AIMS Commentary

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Show me the money:

Conference Board study another attempt to justify more tax dollars to big cities.

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What a difference a year makes. Twelve months ago the cities' agenda was riding high under a Liberal government; now under a Conservative government that agenda is nowhere to be found. This does not mean that the Harper government was alone in killing the big city agenda. Under Martin's government, the agenda to support Canada's big cities was effectively sidelined when it decided to allocate urban funding on a per capita basis rather than giving a larger share of funding, through the gas tax program, to Canada's largest cities. What was supposed to be an urban redevelopment program became just another national tax transfer scheme. The case for supporting big cities was also weakened by the cities themselves as more jumped on the bandwagon when they couldn't decide how big was big. [1]

For the last ten years, big cities were able to make the case that they deserved more attention because not only were their needs different from small cities, such as large infrastructure needs, but that they were drivers or engines of the national economy; and without them, the country's prosperity would suffer. A rash of studies confirmed that prosperous cities, big ones that is, meant a stronger economy.[2]

With the election of Harper government in early 2006, with no electoral support from Canada's big cities, the conservatives had neither the inclination nor political need to transfer funds to Toronto, Montreal or Vancouver. Some mayors, such as David Miller in Toronto, who actively campaigned against the Tories, didn't help the case for federal support. And thus the story of Canada's big cities and their need for more cash quietly slipped away from the front pages.

That is until the Conference Board of Canada came out this July with their study entitled *Canada's Hub Cities: A Driving Force of the National Economy* available at www.e-library.ca. Although the study affirms what previous studies have shown, that big cities matter to the prosperity of a nation, in an odd way it also weakens the case for more support, an unintended consequence of the report. Here is the argument: big cities, or the nine hub cities of Vancouver, Calgary, Edmonton, Regina, Saskatoon, Winnipeg, Toronto, Montreal and Halifax, are not only the engines of economic growth for its own citizens by increasing real GDP

[1] The original big city major C5 included Toronto, Montreal, Winnipeg, Calgary and Vancouver. This was eventually expanded to C18 (Big City Mayor Caucus) as mayors from smaller cities wanted in.

[2] For a list of these studies see AIMS paper, Do Cities Create Wealth? Patrick Luciani January 13, 2004.

per capita, but they also help smaller cities and towns around them. And in doing so they help these smaller communities close the economic gap between them. In other words, incomes between big and small communities are ‘converging’. Let’s call it the new urban trickle down theory. The study shows that between the years 1987 to 2004, incomes in smaller communities are rising even faster than in the hub cities further closing the income gap. As Halifax prospers, so do Truro, Moncton, Saint John and St. John’s.

Quod erat demonstratum: more money for big cities is good for everyone. But have the Conference Board’s authors proven their point? Even though there is a spill over of prosperity from hub cities to outlying regions, that prosperity does not carry over the border from one province to another. The study concludes: “while the devotion of funds primarily to a few of the largest cities would not boost nationwide economic growth, concentration of funding within the nine province-or region-leading hub cities would indeed result in a faster rate of per-capita GDP growth in smaller communities across Canada.” The message is simple: help small cities by transferring funds to big ones, and everyone benefits. But the key villains, as the paper argues, are inter-provincial trade barriers and the immobility of labour, but not much is made of this blaring fact.

Instead it argues that federal monies should go mainly to close the infrastructure gap in Canada which the study says ranges from $50 to $125 billion. That means transportation, utilities, modern communications and so forth. And what share of federal funding should go to these “hub centres”? The study doesn’t say, but it acknowledges some “strategic” funding should also end up in prominent cities such as Ottawa, Abbotsford or Kitchener-Waterloo. So there you have it. Ottawa should give the cities the lion’s share of urban funding but we don’t how much or for what exactly. For towns with little or no funding, or very small communities, the study says they can “downsize with dignity”, whatever that means.

Sound convincing? Leaving aside the argument that small towns and cities would never buy the Conference Board’s conclusions and recommendations, the federal government would also be wise to ignore the study altogether for a number of reasons.

First, methodology: the study does some fancy footwork concerning co-relating “pan-Canadian convergence”. Through regression analysis, the study concludes that there has been little convergence between Canada’s hub cities over the last 20 odd years, and even less between large urban centres. Calgary, which is the outlier with the highest per capita income in the country, will not see the rest of the country catch up for obvious reasons regardless how much money we give to other big cities. On a more fundamental level, the paper does not make the case that providing the hub cities with more money would make much of a difference. It only assumes that if they had more money for infrastructure spending, incomes would rise, “lifting all boats”, as it were. Since there is no proof that infrastructure spending would do the trick, the study simply infers that spending billions on big cities would raise real per capita incomes. To make that case, they would have to show that raising a dollar in taxes and giving it to hub cities is a more powerful way to raise incomes than leaving that dollar in the pockets of taxpayers. Without that comparison the study looses its punch or relevance. If we follow the recommendations of the Conference Board Study, we may end up with another layered national income redistribution system with small towns subsidizing big cities.

Second, most would agree that cities could use more money, but it should not come from other levels of government. We have known for some time that when cities raise their own money, rather than receive it from provincial capitals or Ottawa, they spend it more wisely. It also makes them more accountable to taxpayers. The challenge is to concentrate on giving cities the fiscal flexibility they need to rely on more sources of revenue than just property taxes. And any solution that doesn’t encompass correct user fees, for example, will be less efficient.

Third, although the study identifies inter-provincial trade barriers as a roadblock to higher incomes, they leave it at that. But isn’t that the real problem? The feds and provinces have to work hard to make sure that all barriers come down across the country. There should be real consequences for provinces that refuse to dismantle these barriers. That should be the real role of Ottawa, not handing over money for spending with no guarantee of anything.

Fourth, we have to see cities no differently than we see corporations in that they should compete for citizens and business investment. I have argued that companies compete and not cities. In a literal sense that is true. But cities should be allowed the freedom to set their own growth agendas. Better managed cities that provide services people want and need will win out in the end. Subsidizing some cities at the expense of others freezes into place the existing structures of cities as we find them today. If we have learned anything about cities, is that they are dynamic creatures that grow, expand and even shrink over time. At the turn of the century, North America had large growing cities that today have all but disappeared as real economic powerhouses such as Buffalo NY, Cleveland or Detroit. In Canada, Hamilton Ontario rivaled Toronto in the 1960s in economic importance, and would have no doubt qualified as hub city if the Conference Board had been around then to conduct its study. Would federal subsidies back then have done the nation any good as economies and cities ebb and flow over time?

For big cities, and their advocates, this study will be another piece of evidence to throw on the table. But if Ottawa wants to help Canada's economy, we would be better off if Harper's government ignored the Conference Board's recommendations and concentrated instead on controlling taxes and dismantling the barriers to the free movement of goods, services and workers in Canada. That's a prescription for long-term prosperity for all Canadians regardless of the size of the towns or cities they live in.

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Other AIMS publications of interest:

Contestability: The Uncontested Champion of High-Performance Government, by Andrea Mrozek and Don McIver

Organization and Opportunities: local government services production in Greater Saint John by Dr. Robert Bish

Financing City Services: A prescription for the future by Professor Harry Kitchen

Do Cities Create Wealth? A Critique of New Urban Thinking and the Role of Public Policy for Cities by Patrick Luciani