for days and weeks in the dead of winter. In our community all the officials who engaged, provincial, police, fire, public health, military, federal departments - and they all did a magnificent job, did so around the municipal boardroom table at Kingston City Hall. When short-term emergency payments were necessary for hourly payed people who had had no income for two or three weeks - it was the city that was on the front line. So while there is one key concept of national security that argues for fighting those from away who would do harm to our country in their countries far away from Canada - where they live and not on our own shores or in our own communities, the other concurrent reality is that whether the risk to people's safety and livelihood is from natural or man made causes for eighty percent of Canadians, the front line is our cities and it is our municipal and regional municipal governments who are the real first line of defence. Who believes that an essentially static property tax can adequately finance that kind of remit? Certainly, I do not and I know the vast majority of our mayors and municipal councilors do not.

What is vital here is that we move away from the notion that cities simply represent a gathering of wealth producing activities and are little more than arrangers of physical and human resource assets that might be anywhere. This is the view of cities as the great "Maitre D's" of our economy as opposed to the actual producers of the economic and social diet upon which this country thrives. We must move to a fiscal framework that sees the cities as producers of wealth and assesses their needs and obligations in the same way as we might look at any other clear driver of Canada's Gross Domestic Product. That, I suggest is the only realistic framework upon which national, provincial and municipal policy can go rationally forward.

When I talk about needs and obligations, I mean both economic and social. While the IRPP as a think tank cannot be typecast ideologically as one might the Fraser Institute on the right of the spectrum or the Centre for Policy Alternatives on the left, there is an integrated framework for the research we do on economic and social issues: namely the belief that economic performance and social progress are inextricably linked. A failure in one area will produce a failure in the other. Finding the best way we can to move ahead with both, as a society, as an economy and as a community is one of the key contributions IRPP research endeavors to make. So you need to be aware of that bias as we reflect together on cities.

In the February 2004 edition of IRPP Policy Options magazine, which focused intensely on cities, contributor Neil Bradford put it this way:

“The diversity of the city will not drive innovation if those who are different or poor find themselves increasingly marginalized. Only those cities that become places of innovation and inclusion will rise to the top in the global age”

In the end and in the beginning, this inclusive economic and social development strategy requires differentiated tax sources for our cities. Excess taxation is never the answer...but excesses in property tax that emerge when real alternatives simply do not exist, is no answer either.

Ottawa and the provinces must be encouraged to look for creative ways to broaden access to diversified tax bases without uncorking large constitutional snafus that we neither need or want. And, we need to be clear that the general issue of fiscal disequilibrium, which IRPP highlighted in a recent research publication on health financing capacity as between Ottawa and the provinces (Lazard, St-Hilaire, IRPP, February 2004), along with the need for genuine reform of equalization (Courchene, IRPP, 2004), will not make this discussion any easier. But, as my late mother used to say, most truly worthwhile things are not easy. Simply put, the existing structure of the federal government's revenue generating system will produce significant and cascading surpluses over the next two decades, whereas the structure of provincial revenue capacity will produce a mix of deficits and narrowly balanced budgets going forward. If healthcare costs continue to outpace both tax revenue increases and inflation, and barring some structural changes to how we insure and deliver healthcare, this will be the trend, then provincial revenue prospects will become even more desperate. And, to be fair to Ottawa, if they make larger formulaic commitments to health care financing as the provinces want, and actually invest at required levels to sustain a real and deployable military capacity, their fiscal profile would also change. But their scope for tax sharing is much broader than that of the provinces.

Where does this all lead us?

Let me suggest a few clear policy and decision priorities we might consider:

1. This is an adult conversation. So arguing that the constitution is a Maginot line that prohibits real cooperation is silly and unconstructive. Our Australian Commonwealth brothers and sisters, who also have a federal constitution with some division of powers, have created a Council of Australian Governments as its peak intergovernmental forum. It comprises the Prime Minister, State Premiers, Territory Chief Ministers and the President of the Australian Local Government Association the territories in some cases conform to what we would call regional municipalities. Surely we can structure a regular three level engagement to be frank and cooperative on the core fiscal challenge.

2. This is all about the money. There are ways Ottawa can share money in a more formulaic way that does not impede provincial jurisdiction. The federal legislation around Grants in Lieu of Taxes could be revised to provide a far more equitable basis for revenue for cities with large federal municipally non-taxable facilities. Ottawa could provide a matching framework for provinces who do the same with their “grants in lieu of tax” operating structures. Well endowed programmes like the Canada Foundation for Innovation, which offer grants for the infrastructure necessary for innovation should have defining legislation changed, so municipalities can be recipients in support of important municipal projects that relate to the creation of wealth from intellect and creativity around research.

3. The key determinants of municipal success, so ably advanced by the Greater Halifax Partnership, identifying and nurturing growth nodes, having a strategic plan to shape the kind of growth most beneficial to the region, ensuring social and physical infrastructure that maximised synergies between the two, attracting investment through quality infrastructure, nurturing the critical engines of creativity that invite investment and settlement - these are all essential parts of what a national – provincial -municipal strategy must encompass. These determinants should not be about passing the buck or fighting over fare shares. It must be about cooperative endeavour where constitutional barriers are weather conditions within which progress is made, not prison bars that restrain good ideas and genuine compromise and progress.

4. It is vital that all of our national political parties be made to engage on municipal fiscal capacity in a formal way during the next few weeks before the expected federal election. Atlantic Canada will be an extraordinarily sensitive battleground for all three main line parties. This is an opportunity, not a barrier.

5. Municipal leadership should engage in the debate about our electoral system in Canada. Non urban voters have strength in Parliaments and legislatures well beyond their numbers - which means voters in municipal areas are broadly under-represented. Moving to different balloting systems, which increased the impact of representation by actual population, which are actually under consideration in PEI, New Brunswick, Quebec, Ontario and British Columbia are part of a larger trend to revitalize our democracy so that all votes actually count, and the incentive to vote is also increased. This will increase the political clout of cities whichever party is in power, and all municipal leadership, and the 80% of Canadians they represent have a stake in this outcome.

Municipal leadership should not be silent on this question.

6. Ottawa and the provinces must be made to understand that Halifax competes with American and European cities, as your Partnership has underlined, and as is true for Montreal, Toronto, Winnipeg, Calgary and Vancouver. In the U.S. as on other federations, cities can levy income and sales taxes from state to state variations. Tax exempt municipal bonds have a lot to do with how our competitor cities are funded. There is no appropriate reason we cannot have a full menu of these sorts of options for cities in Canada, providing Ottawa and the provinces view this as a cooperative as opposed to a divisive beggar they neighbour engagement.

7. This is not about “accommodating” cities. This about “liberating” their creative and wealth creation capacity as producers of economic and social progress, and not just hosting the activities of others.

8. The Economist recently noted that Canadian cities are in receipt of fewer transfers from other levels of government than cities elsewhere. There is a cost to this – and that cost is not to the cities or governments, but to the 80% of Canadians who live and work there.

Let me offer a final thought. The example Halifax has set, despite the challenges is, in terms of investment, growth, income generation and real estate markets truly extraordinary. Imagine what that might have been yet again, if the economic growth

here actually strengthened, in a solid and long-term way, this or any cities real long term and dependable multi-source tax base. That is the challenge we need to address now.

Thank you very much