



Canada: A Creaking System

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As the well worn phrase has it, municipalities in Canada are “creatures of the provinces.” Constitutionally, they fall under provincial jurisdiction which means that the country has ten distinct provincial-municipal systems, established by provincial law and regulated by a provincial department. The country’s cities, towns, and rural municipalities are also constrained by provincial legislation in areas like the environment, housing, and police. Local governments are dependent on provincial government transfers, which make up 15.6 percent of their current revenues. The federal government in Ottawa makes few direct transfers to municipalities – just 1.5 percent of current revenue. Total municipal government revenue of about \$55 billion CAD makes up 4.1 percent of Gross Domestic Product.

Although they are greatly constrained, municipalities are also a responsibility for provincial governments, which must respond to needs expressed by municipal governments and their constituents. In provinces dominated by cities, this is particularly the case. Winnipeg’s population, for example, makes up 60 percent of the Manitoba total, while the three big metropolitan areas of Toronto (41 percent), Vancouver (51 percent), and Montreal (47 percent) loom large in Ontario, British Columbia and Quebec.

The federal government also responds to urban voters. The three metro-poles alone elect 85 of 308 Members of Parliament. Most federal programs in

this urbanized country are delivered in cities and towns. But it is necessary to distinguish the federal government's activities *in* municipalities from the federal government's relations *with* municipal governments. The former are extremely diversified, but the latter have varied in intensity over the years, last becoming strong in the mid-1970s through the short-lived federal Ministry of State for Urban Affairs.

Now again municipal-federal relations are in flux. Continued urbanization has created pressure for change. New foreign immigrants are attracted mainly to the big conurbations and Aboriginal people are moving from reserves into cities, especially in western Canada.

As the relative economic importance of cities increases, the success of large city-regions seems vital for national competitiveness in the global economy. Recent major urban amalgamations and downloading of functions to municipal governments have focused attention on them. Most significantly, in part because of downloading, municipal governments have lobbied hard for financial assistance. Municipalities argue they are too dependent on the property tax, and that a fiscal imbalance occurs when they are forced to constrain spending despite the desperate need for services and infrastructure funding.

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These pressures have the federation creaking towards change. The revenue situation has improved as the federal government steadily increased the transfers for infrastructure begun in 1993. In 2005, as part of a "New Deal for Cities," it eliminated completely municipal payments of the federal sales tax, and allocated approximately \$1 billion annually from gasoline taxes to municipalities, along with special funds for urban transit. But these tax breaks and transfer payments never seem to be enough, and recent transfers are neither permanent nor predictable. So municipalities are demanding a share of rapidly growing revenue sources like income and sales taxes. Opponents believe municipalities could do more with existing tax powers, user fees, and borrowing.

Other issues are contentious. There is disagreement about whether the federal government should focus investment in the big cities, or spread funding more evenly, on the view that "strategic investments" can be made almost anywhere, and that the problems of rural decline deserve attention.

The scale of municipalities is an issue. The municipal acts of the various provinces provide for uniformity in finances and functions, though there are special provisions for rural areas and recently, in some cases, for more big-city autonomy (the new City of Toronto Act and the "Contrat de ville" with Montreal). Some cities also have gained "a seat at the table" in negotiating tripartite deals such as Vancouver's Urban Development Agreement. But this concerted approach is not available to all municipalities.

Joint decision making also has its drawbacks. The process can be cumbersome, with high transaction costs, while blurred responsibility for decisions raises accountability issues. Yet proponents argue that better municipal information can improve policy, and if municipalities are needed to implement senior governments' initiatives, then they should rightfully partner in policy making.

Capacity is a problem for municipalities, however. Municipal administrations have specialized expertise in some functional areas only. Smaller cities employ few policy analysts. Further, there is a common view that top-notch political and administrative talent is lacking at the municipal level. But others argue that more money and responsibility will attract talent.

The involvement of municipalities in multi-level decision making might depend on the policy at issue. Municipal governments are strong in infrastructural expertise for example. Similarly, city administrations worry about concentrations of poverty and the social exclusion of immigrants and urban Aboriginals. On the ground, municipal governments may be best able to draw marginalized groups into new place-based initiatives.

Advocating change is problematic. Associations of municipalities have long been active at the provincial level, though in several provinces they are fragmented. Nationally, about 90 percent of all municipalities participate in an effective lobby group, the Federation of Canadian Municipalities (FCM). Much of the recent pressure on the federal government has been led by the FCM's Big City Mayors' Caucus, whose members have distinctive interests. Since municipal politics in Canada are generally non-partisan, upward pressure cannot be exerted through party channels, but in individual municipalities, "big tent" coalitions of interests, like the Toronto City Summit Alliance, have had some impact on senior governments.

So are municipal government problems a federal government issue? One view is that core concerns of the big city-regions – land use and urban sprawl, the environment and transit – transcend municipal boundaries, inevitably rendering the provincial governments "the crucial strategic urban managers." As for finances, focusing on the federal government merely lets provincial governments off the hook. On the other hand, municipal action in areas like environmental control and policing against terrorism have external implications that could imply some federal role. Infrastructure needs are compelling and arguably of national importance.

The current federal government, like any probable successor, is disinclined to interfere in fields of provincial jurisdiction, especially in Quebec where successive governments have jealously defended provincial control over municipal affairs. Hence, new spending will likely be directed toward provincial governments rather than municipal ones. But there is a lot for the federal government to do in cities. The municipalities will continue to press, and with all those House of Commons seats at stake, the system may well creak forward towards more complex intergovernmental arrangements.