CANADA

STATEMENTS AND SPEECHES

INFORMATION DIVISION
DEPARTMENT OF EXTERNAL AFFAIRS
OTTAWA - CANADA

No. 72/14

THE ROLE OF THE FEDERAL GOVERNMENT IN CANADIAN URBAN AFFAIRS

A speech by the Honourable Pat Mahoney, Minister of State (Finance), to the Sixty-sixth Annual International Conference on Public Finance of the Municipal Finance Officers Association of the United States and Canada, Denver, May 29, 1972.

...Canadian federal policy reflects a recognition of the difficult and challenging responsibilities of municipal governments; it recognizes also the vast size of our country, and the differences in culture, attitudes and expectations, from Newfoundland to Quebec, and from Ontario to British Columbia. In other words, it is not a policy based on strong central power which seeks to impose its will on other levels of government. Rather, it is one that acknowledges the important role of provincial and municipal government, that accepts that each level of government has different responsibilities, that these responsibilities at times overlap, and that sound public policy will be developed only if all levels of government are conscious of, and respond to, both these facts.

Canada - An Urban Society

Two overriding facts about Canada are apparent. The first is the sheer size of the Canadian land-mass; the second is the relative thinness of population. In our almost four million square miles there live only 22 million people, barely one-tenth of the U.S. population.

Our largest cities are inevitably much smaller than America's largest cities. The metropolitan areas of Montreal and Toronto have populations of around two-and-a-half million; Vancouver has perhaps one million inhabitants. The populations of Winnipeg, Calgary, Edmonton, Hamilton, Quebec City and Ottawa vary from about 400,000 to 600,000.

And yet, and this is the first point I wish to stress, Canada is becoming progressively and rapidly more and more an urban society. One hundred years ago eight of ten Canadians were directly or indirectly engaged in agricultural pursuits. At the turn of the century fewer than four of ten Canadians lived in urban centres. During the first third of the century,

migration from country to city was slow but steady. The 1941 census showed, for the first time, less than half our population living on farms or in villages of 1,000 or less. Today it is less than one-quarter.

Furthermore, it is our largest cities in which the rate of population growth is most rapid. Various projections suggest that Toronto and Montreal will both have populations in the range of roughly five to six-and-a-half million people by the year 2001. And, in the case of Toronto, such growth would almost inevitably result in that metropolitan area's running into nearby urban areas, creating a situation not unlike that in parts of your country, where one city is more or less continuous with others, with little or no space in between.

While our largest cities are not quite in a class with the largest U.S. cities, and even our most overburdened city fathers do not yet face the magnitude of the problems of those responsible for municipal government in New York, Chicago, or Los Angeles, our lists of urban problems are not dissimilar. You know the issues better than I: The quality and quantity of housing, particularly for low-income families; provision of primary and secondary education of a reasonable quality and with due regard for equality of opportunity from district to district; adequate police and fire services; water supply; sewage treatment; street construction and maintenance, which can be particularly difficult in our northern climate; urban transit; recreation; garbage disposal; land-use planning in the teeth of conflicting demands for industrial and commercial growth, on the one hand, and preservation of environmental values, on the other, and so on. And, beyond these essentially physical and more traditional problems, there is the still more difficult issue that has come more and more to the fore in recent decades -- the grave concern about loss of individual identity and lack of participation by the citizens of "Megalopolis", to which is attributed not a small part of the social unrest and assault on established institutions which so frequently make today's headlines.

For the smaller urban municipalities, and the rural municipalities, the "mix" of problems may be somewhat different, and perhaps less complex. The circumstances, and the problems, of these smaller municipalities are not changing nearly as rapidly as those in the large urban areas. Local governments dealing with them have had the opportunity, over time, to get used to them and to understand the dimensions of the issues. But in the megalopolises which have been grown in our lifetime, the problems are on a genuinely new scale. For us, in Canada, they are just beginning to assume the proportions which they have had in the U.S. for the past 20 to 30 years. And so we learn, or try to, from your successes and failures.

In the long run, some limitation may have to be put on the size of our metropolitan areas. That, in itself, will present a very new and different problem in a society where freedom of movement is accepted as an important individual right -- a right that has been exercised mainly in favour of movement to where the action is -- the big cities. At present, Canada's Federal Government is trying to influence the growth in large cities much less directly. Special programs have been designed to encourage economic growth in the poorer

parts of our country and various forms of fiscal transfer are made to these same regions to ensure a level of public service by provincial governments which is up to the national average. Our hope is that these policies will lessen the need for young people in the outlying provinces and regions to leave home and head for jobs in Toronto and Montreal.

These are, however, long-term objectives. In the meantime, we must cope with the existing problems of our cities -- the pressures on the central core which have made them less and less hospitable places to live in or visit. When this process sets in, as we know, those who can afford it move out to the suburbs. The transportation system, public and private, is then expanded to accommodate the suburban commuter and roads and exhaust fumes replace parks and expropriated housing. Perversely, the improved transportation encourages further moves to the suburbs and thus more pressure is put on roads and more commuters. Traffic increases, traffic jams, are commonplace, noise levels in the core rise, air-pollution increases, and so more people get out. The tax-base declines, leading to badly-financed schools and inadequate local services for those who remain. Before long, a self-perpetuating slum has been created.

Moreover, this process of urban deterioration is not exclusively a physical one. Rather, when it sets in, it is typically accompanied by a parallel deterioration in individual and group attitudes and behaviour. Although alienation and the questioning of contemporary values is by no stretch of the imagination the exclusive prerogative of the urban poor, the human product of the megalopolis environment is, in fact, frequently the alienated and embittered younger generations, who see little reason to play by the rules of the wider national society in which they live.

In other words, the urban problem is both physical and human, with the physical setting of the city exerting a major influence on those who live in it. This incomplete description of urban decay is, of course, not a new one. Nor has this process taken serious hold in Canada. But we fear it and we are determined to do our best to prevent it.

Municipalities under the Canadian Constitution

But the Federal Government is not free to intervene in the urban process and municipal affairs as fully and directly as some might wish. There is an important constraint upon us. Under the British North America Act, municipal governments are the creatures of the provinces. Municipal institutions are established by provincial law and lack the power to raise tax revenue or to borrow, except in so far as the provinces allow them to do so. Even the power to issue licences is constitutionally under the authority of the provincial governments. One of the hottest interjurisdictional battles in Canada in the last decade was the futile effort of Vancouver's City Council to get a bicycle-licence hike from 50 cents to a dollar past the B.C. Legislature -- a body by no means unique in our North American experience in the gross under-representation of urban citizens.

As I understand it, this places American and Canadian municipalities in similar positions, in that they operate on a most limited tax-base.

But there is also an important difference. I am told that, in the U.S., the Federal Government frequently deals directly with the municipal authorities; indeed, many states have provided "constitutional home rule" for larger cities. In Canada, the Federal Government seldom deals directly with municipalities.

There is another important consequence of the powerful provincial governments we have in Canada. It has helped us to prevent or overcome one of the most difficult aspects of the U.S. urban scene -- the splintering of jurisdiction among competing local governments. In Canada, most provinces have been able to provide vigorous and imaginative leadership in the creation of metropolitan and regional local governments, with responsibilities for area-wide planning and administration.

Federal Policy

During the greater part of the postwar period, a very important, and certainly the most visible, federal intervention in urban Canada was in pursuance of our national housing policy. The role has been more one of stimulating and complementing the private sector and other levels of government, rather than assuming prime responsibility. The Federal Government has sought to increase the flow of mortgage money and to encourage lenders to make loans available to prospective homeowners on better terms than those provided by normal market forces. The Central Mortgage and Housing Corporation, created in 1945, has been responsible for this and most other aspects of federal housing policy.

The Central Mortgage and Housing Corporation insures mortgage loans available from approved lenders to individual homeowners, builders and special groups such as co-operative housing associations and farmers. It may also make direct loans to aspiring homeowners and builders where, in its opinion, insufficient loans are available from approved lenders. Both programs are designed to have their main impact on low- and middle-income housing.

Other aspects of housing policy are linked more closely to other levels of government. In co-operation with provincial governments, the Federal Government has helped to finance new housing, and the purchasing and rehabilitation of existing housing for low-income families. As a complement to this, Central Mortgage is also empowered to make long-term loans to a province or local authorities for the provision of housing accommodation.

Close to half of the country's present stock of approximately 5.9 million houses have been built since the first legislation was enacted. Of these, about one-third were financed in one way or another under the federal housing legislation.

However, the Federal Government has become concerned that this may not be enough, in view of the enormous demand for housing anticipated over the next decade. The Government has, therefore, introduced legislation in the House of Commons to create a mortgage-exchange market, an institution which has

been lacking in our country. A central exchange is to be established and a government agency, the Residential Mortgage Market Corporation, will act as a buyer or a short-term lender, taking mortgages as security, making mortgages more liquid and attractive and thus encouraging more investment in housing. Amendments to the National Housing Act will also be introduced soon, which will provide Federal Government assistance for the rehabilitation of the existing city-core housing which will concentrate on upgrading existing neighbourhoods rather than tearing them down and starting from scratch.

Another area of direct federal assistance to municipalities has been the financing of programs aimed at the elimination and prevention of water and soil pollution. Here again, Central Mortgage has been the instrument used by the Federal Government. It is authorized to make loans to provincial or local authorities for the purpose of assisting in the construction or expansion of sewage-treatment projects. Very substantial sums have been loaned to municipalities under this program. In addition, over $14 million in previous loans was written-off last year, owing to a statutory provision which allows CMHC to forgive one-quarter of these payments.

Furthermore, there is a new aspect of federal policy which I should mention. Last year, a federal Cabinet-level agency was created, the Ministry of State for Urban Affairs. This followed a detailed study of urban Canada, including a review of federal urban policy. I indicated a moment ago that housing was a most important, and the most visible, federal intervention in urban Canada. Lest you think it the only one, I should tell you that our urban study disclosed 27 different federal agencies and departments sponsoring 117 programs which affected urban life, and without systematic effort at policy co-ordination. Equally unsurprising and important, it was found that there had been little co-ordination between federal, provincial and local governments.

The basic task of the Ministry is to study critically the federal policies and activities affecting urban Canada: housing pollution, transportation, social assistance and the numerous other fields which help shape the growth of a city -- and to help pull these activities and policies together -- to co-ordinate existing and developing federal policies, to the end that they complement rather than contradict each other.

Although the Ministry acts strictly within the areas of federal jurisdiction, it is also responsible for developing the tools and techniques of effective co-operation with other levels of government.

Thus the threefold mission of the Ministry is: to evaluate and review federal policies in the context of their urban impact; to co-ordinate existing and planned federal policies; and to establish a link with the other levels of government whose programs influence urban life.

Federal Role in Municipal Finance

There is no easy way that the Federal Government can intervene directly to improve sources of municipal finance. The British North America Act

gives the Federal Government authority to raise taxes by any means whatever. Provincial governments can levy direct taxes only and can, of course, delegate to municipal governments all or part of that right. The Federal Government can delegate nothing directly to municipalities.

The heavy dependence of municipalities on the taxation of real property is something of a North American phenomenon. Canadian property taxes, for example, only a few years ago were providing well over half of local revenues. Even today, around 45 per cent of all municipal revenues come from this source, including revenues which are transferred from other governments. In absolute terms, revenues from property taxes in Canada appear to have increased more than fivefold over the past 20 years.

But there is also a growing recognition in Canada that there are limitations on the use of property tax as a revenue source. In part, this may reflect a feeling that relatively less dependence should be placed on regressive forms of taxation; in part, it may be based on a reluctance of elected municipal officials to overburden their rate-paying electorate. Whatever the motive, municipal governments are looking elsewhere for more and more of their needs.

At the same time, and despite the occasional exception, the wide range of other local taxes which has been collected at one time or other in the past -- amusement taxes, sales taxes, animal taxes, telephone taxes and so on -- have either disappeared or have been swallowed up by provincial governments. So most of our municipalities find little revenue from these sources. And, unlike some states, the Canadian provinces do not now provide Canadian municipalities with the authority to levy income taxes.

The other means whereby municipalities try to finance their needs is through borrowing, occasionally on the capital markets. Municipal borrowing is governed by provincial law and varies from one province to the next. In some provinces, municipal borrowing is facilitated by provincial agencies, which purchase debentures of smaller municipalities at better rates than the municipalities might otherwise obtain. Market-financing by municipalities has increased much more slowly than the growth in municipal expenditures in recent years, perhaps, in part, because of heavy provincial competition for debt capital and in part because of the growth in other forms of financial assistance provided to the municipalities, about which I shall have more to say in a few minutes.

There is thus, under the Canadian constitutional setting, and in view of the tendency of provincial governments to occupy tax fields which municipalities might wish to use, a severe limitation on the amount that the municipalities can raise from their own sources. The response of the Federal Government has been to help in three main ways:

First, grants in lieu of taxes are paid to municipalities on certain Federal Government properties, in view of the fact that the Canadian constitution explicitly exempts such property from taxation. These grants were started in 1950 and they constituted at that time the first significant

program in either Canada or the U.S. for the payment of grants in lieu of taxes by a senior government to local governments. Nearly all Canadian provinces now also follow the same practice but, as I understand the situation, there has not been a parallel movement in your country. In Canada, some 2,500 local taxing authorities benefit from federal grants. While payments in total are not large, they are a fair substitute for what otherwise would be collected and are vitally important to some municipalities, particularly those with major federal installations.

Secondly, as mentioned earlier, important sums are transferred from a federal agency -- Central Mortgage and Housing Corporation -- to municipalities for urban-renewal schemes and sewage-treatment systems. These programs are frequently developed in co-operation with the provinces or with provincial housing corporations. For this reason it is not easy to put a dollar figure on the federal advances to municipalities, but it appears that the annual amounts provided more or less directly to municipalities, either through loans or grants, exceeds $100 million, and even larger sums are channelled through provincial governments, particularly for public housing.

Finally, and undoubtedly most importantly, the Federal Government has transferred sums of money -- very large sums by Canadian standards -- to provincial governments, partly with a view to ensuring that the provinces can afford to make the necessary transfers to the municipalities. As a result, the most rapidly growing source of revenue of municipalities is the transfer of funds from other governments -- mainly from their provincial governments. Indeed, total transfers to municipalities from the provinces and the Federal Government appear to have exceeded revenue from property tax for the first time last year, although final figures are still not available. Two decades ago, such transfers were less than 15 per cent of municipal revenues from property tax.

Let me elaborate a little on this. The Canadian Federal Parliament recently passed a new Federal-Provincial Fiscal Arrangements Act, which establishes a framework of fiscal relations between the federal and provincial governments over the next five years. The act deals with a number of important matters, of which three are particularly relevant in this context:

Firstly, it is the basis for income-tax sharing between the federal and provincial governments. Most importantly, it provides a basis for these two levels of government to co-ordinate their use of the personal income tax and corporation income tax fields, without fixing limits or controls over the rates of tax which each level may impose, and it does this within a unified national tax system.

Secondly, because any given level of taxation provides a greater fiscal yield in some provinces than others, the act provides for equalization payments from the Federal Government to provinces whose *per capita* revenue-raising capacity is below that of the national average. Equalization payments were started explicitly in 1957, and they have been progressively broadened since then. Because of the differences in the size of our two economies, the

actual amounts transferred might not sound impressive in the American context; however, they represent over 5 per cent of all federal revenues. A similar transfer by the U.S. Treasury might run to more than $12 billion this year.

From the point of view of the receiving provinces, their importance is evident when you know that for three provinces, in 1971-72, equalization transfers were equal to between 13 and 16 per cent of gross revenues. For two others, the comparable figure was more than 33 per cent and, for the two poorest provinces, equalization transfers were equal to 55 and 66 per cent of revenues.

Thirdly, the bill has a provision under which the Federal Government guarantees to make a grant to any province whose revenues fall below 100 per cent of those received in the immediately-preceding year except to the extent that such a shortfall is caused by a reduction in provincial tax-rates. While we hope this will never be operative, it is an important assurance against a sudden slump in revenues which might result from a severe economic recession, either nationally or in a particular province.

Between 1957 and 1969, provincial shares of total governmental revenue collections rose from 18 to 33 per cent, whereas the federal proportion fell from 69 per cent to 52 per cent. This reflected two factors -- increases in direct taxes by provincial governments and the negotiation of tax-sharing agreements which provided the provinces with tax room previously occupied by the Federal Government. It was these facts which in part led the U.S. President's Advisory Committee on Intergovernmental Relations, in its study of Canadian intergovernmental finances, to find, with respect to the Canadian system (and I quote) that, "tax sharing strengthens the fiscal capacity of the provinces within the Canadian federation" and that it has "gone a long way in reducing the general revenue imbalance".

In addition, the Federal Government co-operates with the provinces in several shared-cost programs, of which the largest are in the fields of health, welfare and post-secondary education. In the case of post-secondary education, for example, the Federal Government transfers an amount generally equal to 50 per cent of virtually all post-secondary education operating expenditures. In the current year, it is expected that this will total almost $1 billion. On a *per capita* basis, the amount transferred varies from one province to another; the average is $44 *per capita*, with the Province of Alberta receiving the largest amount, about $52 *per capita*.

Some six years ago, the Canadian Parliament passed legislation known as the Canada Assistance Plan. CAP provided a single administrative framework for federal sharing with the provinces in costs of assistance and of certain health and welfare services for persons in need. Federal funds are transferred to provincial governments to cover, on a 50-50 basis, the costs of assistance to persons in need, and also of improving or extending welfare services. Very roughly, 30-40 per cent are paid for by provincial governments (the amount varying from province to province), and the remaining 10-20 per cent by municipalities. Thus the welfare burden on the municipalities is eased very substantially.

Federal policy has thus helped ensure that provincial governments have revenues which are broadly commensurate with their needs, which include municipal financing. I don't want to pretend that the provincial authorities do not believe that they require even more fiscal resources, both for their own needs and those of the municipalities. Nor do I suggest that we have reached a "once-and-for-all" solution. Clearly, circumstances are changing constantly at all levels of government, and a continuing reassessment of fiscal needs is required, which must take account of the emerging public problems and the level of government which is constitutionally responsible for the new priorities.

Nevertheless, enough fiscal resources are now available to the Canadian provinces to make the job of municipal financing much easier than it would otherwise be. Almost $4 billion is transferred annually to the municipalities, which I can perhaps put further in context by pointing out that this is equal to more than 4 per cent of our gross national product. An equivalent transfer in the U.S. would be almost $42 billion.

The effect of this is particularly dramatic in the financing of primary and secondary education. While there is considerable variation from one province to the next, provincial governments, as a group, now finance well over half of primary and secondary education -- that is, they bear more of the burden than local ratepayers. Twenty years ago, provincial governments accounted for less than a third of such financing.

Finally, leaving aside education, Canadian provinces, on the average, transfer more *per capita* to local government than do your states -- largely unconditional.

These large provincial transfers to municipalities have increased more or less in parallel with the transfer of fiscal resources from the Federal Government to the provinces. So, while we have not satisfied everyone, I can say with considerable confidence that the structure of tax sharing in Canada has helped to create a situation which serves the municipalities well.

Moreover, the system is flexible and can be adapted to changing needs and values. Let me cite a recent example. Two provincial governments, Ontario and Manitoba, requested that the Federal Government administer an arrangement under which the residents of those two provinces would be given a credit against their provincial income tax in respect of all or part of property tax, particularly those on low incomes. Individuals who did not pay income tax were to receive the credit in cash. An agreement was reached between the Federal Government and those two provinces and the proposal will apply in the current tax year.

The formula and details are not important in this context. My point is that these plans are a good example of co-operative federalism. They are to be administered by the federal Department of National Revenue *via* the tax-collection agreements between federal and provincial governments. It enables provinces, by means of their provincial income-tax revenues, to allow credits against property taxes without changing the basic structure of the individual income tax. All of this, incidentally, is done by the taxpayer on a single income-tax return....

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