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NEWS RELEASE

Canada's Cities Lack the Means to Prosper in the Global Knowledge Economy

To reach their potential, large cities must have the authority and fiscal capacity to implement knowledge-based growth policies, says Thomas J. Courchene

Montreal – Cities are the key players in the global knowledge economy in which Canada competes. However, despite their importance, Canadian cities are cash-starved compared with other cities around the globe and have no jurisdictional authority under the Constitution. This, says an IRPP study published today, means that our cities are ill equipped to attract the skilled workers and high-tech industries that are the new ingredients for economic success.

IRPP Senior Scholar Thomas J. Courchene (Queen's University) argues that in order to compete in the global knowledge economy Canada's large cities need money to fund education, immigrant settlement, health care and a host of other programs that would help attract and develop a skilled and educated workforce. Without this money and the ability to design policies to address these needs, our cities risk losing out to their international counterparts.

Considering that Canadians' standards of living are a function of how well our cities perform in an international context, this study serves as a clear warning that the time for change is now. Looking at the current situation of Canada's large cities relative to other global players, Courchene sees problems in terms of per capita spending and revenue-raising capacity.

- ◆ Canadian cities rely on property taxes for more than 90 percent of their revenue, and these revenues (unlike income and sales taxes) do not increase with a growing economy. The problem is that the effective political limit to property-tax financing – in the range of 3 percent of GDP – is far too low to allow Canadian cities to reach their potential in the knowledge economy.
- ◆ Cities in continental Europe, which rely to a much greater extent on sales and income taxes, are not only much stronger fiscally but able to shoulder greater responsibilities. Municipal governments in Stockholm, Berlin, Vienna and Helsinki spend twice as much per capita as those in Copenhagen and Amsterdam and three times as much as that in Toronto.

- ◆ US cities are also more fiscally diverse. For example, in comparison with Edmonton and Calgary, Seattle has access to eight additional sources of revenue, not to mention several other tax options it has elected not to use.

Ottawa's decision to share a portion of federal gas tax revenues with municipalities could have helped shore up big-city finances, but was poorly designed, argues Courchene. While these revenues are disproportionately collected from large cities, they are re-allocated on an equal per-capita basis to *all* municipalities, which means big cities end up being the financial losers. What was meant to be a revenue-sharing mechanism between two levels of government has translated into an equalization transfer from large cities to small cities. These revenues should be allocated on the basis of where they were collected in the first place, contends the author.

To allow Canadian cities to become players in the knowledge economy, Courchene proposes some fundamental changes to city governance and financing:

- ◆ **Provincial-municipal relations:** The Greater Toronto Charter is an example of a blueprint for constructive rethinking, says Courchene. Its key provision is to empower greater Toronto to exercise responsibility over strategic functions such as economic development, immigrant resettlement and education. Large Canadian cities have the critical mass needed to design and deliver programs, and adopting such charters (or even going one step further and achieving status as city-provinces) would allow them to exploit this ability.
- ◆ **Diversifying revenue:** Courchene argues that there is ample scope for large cities to be granted access to income- or sales-tax revenues. He notes that Canada's "piggyback model" (by which Ottawa collects income taxes on behalf of all provinces except Quebec and remits the proceeds) is the envy of other federations. For starters, provincial transfers to large cities could be converted into equivalent income- or sales-tax points, which would allow their revenues to grow with the economy. Later on, cities could be given authority to set their own rates.

Global Futures for Canada's Global Cities by Thomas J. Courchene is available free of charge from www.irpp.org.

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