Institute for Research on Public Policy
Institut de recherche en politiques publiques

For immediate release
Tuesday, June 21, 2005

NEWS RELEASE

Federal Gas Tax Transfer Discriminates against Canada's Global City-Regions

Lack of fiscal autonomy and constitutional status are Achilles heels of GCRs like Vancouver, Edmonton, Calgary, Winnipeg, Toronto, Montreal and Halifax, says IRPP study.

Montreal – In the wake of recent agreements in Alberta, British Columbia, Ontario and Quebec to implement the much-vaunted federal gas tax transfer, a new study released today by the Institute for Research on Public Policy (IRPP.org) says they will do little to address the fact that Canada's global city-regions (GCRs) are fiscally weak and jurisdictionally constitutionless.

Author Thomas J. Courchene (IRPP senior scholar and economics professor at Queen's University) says GCRs such as Vancouver, Edmonton, Calgary, Winnipeg, Toronto, Montreal and Halifax, among others, "are the driving forces behind their respective regions/provinces." They are, he adds, "the principal repositories of human capital and, therefore, competitiveness" in the knowledge-based economy (KBE).

For this reason, Courchene argues, they should receive preferential treatment relative to other municipalities with regard to funding sources. In this respect, the federal government's New Deal for cities has "failed to step up to the plate." It explicitly promises to treat all municipalities equally, but because the cost of providing municipal services is typically higher in GCRs than in smaller cities, says Courchene, "recent federal initiatives have actually *discriminated against* the GCRs."

But the two Achilles heels of Canada's GCRs – lack of fiscal autonomy and lack of jurisdictional standing – make it difficult for them to act as the empowering engines of local, national and global economies.

Courchene says there is "mismatch between revenue-raising capacity and expenditure pressures." GCRs rely heavily for revenue on property taxation and provincial transfers, which do not automatically grow with incomes and population. They do not have the constitutional authority to levy income or consumption taxes, which do increase as incomes and population increase. Exacerbating the problem is the fact that GCRs also suffer from "unfunded mandates" or "fiscal downloading" from both levels of government. Examples of these include immigrant settlement services and social housing.

From a jurisdictional perspective, explains the author, GCRs are caught in an ongoing tug-of-war between Ottawa and the provinces when addressing KBE-related city issues. "Federal deficit-downloading to the provinces began to progressively constrain provincial fiscal positions," says

Courchene. Unable to reduce expenditures on health care, provinces starved virtually every other program area, including cities.

Courchene presents several policy options to increase the fiscal autonomy of GCRs:

- Increase the use of frequently overlooked revenue sources that are within cities' control, such as user fees, and exploit the cash-generating potential of municipal services like water, sewage, garbage disposal and transit.
- Use tax-sharing, of personal income and sales taxes with Ottawa and the provinces, for example, to bolster cities' revenues and enhance expenditure flexibility.
- Give Canada's global city-regions a more active role in the operations of Canadian federalism, such as formal consultation on federal and provincial policies affecting their funding sources.

Courchene warns that if actions such as these are not taken, Canada's global city-regions may pursue more radical solutions, such as seeking full constitutional status as "city-provinces."

"Citistates and the State of Cities: Political-Economy and Fiscal-Federalism Dimensions" is the latest IRPP Working Paper released as part of the Institute's Economic Growth and Social Progress series. It is available on the IRPP Web site, at www.irpp.org.

-30-

For more information or to request an interview, please contact the IRPP.

To receive the Institute's media advisories and news releases via e-mail, please subscribe to the IRPP e-distribution service by visiting its Web site, at www.irpp.org.

Founded in 1972, the Institute for Research in Public Policy (IRPP.org) is an independent, national, nonprofit organization based in Montreal.

Contact:

Jasmine Sharma (jsharma@irpp.org)
Director of Communications and Public Relations (IRPP.org)
Office: (514) 985-2461, ext. 324, or cellular: (514) 235-8308