

***Open Federalism in an Urban Age: Implications of Recent Trends in Intergovernmental Relations for Municipal Governance in Canada***

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## Abstract

### *Open Federalism in an Urban Age: Implications of Recent Trends in Intergovernmental Relations for Municipal Governance in Canada*

Timothy R. Mowrey

Cities are becoming more important in Canada and around the world as a result of urbanization and the evolution of the global economy. Everywhere, the emergence of pressing urban issues is confronting politicians with difficult policy problems that cut across formal jurisdictional lines. In Canada, the importance of cities is challenging the traditional intergovernmental arrangements of federalism. But the complex web of federal-provincial relationships that have been a feature of Canadian federalism are also being challenged by the 'open federalism' approach of Prime Minister Stephen Harper. This approach seeks to reduce rather than increase the scope of intergovernmental affairs, and suggests that urban issues are not the concern of the federal government since municipalities and their problems are the exclusive jurisdiction of the provinces. Using two case studies of key urban issues, public housing and public transportation, this thesis examines the evolving intergovernmental arrangements and growing problems in these program areas in Canada's three largest cities (Toronto, Montreal and Vancouver). It demonstrates that open federalism as an approach to urban issues is not likely to be effective. Rather, the overlapping jurisdictional challenges posed by urban issues, combined with the limited policy and fiscal resources available to Canadian municipal governments, appear to warrant a greater degree of multi-level governance, a finding consistent with trends elsewhere. In this regard, an updated version of cooperative federalism would seem to allow the federal government the greatest ability to articulate

broad national policy objectives while engaging both provincial and municipal governments to ensure adequate and effective program implementation at the local level.

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## I) INTRODUCTION

Since Confederation, Canada has witnessed a virtual reversal of the rural/urban population split. Whereas in 1867 Canada was overwhelmingly rural, today the opposite is true. Canada has become an urban nation. Over eighty percent of all Canadians live in urban centres, and sixty-three percent live in the largest eighteen cities (see Figure 1.1)<sup>1</sup>. Taken as urban regions, the majority of Canada's growth occurred in just four areas: the Toronto-Hamilton 'Golden Horseshoe'; Greater Montréal; Vancouver and the Lower Mainland of BC, and the Calgary-Edmonton Corridor<sup>2</sup>. Today, the country's large urban centres contain its wealth in human capital, serve as nodes for technology, culture, communication, education, and financial transactions, are the economic engines for the country and are its links to the global economy. In short, despite its vast geography, Canada is now one of the most urban nations in the world.

The federal system in Canada has not adapted to this new urban reality. Currently, 23 cities have larger populations than PEI, and the largest 6 cities have populations larger than any of the Maritime Provinces. Thus, cities are not only growing, they are growing in relative importance within the federation. Yet municipal governments have no role in federal-provincial relations and no constitutional status in terms of the division of powers. For many, it appears to be an anachronism that the governments of comparably small populations of the Atlantic Provinces have the power and authority to negotiate with the federal government and act as equal partners in the

institutions of federalism while those of millions of residents of Toronto, Montréal or Vancouver do not. Sancton, for instance, reflects on the “tension between the increased importance of cities in the global economy and the lowly status” of municipal governments in Canada<sup>3</sup>. Moreover, there is a growing recognition that many of the current social and economic issues confronting policy makers at all levels of government are inherently urban in nature.

This shift has been apparent for some time. The report of the Federal Task Force on Housing and Urban Issues noted in 1969 that urban issues were increasingly important and urgent because they affected the vast majority of Canadians<sup>4</sup>. But little research was done at the time to measure the emerging impact of urban centres. More recently, however, much work has been devoted to the issue. For example, there is a rapidly expanding literature on the growing importance of Canada’s urban centres in the global economy. Courchene, for instance, points out that city-regions are in ascendance globally in an increasingly knowledge-based economy<sup>5</sup>. Such observations reflect Courchene’s previous speculation that urban areas were paradoxically becoming more important through the processes of globalization – a phenomenon popularly known as *glocalization* – even as the role of individual states declined<sup>6</sup>. Many others, such as Sassen, have documented the linkages between and among key ‘world-cities’, and suggests that these linkages are becoming more important than traditional relationships among nation-states<sup>7</sup>.



This emerging view of cities as central to national success and prosperity is challenging the traditional approach to Canadian intergovernmental relations. Typically, academic research has focussed on relations between the federal and provincial governments – hardly surprising given that most powers and revenues are shared between them. Municipal governments, by contrast, are largely ignored in the Constitution, and are ‘creatures’ of the provinces by virtue of provincial control over municipal institutions. Their legislative authority is limited, and their ability to raise revenues is restricted. Yet it is municipal governments that are closest to the unique problems posed by the increasing importance of urban centres. Therein lies the paradox: municipal governments possess the expertise to most effectively deal with urban problems; provincial governments hold the funds and directive authority. Moreover provincial governments by and large have demonstrated little appreciation of urban issues, and individual provincial responses to the same issue vary widely. Additionally, the federal government has both funds and jurisdiction over certain areas of national concern that may in fact be occurring primarily in urban areas.

This overlap of jurisdictional authority and policy complexity has generated significant interest in the potential responses from higher levels of government to the challenges facing municipal authorities. More specifically, there is a growing argument for a concerted national (i.e. federal government) approach to urban affairs. In 2002, a Liberal Caucus Task Force reported on the urban challenges facing the nation, urging the federal government to take more direct action to address urban issues<sup>8</sup>. The Conference Board of Canada recently published an extensive report on urban concerns, concluding

that the state of Canada's major cities should be a national priority<sup>9</sup>. A special advisory committee appointed by Paul Martin reported similar findings<sup>10</sup>. To many, the question appears to be the appropriate degree of centralization or decentralization in the Canadian federation – who should be responsible for what, and who pays?

Such questions of jurisdiction and the proper approach to urban affairs are not unique to Canada. Urbanization is a global phenomenon, and urban centres around the world are challenging the traditional notions of governance. It appears that many countries have begun to act on their urban realities, and have adopted a number of measures to both better equip municipal governments and to involve other levels of government in the solutions to urban problems. As Leuprecht & Lazar note, 'multi-level governance' structures that involve municipal governments are becoming the norm in many countries, and intergovernmental relationships that involve all levels of government are increasingly pervasive<sup>11</sup>.

For a time, Canada appeared to be following this trend. While provincial governments pursued wildly different approaches, the federal government took incremental steps in the mid 1990s to begin to address Canada's urban reality. The 1993 tri-level Infrastructure Canada program, for example, sought to provide federal funding to municipally designated projects that were subject to provincial approval. Implemented by the Chrétien government as a direct result of lobbying from the Federation of Canadian Municipalities (FCM), it was so successful that it was extended in 1997 and 2000. In 2002, Prime Minister Chrétien appointed a Liberal Caucus Task Force to study

urban issues, and in 2004, the Martin government expanded the ambit of its urban involvement through the New Deal for Cities and Communities. The New Deal allocated a small portion of the federal gas tax to municipal governments provided they met federally stipulated conditions. To consider the way forward beyond the New Deal, Prime Minister Martin also appointed an External Advisory Committee on Cities and Communities, which reported in 2006. Chaired by former Vancouver Mayor and B.C. Premier Mike Harcourt, the report unequivocally called for greater federal involvement in urban affairs, and for all levels of government to collaborate in the development of policy solutions.

While the new Conservative government of Stephen Harper has maintained the New Deal provisions for the moment, and extended several other provisions for infrastructure funding, their approach to intergovernmental relations and to urban affairs generally appears to be fundamentally different from previous Liberal governments. Under Prime Minister Harper's vision of 'open federalism', the Conservatives now propose a reduction in the scope of the federal government, disentangling from commitments outside its direct, formal jurisdiction. In this sense, the approach advocated is a return to a stricter, pre-World War II reading of the constitutional division of powers, with fewer intergovernmental administrative agreements and networks rather than more. As Prime Minister Harper has stated, he believes Ottawa has "stuck its nose into provincial and local matters, into areas where [it] didn't have much expertise, while at the same time neglecting what it had to do"<sup>12</sup>. The Prime Minister's comments were echoed

recently by his Finance Minister, Jim Flaherty, who responded to municipal requests for greater funding by arguing that “Ottawa is not in the pothole business”.<sup>13</sup>

Given this background, my thesis will address one main research question, namely whether ‘open federalism’ is likely to be an effective intergovernmental framework in terms of solving the problems presented by Canada’s urban centres. To do so I will first examine the historical evolution of federalism in Canada since the end of WWII, when intergovernmental arrangements became widespread, and in particular the evolution of intergovernmental relationships between and among the federal, provincial and municipal governments in Canada. Using a qualitative approach I will then employ two case studies, namely public housing and public transportation, to illustrate how federalism and intergovernmental relations since the early 1990s have impacted Canada’s three largest urban centres (Toronto, Montréal and Vancouver). This timeframe has been selected in order to highlight the contrasting federal and provincial approaches to these two key policy areas before the 1995 federal budget (where many argue the downloading exercise exacerbated urban problems), and after, since this period witnessed the development of some of the most important features leading to the current open federalism approach. The likelihood that open federalism will be an effective framework can be assessed against the record established by the results of the collaborative federalism framework that was in place for much of the period under review here, particularly in contrast to the lessons of the cooperative federalism of the immediate post-war period.

Public housing and public transportation have been selected for the case studies for several reasons. First, they are major policy concerns for municipal governments, and both areas currently involve provincial and federal governments to varying degrees across the country. Secondly, both are important indicators of urban and national health that have seen remarkable policy changes in the past several decades. As a result, they offer a significant breadth of evidence that reflects the differing municipal and provincial responses to date. A close examination of the respective intergovernmental arrangements in these two key sectors will demonstrate the inevitable interdependence and overlap of such social policy areas for all levels of government, and the likely impact of an open federalism approach.

Additionally, public transportation is a policy solution to many other national policy objectives. Achieving environmental goals, for example, relies in large part on the ability of all governments to develop and expand public transportation in our large urban centres. As well, a city's ability to effectively and efficiently move its citizens between home, work and leisure activities is central to economic competitiveness and overall quality of life – for the city in question but also for Canada as a whole.

In order to determine the appropriateness of open federalism in the context of municipal governance it will be necessary to develop a baseline from which to measure its impact. Open federalism is too new to assess its overall impact as a framework for intergovernmental relations, but the *likely efficacy* of open federalism can be measured against emerging criteria for policy success in the areas of public housing and transit.

Particular policy goals for housing and transportation have been applied to measure the success or failure of previous policy initiatives. For example, a number of observers, including the FCM and the Canadian Urban Transit Association (CUTA), have not only suggested that any approach to these issues must meet a number of discrete policy goals to be successful, but have also advocated for national strategies in both policy areas under question. More broadly, a number of observers have long argued that success in these areas requires stable long-term funding, and an overall policy orientation that contributes to reducing the scope of the problems. The research question therefore can specifically ask *whether municipal governments and their respective provincial governments will be able to produce programs and services that meet these policy goals in the face of a federal retrenchment from urban policy areas.*

It is also important to note that, while housing and transportation policy have been selected to illustrate federal-provincial-municipal interactions, they represent only a small portion of the policy areas that are problems for urban areas and hence for municipal governments. Infrastructure (apart from transportation infrastructure) is also a challenging area of urban public policy, but is too broad a topic and is beyond the scope of this paper. Looking at solely transportation, then, effectively hives off an important and uniquely urban element of the infrastructure issue, and should produce evidence that can be applied more broadly to the entire family of infrastructure-related policy areas. Other policy areas, such as environmental sustainability and economic development/competitiveness, are often treated as stand-alone areas for analysis, but in the context of

this analysis they represent policy outcomes for the more concrete examples of public housing and transportation.

The two case studies will focus on the experiences of Canada's three largest urban areas: Greater Toronto, Greater Montréal and Greater Vancouver. As the major urban centres in Canada they are most affected by the intergovernmental structures that shape housing and transportation policy. It is also noteworthy that these three cities receive the vast majority of immigrants in Canada, currently our greatest source of population growth. Recent data suggests that, at least temporarily, immigrants tend to place greater demands on the housing and transportation systems of the cities in which they settle.

Most important for the case studies, these three cities also represent three different provincial policy responses towards municipalities. Toronto is an example of confrontational municipal-provincial relations due to the amount of policy activity and the city's status as the largest of Canada's municipalities. Montréal offers insight into the additional challenges of governing a large urban centre in Québec, where federal encroachment into provincial jurisdiction is most vociferously rejected, but where provincial governments have generally recognized the city's primacy in the province. Finally, Vancouver's intergovernmental structures have witnessed the least amount of controversy and generally avoided jurisdictional disputes, although there has been a trend towards greater 'provincialization'. This unique regional government system is often lauded as a model for other jurisdictions.

A comparative analysis of the approach taken in other relevant federal states (Germany and the United States, as well as the European Union), and a unitary state with extensive regional and local administrative structures, France, over the same period should also provide a useful context in which to evaluate the new federal approach.

It is expected that a detailed analysis of these two key policy areas in Canada's three main urban centres will confirm what my preliminary research already indicates: open federalism is not likely to be an effective intergovernmental framework to respond to important urban issues.

It is anticipated that the combined evidence presented through the historical review and the case studies will show that earlier provincial experiments in 'disentanglement' have generally failed to achieve their stated objectives, and have done nothing to advance solutions to complex urban problems. The research is expected to show that open federalism's focus on watertight jurisdictional compartments does not reflect the growing interdependence of urban policy problems, and does not accurately reflect the importance of municipal governance in a new global economy. More broadly, I expect to find that open federalism has not taken lessons from previous periods of federalism in Canada. Intergovernmental collaboration has returned few positive results in the absence of any federal leadership, and it appears unlikely that municipal governments will see any positive or sustained change in their collective circumstances if simply left to their provincial masters. In this regard, an open federalism that relies on



strong, independent provinces to achieve national goals is likely to be the wrong approach for an urban age.

I expect to find a divergence between open federalism and national government initiatives elsewhere. In particular, I expect to find that Europe is already progressing to greater recognition of their urban reality, and structures to accommodate urban voices and concerns are emerging and solidifying. A move to subsidiarity is likely to be occurring regardless of whether the state is a federation, unitary state, or supra-national organization such as the European Union. In the United States, it is likely that the wide state-level differentiation of policies towards cities will make it difficult to glean many lessons, but that in key areas such as housing and transportation, significant federal involvement – primarily monetary – has become the norm.

As an alternative to open federalism, I expect to find that strong arguments exist for a return to an updated form of cooperative federalism, where federal leadership provides for broad national standards and objectives, but remains sensitive to jurisdiction and particular provincial/municipal circumstances. Based on preliminary research, it appears an explicit national urban policy (or policies) is warranted to provide broad direction and coherence towards national goals. By articulating broad directions, the federal government could allow provinces and municipalities significant policy experimentation while simultaneously recognizing the importance of urban issues in determining overall national health. A formal devolution of power is likely not an option in the Canadian context, but developing mutual policy goals that involve the expertise

and funding mechanisms of all levels of government appears to be a workable approach. Such changes in approach do not require substantial reforms to the structure of Canadian federalism, and would continue to the tradition of successful non-constitutional renewal.

This paper is organized as follows: to set the context, Chapter II provides a brief review of intergovernmental relations in Canada, tracing their evolution over time and focussing on the post-WWII era. The next Chapter specifically addresses the nature and scope of open federalism as proposed by the current federal government. Chapter IV then details the relationship between municipal governments and the federal and provincial levels. This chapter also highlights the relevant literature on fiscal federalism and the nature of the fiscal arrangements between and among all levels of government. Based on these important contextual chapters, Chapter V contains the case studies themselves. Beginning with an overview of the range of issues facing urban governments, the chapter examines the specific issues of public transportation and housing and the policy responses from governments to date. Chapter V provides international comparisons to show how other countries have adapted to address urban issues and to demonstrate how *greater* intergovernmental cooperation – not less – has emerged elsewhere as the preferred response. Finally, Chapter VI will discuss the results of my analysis and provide some tentative conclusions about the likely impact of open federalism on municipal governance and the resolution of key urban issues.

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<sup>1</sup> Statistics Canada, Census of Population 1851-2001

<sup>2</sup> Federation of Canadian Municipalities (2005) *Cities: Partners in National Prosperity* (FCM Big City Mayors Caucus, see: [www.fcm.ca/english/documents/pnp.pdf](http://www.fcm.ca/english/documents/pnp.pdf))

<sup>3</sup> Sancton, Andrew (2002) "Municipalities, Cities and Globalization: Implications for Canadian Federalism" in Bakvis, Herman and Grace Skogstad (eds.) (2002) *Canadian Federalism: Performance, Effectiveness, and Legitimacy* (Don Mills: Oxford University Press), p.265

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- <sup>4</sup> Hellyer, Paul (1969) Report of the Federal Task Force on Housing and Urban Development (Ottawa: Queen's Printer)
- <sup>5</sup> Courchene, Thomas, J. (2005) "Citistates and the State of Cities: Political-Economy and Fiscal-Federalism Dimensions" Institute for Research on Public Policy Working Paper Series no. 2005-03
- <sup>6</sup> Courchene, Thomas J. (1995a) "Glocalization: The Regional/International Interface" *Canadian Journal of Regional Science* 18 (1)
- <sup>7</sup> Sassen, Saskia (2006) *Cities in a World Economy* (Thousand Oaks, CA: Pine Forge Press)
- <sup>8</sup> Task Force (Prime Minister's Caucus Task Force on Urban Issues, Judy Sgro, Chair) (2002) *Canada's Urban Strategy, a Blueprint for Action: Final Report*
- <sup>9</sup> Conference Board of Canada (2007) *Mission Possible: Successful Canadian Cities*
- <sup>10</sup> External Advisory Committee on Cities and Communities (2006) *Final Report* "From Restless Communities to Resilient Places: Building A Stronger Future For All Canadians"
- <sup>11</sup> Lazar, Harvey and Christian Leuprecht (2007) "From Multilevel to 'Multi-Order' Governance?" in Harvey Lazar and Christian Leuprecht (eds.) *Spheres of Governance: Comparative Studies of Cities in Multilevel Governance Systems* (Montréal: McGill-Queen's University Press)
- <sup>12</sup> Harper, Stephen *Speech to Federation of Canadian Municipalities* (June 2006)
- <sup>13</sup> The Globe and Mail, November 23, 2007

## II) THE EVOLUTION OF INTERGOVERNMENTAL RELATIONS IN CANADA

After a brief discussion of relevant federal theories, this chapter focuses on the evolution of federal-provincial relations. Such an overview is necessary because, as we shall see, federalism in Canada has been dynamic, fluid, and flexible. When responding to exogenous forces – whether political, social or economic – the processes of intergovernmental relations have adapted. Thus, there is a history of successful adaptations (as well as some spectacular failures) on which to base the analysis of the prospects for open federalism with respect to municipal governance. The particular lessons that relate to urban issues and governance can be found in all stages of Canadian federalism, both in terms of what could be done and what should be avoided. As this overview demonstrates, open federalism stands as somewhat unique, since the driving force behind this new direction appears to be solely political (or more precisely, ideological), rather than a combination of social, economic and political pressures that have shaped previous eras.

### *1) Federal Theory*

At its simplest, federalism refers to a structure of government where sub-national, territorially-based units share power with a national government. This definition is incomplete, however, given that federalism is as much about process as it is structure. Within these structures are processes that include venues for negotiation, fiscal arrangements, informal associations, and inter-jurisdictional policy making. The

diversity sometimes fostered by federal systems adds another layer of informal process, through which regional or municipal groups might have a voice. The precise mechanisms for the separation of power and authority, and the relations between the national and sub-national (including municipal) units vary considerably among federal states. The distribution of powers between levels of government in a federation naturally involves questions of financing, as well as the equality of treatment of sub-national units by the federal government, and there is no one set of ‘federal rules’ among states in this regard.

Thus, federalism is more than just the sum of its parts; it is a structure of government combined with processes of governance that add up to a “complex stew”<sup>14</sup> of values that prop up an entire way of life. Federal systems often develop a federal mindset, continually aware of the need to protect sub-national authority while remaining committed to a larger national state. Problems and solutions are viewed through this lens – a jurisdictional lens that can, at times, turn to bickering and postulating among levels of government. But, each level can admit to a certain degree of interdependence within an otherwise autonomous sphere<sup>15</sup>.

All federal systems are, therefore, analyzed by the degree to which they can be said to be centralized or decentralized. In this regard, it is not only important to assess the division of legislative authority, but also the fiscal arrangements. Indeed, there is a literature devoted to ‘fiscal federalism’ that studies the mechanisms through which federal systems collect, transfer and spend tax dollars<sup>16</sup>. In many cases these mechanisms do not

correspond to the legislative authority of each unit. For example, it is often the case that greater tax levers are available to, or occupied by, the federal government, while the bulk of program spending needs rest with the sub-national units. This so-called 'vertical fiscal imbalance' leads to negotiations among governments over the precise nature of those transfers. As new issues arise and political circumstances change, the fiscal arrangements that underpin fiscal federalism also change, and can move between centralized and decentralized.

Thus, as Friedrich noted, to be successful federalism must be dynamic; the processes by which the structures of federalism are made to work must be fluid, flexible, and undergoing constant change<sup>17</sup>. A brief review of intergovernmental relations in Canada highlights this fact. The test of the effectiveness and appropriateness of any of the periods of Canadian federalism could be an assessment of its ability to effectively meet the policy objectives of governments and the program delivery needs of Canadians. For example, the processes of intergovernmental relations adapted in the post WWII era as a result of public pressure for government intervention led to the creation of the welfare state. This was achieved through the creation of national programs with provincial implementation, programs that have become deeply entrenched and have undergone remarkably little substantive change to the processes that allow for their delivery and execution.

## 2) *Canadian federalism in operation*

For a variety of reasons, both political and socio-cultural, the framers of the Canadian constitution created a federal structure which lacked some of the ‘essential’ features defined by Wheare<sup>18</sup>. Indeed, the absence of an amending formula, the specific allocation of certain shared powers (as opposed to ‘watertight’ jurisdictions), and the recourse to an external source of judicial review (the Judicial Committee of the Privy Council in London), led Wheare to characterize Canada as a ‘quasi-federal’ country. Nevertheless, as Riker concluded, Canada soon *operated* as a federal system<sup>19</sup>. All of these exceptions to the classic federal model would prove central to the evolution of Canadian intergovernmental relations. Unable to amend the constitution, for example, federal and provincial governments have opted to negotiate administrative agreements to achieve their policy objectives.

Canadian federalism has therefore been marked by periods of ‘cooperative’, ‘collaborative’, ‘competitive’ and ‘executive’ intergovernmental relations. The major debate historically has been over the appropriate role of the federal government in areas of provincial jurisdiction, with Ottawa attempting to assert its desire to govern for all of Canada, and provinces resisting federal encroachment into their constitutionally-mandated areas of authority. Rather than strict ‘watertight’ jurisdictions, Canadian federalism has developed into an integrated and conjoined system of governance. Indeed, some experts argue that intergovernmental relations have become the “defining characteristic” of Canadian governance<sup>20</sup>.

The evolution of these processes, however, has not been a straight line. The recent move towards ‘open federalism’ in Canada represents yet another innovation in the processes of Canadian federalism, one of a long line of attempts to work around the structures of the federation as outlined in the Constitution. And, while none of these various post-war approaches demonstrates a federal approach to municipalities *per se*, they do indicate the willingness of the federal government to become involved in affairs outside its immediate jurisdiction in the name of the national interest. They also demonstrate, to quote Courchene, the “incredible flexibility”<sup>21</sup> of Canadian federalism to respond to new pressures without fundamentally altering the basic structures of the federation.

#### *Classic federalism: A Bygone Era*

Canada was not always a nation characterized by intricate and flexible intergovernmental relations. As Simeon and Robinson (1990) point out, Canada came to resemble a classic federal state shortly after Confederation in 1867, despite the founders’ intentions. While Canada was initially conceived as a centralized federation, several judgements at the Judicial Committee of the Privy Council in London tilted the union in favour of the provinces and promoted the notion of provincial sovereignty. The absence of a strongly developed national character meant that Canada soon resembled the classic, American tradition of federalism, with roughly watertight jurisdictions and little penetration of the federal government into provincial affairs. This trend was reinforced



by the fact that the demands placed on both levels of government were minimal, allowing the two levels to operate in isolation without difficulty.

However, the Great Depression changed the nature of Canadian federalism by changing the ways in which Canadians saw the federal government and their expectations for government programs and services<sup>22</sup>. Economics and social well-being began to drive federal debates. The role of the state, then, became a central question, and reform movements across the country began to argue for an increased state presence in the nation's economy and society. But, with many of the key areas of jurisdiction assigned to the provinces while the federal government had the greater revenue raising capacity, both levels of government were required to work together, abandoning the concept of watertight jurisdictional compartments.

#### *Cooperative federalism: The 'Golden Age'*

The post-war era ushered in a period of 'cooperative federalism', where federal leadership and provincial cooperation became hallmarks. The development of a post-war Keynesian welfare state was in large part driven by the federal government, both in terms of policy initiatives and financing. The provinces occasionally voiced opposition, but were at other times essential to the successful implementation of programs (such as equalization, unemployment insurance and old-age security) or for initiating programs that were taken up later by the federal government (such as Medicare). Tax collection agreements and conditional grants to facilitate the welfare state expanded the scope of the

federal government such that Canada became more centralized than at any time since the nation building efforts immediately following Confederation<sup>23</sup>. The previous era of 'layer cake' federalism in Canada had been transformed into 'marble cake' federalism.

Yet this fundamental restructuring of the relationship between the federal government and the provinces involved no formal changes to the distribution of powers; rather, of necessity it took place in the realm of administrative process. Cooperative federalism marked the federal government's broad use of its greater spending power to accomplish what it could not otherwise do if it had adhered to the strict letter of the constitution. Absent an amending formula, negotiations between the two levels of government were necessary to achieve the objective of minimum national standards for provincially administered programs.

Cooperative federalism also marked the entrenchment of asymmetrical federalism as a process in Canada, as the federal government began to accommodate Québec's resistance to federal intrusion in its areas of jurisdiction. Notably, Québec opted to establish its own income tax in the mid 1950s, to which Ottawa responded by making tax room available. While the federal government collects income tax on behalf of all other provinces, Québec collects its own. Structural asymmetry, rather than program asymmetry, has been a feature of Canadian federalism from the beginning, and the evolution of federal processes to meet certain provincial demands, allowing them to opt out of federal programs, demonstrates the flexibility of Canadian federalism<sup>24</sup>. The key to the approach taken in this period was that asymmetry appeared only in the context of

implementation – there was no asymmetry in the program goals or national standards. Where provinces chose to opt out of a federal program, they did not simultaneously opt out of that program’s intended outcomes. Federal goals and expectations remained symmetrical, but provinces could choose their specific approaches to deliver them.

There are two important lessons from this period. First, the federation can withstand an approach that does not advocate one-size-fits-all. Broad national policy objectives can be articulated without paternalistic, top-down parameters for provincial programs designed to meet these objectives. Second, cooperative federalism was specifically designed to address regional disparity by creating national programs. Indeed, the inability of some provinces to pay for many of the elements of the welfare state – the existence of a horizontal fiscal imbalance – was a driving factor behind the federal government’s efforts to effectively ensure programs could be delivered in all parts of the country.

Despite (or because of) its successes, the period of cooperative federalism had unintended consequences which made it increasingly difficult for the federal government to exercise leadership and expect provincial acquiescence. To begin with, the increasing size of the federal state was being replicated at the provincial level, with provincial bureaucracies growing to meet the demands of administering new social programs. With significant state apparatus of their own, provinces became more vocal players in the development of federal policy. In addition, cooperative federalism had been able to respond to the problems and pressures of the welfare state effectively, such that attention

began to focus on other matters that had been shelved during the immediate post-war years. Regional concerns, Québec's role in the federation (driven by the Quiet Revolution), and the mechanisms through which this new found interdependence occurred came into question again. The demands of cooperation necessarily meant that federal and provincial governments would work more closely together, and accommodating these working relationships led to procedural innovations such as regular First Ministers meetings and the creation in a number of jurisdictions of new ministries for intergovernmental affairs. These changes effectively spelled the end of cooperative federalism by the mid-1960s. In its wake, an era of executive federalism, or 'federal-provincial diplomacy'<sup>25</sup>, was ushered in.

#### *Executive federalism: Intergovernmental Diplomacy*

Executive federalism refers to the increasing use of federal and provincial leadership to conduct the business of managing interdependency. Unlike cooperative federalism, which was largely driven by bureaucratic interfaces, executive federalism involved direct participation of and negotiation by the Prime Minister and Premiers. It is both celebrated and dismissed, sometimes simultaneously. For some, executive federalism enabled many of the successes of the later cooperative federalism period. For others, executive federalism has had disastrous consequences. Donald Smiley, for example, argues strongly that executive federalism fosters secrecy, shuts out public participation, weakens government accountability, and leads to unnecessary conflicts among governments<sup>26</sup>.

At the time these critiques were levelled, executive federalism had not yet produced the Constitution Act 1982, the Meech Lake Agreement, or the Charlottetown Accord. While the Constitution Act was successful, in part due to threats of unilateralism by the federal government, the failures of Meech and Charlottetown brought executive federalism under even harsher criticism. As Brooke Jeffrey notes, the decade of intergovernmental affairs under the Mulroney Conservatives “left executive federalism thoroughly discredited”<sup>27</sup>. Nevertheless, some authors who are willing to concede both the successes and failures of executive federalism admit that it is a permanent feature of Canadian federalism<sup>28</sup>. The existence of the Council of the Federation, comprised of provincial premiers, in addition to the more established First Minister’s meetings appears to be evidence of this fact. Municipally, there appears to be a similar phenomenon, as ‘Big City Mayors’ are increasingly seen as the primary interlocutors with provincial premiers and the Prime Minister. Thus, the question has become how Canadian federalism will evolve to recognize the limits of executive federalism while accepting its presence as a fact.

### *Collaborative Federalism: More Talk than Action*

In an attempt to distance himself from the soured notion of executive federalism, Prime Minister Jean Chrétien came to power in 1993 promising new relations between the federal government and the provinces. However, whatever the plans for this new relationship were, they became guided by several factors that ultimately produced

‘collaborative federalism’, a form of federal process that sowed the seeds for open federalism. Faced with an enormous federal debt load, rising Québec nationalism, and a new party system, Chrétien opted to reduce the scope of the federal government in the early years of his mandate. The decentralization that accompanied the 1995 federal budget, where massive spending cuts were coupled with a reduction in the number of conditions applied to federal transfers to the provinces. Since the federal government no longer assumed primary funding responsibility for many programs, the imposition of national standards was questioned by many provinces. Notwithstanding the fact that many provinces replicated the federal efforts with their own municipalities – downloading responsibilities and funding authority without relinquishing the right to impose conditions – provincial premiers criticized the federal government and began demanding a new, collaborative approach to Canadian social policy. The existence of a neo-liberal federal opposition (Reform), as well as in the governments of Ontario and Alberta, who advocated forcefully for a reduction in state involvement in a number of social policy areas, further facilitated the road to collaborative federalism. Despite the federal government’s success in eliminating the deficit and attempts to return to an era of using the federal (surplus) spending power to shape Canadian social and economic policy, the federal government was unable to shift the decentralizing momentum generated by its 1995 budget.

Thus, in 1999 a framework agreement called the Social Union Framework Agreement (SUFA) was signed by the federal government and all provinces except Québec. It is perhaps the document that best reflects the objectives of collaborative

federalism. The agreement sought to formalize the emerging collaborative federalism position, effectively saying that federal leadership was not assumed, but rather close relationships among equal, non-hierarchical levels of government would produce consensus on policy issues. Governments committed to consult one another on policy changes, and to increase accountability through reporting. The federal spending power in areas of provincial jurisdiction was not squashed, but rather limited by requiring provincial consent and consultation. In this sense, the question was not whether the federation would move towards centralization or decentralization, but rather towards efficiency and collaboration, allowing for policy experimentation and the sharing of best practices across jurisdictions.

At the time, collaborative federalism and the SUFA were hailed as a fresh and dynamic approach to the processes of federalism in Canada. Stephane Dion, the federal Minister for Intergovernmental Affairs, called it a “new and promising approach for managing interdependence”<sup>29</sup>. Yet collaborative federalism was less a vision and more a reluctant response on the part of the federal government. It has therefore been plagued by inaction and outright ignorance. The federal government, flush with cash and looking to resume its commitments on social policy, pursued unilateral policies aimed at individuals to by-pass the provinces, including the National Child Benefit, and the Millennium Scholarship Fund. The provinces have reacted at times with their own unilateralism, refusing to take up federal cash offers, clawing back any benefits received from federal funding, and generally not fulfilling reporting and accountability requirements laid out the in the agreement. Thus the real outcome of collaborative federalism has been a ‘dual

unilateralism', where both levels of government talk glowingly about collaboration while ultimately going their own ways on social policy<sup>30</sup>. Subsequent social policy agreements, such as the 2000 and 2003 health accords, have failed to even reference the SUFA.

For many, the unfulfilled expectation of collaborative federalism and the SUFA were to be expected, since the idea of collaborative government – in the sense that it was presented – ran against conventional practice and political necessities. As Delacourt and Lenihan point out, collaborative relationships require a willingness to share decision making authority and a long-term outlook – both requirements that are difficult to meet given different mandates, political stripes, and regional needs<sup>31</sup>. Cameron and Simeon point out the acrimonious ideology-driven negotiations between Ontario and Ottawa regarding labour-force training that appears to back up these assertions<sup>32</sup>. The former Auditor General of Canada not surprisingly raised concerns about the ability of collaborative government to meet accountability requirements, since goals may be unclear among participants and more players are involved<sup>33</sup>. Moreover, the SUFA and collaborative federalism more generally have fallen into the executive federalism trap – negotiated behind closed doors with little public input. Executive federalism also involves both levels of government protecting their areas of jurisdiction, seeking credit and passing blame, often to win political points at home. If collaborative federalism is to be linked with the SUFA, therefore, it would be deemed a failure. As Roger Gibbins wryly observes, “if SUFA were to die, few Canadians would notice the obituary, much less mourn its passing”<sup>34</sup>.



In the later days of collaborative federalism the federal government indicated a renewed willingness to extend the federal spending power into areas of provincial jurisdiction. The problem with the approach taken was its significant degree of asymmetry. Far from collaboration, the tack taken by the Martin Liberals has been a series of one-off deals on a number of policy issues, ranging from equalization agreements to child care agreements. This appeared to mark the abandonment of traditional asymmetry (in the form of opting out with compensation) for a negotiated, or ‘treaty’ form of federalism<sup>35</sup>. The result is a patchwork of policies, and little sense of national standards.

At the same time, the federal government began to show a renewed and expanded interest in asserting itself into areas traditionally outside its jurisdiction and announced a return to urban affairs. Building on existing infrastructure programs, Finance Minister Paul Martin announced his intention to develop a ‘New Deal’ for Canada’s cities, including a refund on GST payments and sharing a portion of the federal gas tax. When it was announced in 2004, after Martin had become Prime Minister, the plan was implemented using individual agreements with the provinces based on general guidelines. These included general stipulations that the funding should be used for sustainable infrastructure such as green technology and public transit.

The point to be made here is that the federal government did not chose to create a federal program to which provinces could opt in or out, but rather struck agreements with provinces individually, similar to its approach to the child care agreements. This

approach, as will be demonstrated later, did not lead to a reduction in the disparity among provinces in terms of program delivery. In fact, in some cases provinces chose to take up federal offers for cost-sharing agreements and in others they did not. Unlike cooperative federalism, which took the horizontal imbalance into consideration and sought to reduce the gap in program delivery capacity among provinces, collaborative federalism led to an increase in unilateral action and greater disparity. In this sense collaborative federalism most closely resembles the open federalism approach advocated by Prime Minister Harper.

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<sup>14</sup> Gibbins, Roger (1999) "Taking Stock: Canadian Federalism and its Constitutional Framework" in Leslie A. Pal (ed.) *How Ottawa Spends 1999-2000, Shape Shifting: Canadian Governance Toward the 21<sup>st</sup> Century* (Toronto: Oxford University Press), p. 200

<sup>15</sup> Simeon, Richard (2006) *Federal-Provincial Diplomacy: The Making of Recent Policy in Canada* (Toronto: University of Toronto Press)

<sup>16</sup> See, for example, Oates, Wallace (1991) *Studies in Fiscal Federalism* (Brookfield, VT: Elgar)

<sup>17</sup> Friedrich, Carl (1968) *Trends of Federalism in Theory and Practice* (New York: Praeger)

<sup>18</sup> Wheare, K.C. (1963) *Federal Government* (London: Oxford University Press)

<sup>19</sup> Riker, W.H. (1964) *Federalism: Origin, Operation, Significance* (Boston: Little Brown Publishers)

<sup>20</sup> Gibbins, Roger *op. cit.* p. 209

<sup>21</sup> Courchene, Thomas J. (1995b) *Celebrating flexibility: An interpretive essay on the evolution of Canadian federalism* (Montréal: C.D. Howe Institute), p. 5

<sup>22</sup> Simeon, Richard and Ian Robinson (1990) *State, society, and the development of Canadian federalism* (Toronto: University of Toronto Press)

<sup>23</sup> Ibid.

<sup>24</sup> Courchene, Thomas J. (1995b) *op. cit.*

<sup>25</sup> Simeon, Richard (2006) *op. cit.*

<sup>26</sup> Smiley, Donald (1980) *Canada in question: Federalism in the eighties* (Toronto: McGraw-Hill Ryerson)

<sup>27</sup> Jeffrey, Brooke (2006) "From Collaborative Federalism to the New Unilateralism: Implications for the Welfare State" in Michelmann, Hans J. and Cristine de Clercy (2006) *Continuity and change in Canadian politics: essays in honour of David E. Smith* (Toronto: University of Toronto Press), p. 117

<sup>28</sup> Brock, Kathy L. (1995) "The End of Executive Federalism" in Francois Rocher and Miriam Smith *New Trends in Canadian Federalism* (Peterborough: Broadview Press)

<sup>29</sup> Dion, Stephane (1999) "Collaborative Federalism in an Era of Globalization" in Delacourt, Susan and Donald G. Lenihan (eds.) (1999) *Collaborative Government: Is There a Canadian Way? New Directions No. 6* (Toronto: Institute of Public Administration of Canada)

<sup>30</sup> Jeffrey, Brooke (2006) *op. cit.*

<sup>31</sup> Delacourt, Susan and Donald G. Lenihan (1999) "Collaborative Government: Is There a Canadian Way?" in Delacourt, Susan and Donald G. Lenihan (eds.) (1999) *Collaborative Government: Is There a Canadian Way? New Directions No. 6* (Toronto: Institute of Public Administration of Canada)

<sup>32</sup> Cameron, David and Richard Simeon (2002) "Intergovernmental Relations in Canada: The Emergence of Collaborative Federalism" *Publius* 32 (2)

<sup>33</sup> Desautels, L. Denis (1999) "Accountability for Alternative Service-Delivery Arrangements in the Federal Government: Some Consequences of Sharing the Business of Government" in Delacourt, Susan and

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Donald G. Lenihan (eds.) (1999) *Collaborative Government: Is There a Canadian Way? New Directions No. 6* (Toronto: Institute of Public Administration of Canada)

<sup>34</sup> Gibbins, Roger (2003) "Shifting Sands: Exploring the Political Foundations of SUFA" in Fortin, Sarah, Alain Noel and France St-Hilaire (eds.) (2003) *Forging the Canadian Social Union: SUFA and Beyond* (Montréal: Institute for Research on Public Policy), p. 34

<sup>35</sup> Hueglin, Thomas O. (2003) "Federalism at the Crossroads: Old Meanings, New Significance" *Canadian Journal of Political Science* 36 (2), p. 288

### III) OPEN VS. DEEP FEDERALISM

The recent shift to what he has termed ‘open federalism’ by Prime Minister Stephen Harper has arrived on the heels of this somewhat mixed record for collaborative federalism. In some ways open federalism appears to build on several of the developments of the collaborative federalism period, but it also incorporates strong positions linking it back to the classic federalism of the pre-WWII era. Given its very recent addition to the Canadian federal discourse, much ambiguity remains regarding the specifics. The term ‘open’ itself raises many questions. It is possible, however, to sketch an outline of the main characteristics of open federalism based on the Conservative Party’s platform, statements, and approach to governing. Political Scientist Robert Young has developed such a sketch, and argues that open federalism comprises six key components<sup>36</sup>. First, open federalism seeks to establish order in intergovernmental affairs by discontinuing ad hoc arrangements or one-off deals. Harper’s position on the Liberal approach, particularly under Paul Martin, was clear. As early as 2004 he complained that the Liberal government was pursuing “ad hoc arrangements after chaotic intergovernmental meetings”<sup>37</sup>. The Conservatives saw the Liberal approach as scattershot, unprincipled, and beyond the competencies of the federal government.

Second, open federalism envisages strong provinces<sup>38</sup>. Without acknowledging that Canadian provinces are among the strongest sub-national units among federal states in the world, the Conservatives had criticized Liberal “attacks” on the provinces. In their campaign platform, the Harper Conservatives went even further and promised a ‘Charter

on Open Federalism', designed to formalize the involvement of the provinces in areas of *federal* jurisdiction where provinces also had an interest<sup>39</sup>.

Third, open federalism seeks a clarification of the roles and responsibilities of the federal and provincial governments as per the division of powers in the constitution. In this sense, open federalism harkens back to the classic federalism of Canada's by-gone era. It is perhaps this element of open federalism that breaks most from the history of federalism compiled since WWII. Rather than recognize the role the federal government can play in achieving national objectives by working cooperatively with provinces, the aim here is to remove the federal government from areas it does not belong according to the constitution. Harper is on record stating that he'd like to see "Ottawa do what the federal government is supposed to do"<sup>40</sup>, and focus its attention to the constitutionally assigned areas of national defence and international relations. These sentiments were echoed months later in a Harper speech to the Federation of Canadian municipalities, where he stated that he felt Ottawa had "stuck its nose into provincial and local matters, into areas where they didn't have much expertise, while at the same time neglecting what it had to do"<sup>41</sup>. The idea is that if Ottawa more effectively executed its constitutional duties, provinces could better discharge their responsibilities with less interference.

Fourth, the Conservatives have made a special case for rectifying the fiscal imbalance, and this too is taken to be a component of open federalism. For the Conservatives, the vertical fiscal imbalance exists and must be addressed, despite some evidence to the contrary<sup>42</sup>. Their 2006 campaign platform suggested a Conservative

government would seek to permanently fix the fiscal imbalance through a comprehensive agreement. In their first Speech from the Throne in 2006, the Conservatives echoed their platform, promising to “ensure fiscal arrangements in which all governments have access to the resources they need to meet their responsibilities”. So far, proposals for reducing the fiscal imbalance include increasing transfers, reforming equalization, federal tax reductions to leave room for the provinces, and/or transferring tax points to the provinces.

Fifth, despite the first element of open federalism, which seems to advocate equality of treatment for all provinces, and despite a longstanding western tradition of supporting provincial equality within the federation, open federalism proposes special treatment of Québec. It is unclear what exactly the long-term affects of this treatment will be, but at present the Conservative’s open federalism subscribes to the view that Québec is distinct within Canada. In the 2006 election, as Young outlines, the Conservative Party acknowledged the “special cultural and institutional responsibilities” of Québec<sup>43</sup>. This approach was given more concrete terms, albeit under some duress, when the Harper Conservatives officially recognized the Québécois as a nation within Canada.

Finally, and importantly, open federalism means that municipalities are seen as falling exclusively within provincial jurisdiction. In keeping with several other elements presented here, open federalism views the federal government’s responsibility for municipalities as extremely limited. While not outright abandoning municipalities (the Conservatives have promised to retain the New Deal commitments to share a portion of

the federal gas tax), it is their intention to reduce the scope and breadth of the federal government's activities as much as possible. As Harper lamented in 2006, "Ottawa has gotten into everything in recent years, not just provincial jurisdiction but now municipal jurisdiction"<sup>44</sup>. Perhaps this element is best viewed as the cumulative affect of the previous elements (with the exception of the treatment of Québec); if the federal government brings order to intergovernmental arrangements, facilitates strong provinces, reduces the fiscal imbalance, and returns to the constitutional separation of powers, provinces and municipalities will be better equipped to deal with their own problems in manners as they see fit. Or so the argument seems to go.

There are some optimists among the early reviewers of open federalism. Simeon, for example, argues that open federalism's attempt to distance itself from the top-down approach of previous processes is welcome, given that provincial and – to a growing extent – municipal officials are equally professional and committed to effective service delivery<sup>45</sup>. He also points out that the constitution and convention in Canada places the federal government and the provinces on an equal footing in so far as policy making is concerned. Committing to excel at areas within their respective areas of jurisdiction better recognizes this fact. Noel points out that open federalism has the benefit of simplicity, which can make it appealing<sup>46</sup>. Banting notes that open federalism's newness and lack of specificities in a number of areas demonstrates the success of 'creative ambiguity' in Canadian federalism<sup>47</sup>.

There are also some pessimists, or at least some who are more cautious in their optimism. Leslie suggests that pursuing open federalism to its logical extreme may undercut the federation, leaving the federal government unable to affect national policy in the face of strong provinces<sup>48</sup>. Ottawa would not know when to engage in provincial policy – and press for that engagement – and when to sit it out. Such circumstances could leave the federal government “rudderless in turbulent seas”<sup>49</sup>. Indeed, such circumstances point to one of the enduring difficulties of collaborative federalism, where governments were required to give up some decision making authority over areas they might well wish to play a role in. There are no guarantees that, failing to arrive at a policy consensus or an inability to share long-term policy goals, jurisdictions would not again turn to unilateralism.

As well, the Conservative portrayal of open federalism overlooks many factors. For instance, there is by no means agreement on the issue of fiscal imbalance, nor does the approach acknowledge the positive aspects of the federal spending power. Federal governments in the past have used the federal spending power to create programs that are now entrenched in the Canadian psyche, such as universal health care. Similarly, the focus on ‘disentanglement’ overlooks several previous attempts to sort out governmental responsibilities, including the failed Meech Lake Agreement and Charlottetown Accord (as well as less publicized program review initiatives), not to mention similar failed exercises in several provinces. Open federalism’s approach to Québec may be welcome in terms of potentially placating Québec nationalism, but it is difficult to assess the potential impact on western alienation, given the west’s traditional advocacy for



provincial equality. Finally, it should be remembered that collaborative federalism also took as one of its driving impulses the need to streamline government and become more efficient in program delivery, with sadly mixed results. In fact, Jeffrey argues that it has had the opposite affect<sup>50</sup>. While efficiency and efficacy are certainly worthwhile goals, it remains unclear whether it can be achieved through the collaborative mechanisms envisioned in open federalism. Some have even argued that efforts to streamline government by eliminating overlap are misguided. Overlap should not be viewed as necessarily wasteful, but rather a natural feature of complex systems, particularly systems dealing with complex public policy issues<sup>51</sup>.

For others, open federalism appears to run against the current needs of Canada's urban centres, as well as against the emerging consensus among urban observers. It appears to ignore the emerging place of Canada's cities in both the national and international order. It assumes that the provinces will effectively discharge their responsibilities toward municipalities, when evidence seems to point to the contrary (see Chapters IV & V). It assumes that the problems and challenges of our urban centres are not of national, or federal, interest. It appears to be constructed for a simpler time, or – more cynically – to offer “don't-hurt-my-head solutions to complex social problems”<sup>52</sup>. Indeed, the simplicity of open federalism belies the complex processes and issues confronting our cities.

For example, the fiscal squeeze confronting Canadian municipalities is occurring at an important juncture in the evolution of the global economy. As Courchene argues,

economic power is paradoxically being pulled into a global economy driven by a series of global city regions<sup>53</sup>. This combination has been termed ‘glocalization’, where economic imperatives often transcend national borders while at the same time becoming focussed in large urban regions. These urban regions are not geographically based in the same sense that defined them in previous eras; Saskatchewan’s urban connection to the global economy is arguably Vancouver (or Calgary), while for residents of Syracuse, NY, it may be Toronto. Traditional boundaries are rendered meaningless in such circumstances. In addition, the economy is being driven by different resources than previously. Ours is no longer a resource based economy, but a knowledge-based economy. In such an economic environment, human capital becomes more important, and the ability of cities to attract and retain such talent is key not only to their success but, by extension, to national prosperity as well. Richard Florida has argued that the ‘creative class’ have important roles to play in creating environments that foster economic growth in cities<sup>54</sup>. Cities that are tolerant, technologically advanced, and talented have an advantage in the knowledge based economy where place of residence is increasingly a choice of lifestyle.

Standing in contrast to open federalism is what Leo calls ‘deep federalism’<sup>55</sup>.

While not typically included in academic analyses of federalism in Canada, deep federalism seeks to find national policies that reflect and, importantly, take into account local differences and necessities. Noting that Canadian federalism has always included asymmetry, Leo notes that many successful policy initiatives have occurred at the “nexus of negotiation and compromise unencumbered by the rigidity of constitutional provisions”<sup>56</sup>. Furthermore, he argues that there are examples where this logic has

continued into the development of national programs with local flavours – such as the Neighbourhood Improvement Programme, Winnipeg’s Core Area Initiative, and the Vancouver Agreement addressing that city’s downtown east side. These examples, and others, point to the existence for some time of national policies with local differences. In each case the problem was local, yet the implications of the problem challenged a national objective (liveable neighbourhoods and economically viable downtown areas). Thus, in response, national programs were developed that allowed for a significant degree of local input. In some cases most of the drive and expertise came from local authorities, who were better positioned to make assessments and decisions on the ground.

As interpreted by Neil Bradford, deep federalism “[extends] the intergovernmental principle that one-size-policy-does-not-fit-all to include cities... [generating] a menu of federal programs to be bundled in accordance with local priorities”<sup>57</sup>. The process benefits not only the immediate areas addressed, but rather exposes all levels of government to alternative sets of expertise, connections, and points of view. Thus, deep federalism calls for national policies that must reflect local differences, and suggests that such an approach is not entirely foreign to Canadian federalism. While open federalism purports to encourage greater cooperation among governments, the central tenet of reducing the scope of the federal government makes it unclear whether future such problems could count on the support of the federal government in developing solutions and managing their implementation horizontally among governments. The ultimate conclusion to be drawn suggests that any change in the

federal processes in Canada that ignores broader social and economic trends stand little chance of solving any problems that arise as a result of these trends.

The periods of Canadian federalism can be summarized by their demand stimulus, which order of government played the primary role in terms of initiative and political capital, which mechanisms governed the processes of intergovernmental relations, and which policy outcomes can be reasonably said to reflect the period. Table 3.1 attempts to summarize these criteria for each of the periods described above, and includes a somewhat hypothetical mention of ‘deep’ federalism. Of note is the increasing prevalence of politics – not policy – as the demand stimulus. While any interpretation of the significance of any given demand stimulus is subjective, and my conclusion that any given period is driven by politics is difficult to empirically demonstrate, a careful comparison of the stages discussed appears to point to a lack of any evidence that open federalism is designed to accomplish any other goal than to placate restless premiers in an era of federal budget surpluses. Unlike, for example, cooperative federalism, where policy aims were clear (i.e. building the framework of the welfare state) and innovative adaptations were initiated in order to achieve them, there is no mention of policy goals in any of the justifications for open federalism.

Indeed, the level of analysis upon which open federalism appears to be based harkens back to traditional, well-trodden territory. As Rocher and Nimijean point out, traditional analyses of Canadian federalism have been based on three considerations: the relationship between English and French Canada, Canada and the United States, and the

relationship between the central and provincial governments<sup>58</sup>. However, the forces of globalization and economic integration have changed the framework within which one must view Canadian federalism, and related to this is the re-emergence of the city-state as a fundamental building block of western societies.

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<sup>36</sup> Young, Robert (2007) "Open Federalism and Canadian Municipalities" in Banting, Keith, Roger Gibbins, Peter M. Leslie, Alain Noël, Richard Simeon, and Robert Young (2007) *Open Federalism: Interpretations, Significance* (Montréal: McGill-Queens University Press)

<sup>37</sup> National Post, October 27, 2004

<sup>38</sup> See, for example, the party's Policy Declaration, 2005.

<sup>39</sup> 2006 Conservative Platform: Stand Up For Canada

<sup>40</sup> *Policy Options*, March 2006

<sup>41</sup> Harper, Stephen *Speech to Federation of Canadian Municipalities* (June 2006)

<sup>42</sup> See, for example, Lazar, Harvey (2000) "In Search of a New Mission Statement for Canadian Fiscal Federalism" in Harvey Lazar (ed.) *Canada: The State of the Federation 1999/2000* (Montréal: McGill-Queen's University Press, 2000), or Laurent, Stephen (2003) "The Federal-Provincial Fiscal (Im)Balance in Canada: Where are the Needs and Who Has the Money?" (*Parliamentary Information and Research Service*) for useful discussions on the fiscal imbalance in Canada.

<sup>43</sup> Young, Robert (2007) *op. cit.* p. 17

<sup>44</sup> *Policy Options op. cit.*

<sup>45</sup> Simeon, Richard (2007) "Making Federalism Work" in Banting, Keith, Roger Gibbins, Peter M. Leslie, Alain Noël, Richard Simeon, and Robert Young (2007) *Open Federalism: Interpretations, Significance* (Montréal: McGill Queen's University Press)

<sup>46</sup> Noel, Alain (2007) "Il suffisait de Presque rien: Promises and Pitfalls of Open Federalism" in Banting, Keith, Roger Gibbins, Peter M. Leslie, Alain Noël, Richard Simeon, and Robert Young (2007) *Open Federalism: Interpretations, Significance* (Montréal: McGill-Queens University Press)

<sup>47</sup> Banting, Keith (2007) "Open Federalism and Canada's Economic and Social Union: Back to the Future?" in Banting, Keith, Roger Gibbins, Peter M. Leslie, Alain Noël, Richard Simeon, and Robert Young (2007) *Open Federalism: Interpretations, Significance* (Montréal: McGill-Queen's University Press)

<sup>48</sup> Leslie, Peter (2007) "The Two Faces of Open Federalism" in Banting, Keith, Roger Gibbins, Peter M. Leslie, Alain Noël, Richard Simeon, and Robert Young (2007) *Open Federalism: Interpretations, Significance* (Montréal: McGill-Queens University Press)

<sup>49</sup> *Ibid.* p. 65

<sup>50</sup> Jeffrey, Brooke (2006) *op. cit.*

<sup>51</sup> Lindquist, Evert A. (1999) "Efficiency, Reliability, or Innovation? Managing Overlap and Interdependence in Canada's Federal System of Governance" in Robert Young (ed.) *Stretching the Federation: The Art of the State in Canada* (Kingston: Institute of Intergovernmental Relations, Queen's University)

<sup>52</sup> Travers, James (2006) "A country whose temperature rises to tepid" *Toronto Star*, May 6

<sup>53</sup> Courchene, Thomas J. (1995a) *op. cit.*

<sup>54</sup> Florida, Richard (2002) *The Rise of the Creative Class* (New York: Basic Books)

<sup>55</sup> Leo, Christopher (2006) "Deep Federalism: Respecting Community Difference in National Policy" *Canadian Journal of Political Science* Vol. 39, Issue 3

<sup>56</sup> *Ibid.*, p. 486

<sup>57</sup> Bradford, Neil (2007b) "Placing Social Policy? Reflections on Canada's New Deal for Cities and Communities" (forthcoming, *Canadian Journal of Urban Research*), p. 10

<sup>58</sup> Rocher, Francois and Richard Nimijean (1995) "Global Economic Restructuring and the Evolution of Canadian Federalism and Constitutionalism" in Francois Rocher and Miriam Smith *New Trends in Canadian Federalism* (Peterborough: Broadview Press)

#### IV) THE PLACE OF MUNICIPAL GOVERNANCE IN CANADIAN FEDERALISM

The delicate back and forth between Ottawa and the provinces that has characterized Canadian federalism is being replicated more recently between municipal governments and their provincial masters. The similarities are striking: there are demands for more authority, greater resources, and more stable and predictable intergovernmental arrangements. In many ways municipalities are armed with stronger, more legitimate grievances against the provinces than the provinces have typically had towards the federal government. As well, municipalities are in a position to take their concerns to both higher levels of government, which they have done and continue to do. In fact, much recent lobbying has been directed at the federal government and not the provinces. This may be in part a function of the fact that it is the federal government that is posting the largest fiscal surpluses and the municipalities are simply hedging their bets. It may also be a result of decades of provincial duplicity, ineffective tinkering, and a “culture of non-recognition and neglect”<sup>59</sup> to municipal needs.

##### *Municipal-Provincial Relations*

In what has been described as a ‘constitutional shrug’<sup>60</sup>, municipal governments were left out of the constitutional division of powers at the time of confederation. They are left, therefore, as creatures of the province without any formal constitutional standing and not recognized as an ‘order’ of government on par with the federal or provincial governments. Their powers are delegated by the province, and the fiscal levers available

to them are limited. This is, of course, a generalization, given that no one framework applies to all cities and their respective provinces, or even to all cities within a given province. In recognition of the differentiation among cities, the awkward yet useful ‘hyper-fractionalized quasi-subordinate’ has been employed to summarize the patchwork, complex, and incongruous state of provincial-municipal relations<sup>61</sup>.

Each province has a municipal act governing local governments, and a department is mandated to oversee the act. Often, the responsible ministry is combined with other departments, sometimes with no clear policy link (as is the case with the Department of Community, Aboriginal and Women’s Services in British Columbia), or there are a number of departments with unclear distinction between roles (such as the existence of both a Ministry of Community and Social Services and of Municipal Affairs and Housing in Ontario). Although one might expect wide differences among provinces in their treatment of municipalities the spread is actually quite small from province to province in terms of municipal areas of authority, with a few notable exceptions. For example, municipalities in Ontario are the only ones that have been delegated responsibility for social services – the result of provincial re-organizing and a series of downloading efforts starting in 1995. Otherwise, there is a great deal of consistency in the areas of jurisdiction that have been assigned to municipal levels of government, including waste disposal, water and sewer, city planning, and transit.

More complex, however, are the specific intergovernmental arrangements designed to deliver these services. In some, cost sharing mechanisms are in place, in

others municipalities are responsible for the entire costs of program delivery; in some cases joint decision-making structures, special purpose bodies, or consultative mechanisms are in place, in others they are absent. In all cases, such arrangements are determined by the province.

This general consistency of areas of jurisdiction remains despite several efforts in all provinces to ‘disentangle’ the respective responsibilities of provinces and municipalities<sup>62</sup>. Such efforts were initially driven by similar impulses across the country. These included the desire to step back from the increasing complexity of cost-sharing programs that had been built up in the post-war period, as well as the complex intergovernmental relationships necessary to sustain such a system, and the growing attraction of the principle of subsidiarity. Most provinces set up commissions or panels to study how best to achieve a degree of disentanglement, and their approaches differed based on the specific situation in each province. Some provinces, such as Alberta and Manitoba, have approached disentanglement with legislation that grants municipalities greater authority in a broad range of areas, rather than within strictly confined ‘local’ areas of interest with significant provincial oversight. This approach is becoming more common, but is a recent phenomenon. British Columbia has granted Vancouver a greater range of powers and authority than other cities in the province in the late 1990s, and Ontario in 2005 passed the *Stronger Toronto for a Stronger Ontario Act* to provide Toronto with some greater legislative authority and tax sources.



In general, however, it has been argued that efforts at disentanglement have been unsuccessful. The Ontario experiment, in particular, is often used to demonstrate the uselessness of such experiments, since the entire exercise ultimately did nothing to reduce the complexity of provincial-municipal relations. Under the Harris Conservatives in the mid 1990s, Ontario chose to pursue an approach of trade-offs, taking back some areas of jurisdiction while downloading others to the municipalities. The province took back control and funding for education, children's aid, and women's shelters, while assigning to municipal governments full responsibility for housing, transit and some community based public health. In addition, municipalities gained responsibility for sharing a portion of the funding for welfare, child care funding, and nursing homes. According to Graham et al and Garcea & Lesage, the province was attempting to retain those programs with fixed or declining expenditures, while downloading to municipalities those programs with increasing costs<sup>63</sup>. At times, neither funding nor funding mechanisms immediately accompanied these new program areas. In some cases the province stated its intention to maintain overall program development authority while expecting municipalities to bear the burden of program delivery. Such an approach fit with the Conservative Harris government's ideological approach to smaller government, but did not reflect a means-tested approach to alternative service delivery. Indeed, the Ontario approach to disentanglement flew in the face of several reports commissioned by the government, which generally argued for revenue-neutral exchanges, if they were required at all.

In some cases, functional reform proposals were accompanied by the amalgamation of municipalities. Toronto (1998) and Montréal (2002) have both experienced a degree of amalgamation, with varying degrees of success. Indeed, Montréal has recently gone through a process of de-amalgamation, reversing previous amalgamation efforts. Amalgamation was seen in most instances as a way to rationalize service delivery across urban municipal boundaries. In other cases, notably Ontario, amalgamation accompanied the radical reorganization of service delivery in the province under the ‘Common Sense Revolution’ of the Harris government, and expressly sought to further reduce expenditures by reducing the number of governing bodies and centralizing operations. These more recent efforts built on previous urban reform movements in the 1960s and 1970s, where large western centres such as Winnipeg, Calgary, and Edmonton expanded and amalgamated with outlying towns, effectively becoming ‘uni-cities’, where the vast bulk of both urban and sub-urban residents live within the city limits. Vancouver, notably, has avoided such geographic reform movements, and has instead maintained its two-tier structure, with the Greater Vancouver Regional District (GVRD) serving as the region-wide governing body, including representatives from twenty-two municipalities in the area.

Many experts question the efficacy of such amalgamations – even apart from any other structural or functional reforms. Sancton, for example, points out that cost savings are rarely realized, and that regional arrangements may be just as effective in delivering services while maintaining a closer local connection to residents<sup>64</sup>. Others have noted that amalgamation helps cities, through sheer size, to become better advocates for greater

fiscal and policy responsibility. Moreover, at a 2002 symposium, several local officials representing recently amalgamated municipalities noted that in some cases, expenditure reductions have been achieved, and in the Toronto case, greater size had the appearance of placing Toronto more firmly on the ‘world stage’<sup>65</sup>. In any case, structural reforms have been implemented by the province, which, as Sancton points out, reinforces their primacy in the municipal-provincial relationship<sup>66</sup>.

Thus, the characterization of the relationship between municipalities and their provincial masters as ‘quasi-subordinate hyper-factionalized’ appears to be apt. Provincial governments, particularly in Ontario, have exerted their dominance by unilaterally changing boundaries, dictating the terms under which municipalities can operate, and seeking to ‘sort out’ responsibilities in ways that particularly benefit the provincial, not local, level of government. It is not surprising, then, that municipalities have historically looked to the federal government to provide overall direction and support, and continue to do so today.

### *Municipal-federal relations*

The federal government, as per the Constitution, historically has not played a large role in urban affairs. However, this is not to suggest that the federal government has had no role to play concerning municipalities in Canada. It is important here to note the distinction between explicit federal intervention in municipal affairs, and implicit intervention<sup>67</sup>. Indeed, federal government areas of jurisdiction are often *de facto* areas of

urban or city interest, as is the case with immigration and housing<sup>68</sup>. But the federal government may choose not to present or package such policies in terms of their municipal implications, or even view them through an 'urban lens'. Such implicit federal policies have been the norm, but the federal government has at times more explicitly articulated an urban policy agenda.

The first urban venture for the federal government occurred in 1970, with the creation of the federal Ministry of State for Urban Affairs (MSUA). In part as a consequence of the prevailing attitude of nation building that had marked the previous decades<sup>69</sup>, and in part because urban problems were already at that time quite visible<sup>70</sup>, the federal government attempted to affect the nature of urban public policy in Canada through this new Ministry. Careful not to tread on provincial jurisdiction the MSUA had no program responsibilities, and was thus tasked only with coordination, relationship building, and integration of policies. The department was successful in coordinating several tri-lateral meetings among federal, provincial and municipal partners, but little concrete was achieved. Even this minimalist approach, however, angered many provincial governments, who saw the federal government as attempting to interfere in a sphere of provincial jurisdiction. Eventually the provinces refused to attend the meetings, and withdrew their support for MSUA generally.

Without provincial support, and lacking any direct programs, the department was terminated in 1979, and the federal government retreated from an explicit role in urban issues for nearly 20 years. While most observers describe the MSUA experiment as

“fleeting”, they also point out that little distinction was made at the time between “problems *of* the city and problems *in* the city”<sup>71</sup>. In other words, urbanization itself was the intended problem area, not the problems that occur in urban areas. Others take a different view, noting that whatever the distinctions in problem assignment might be, the MSUA was a ‘courageous experiment’ by the federal government<sup>72</sup>.

It was not until the late 1990s that urban issues again captured some attention of federal leaders. At that time, urban issues were becoming even more prevalent, and calls for redress were becoming more vociferous following years of budgetary cutbacks from both the federal and provincial governments. As well, by the late 1990s the federal government had experienced some critical success with the \$6B Canada Infrastructure Works Program, which the federal Liberals had introduced in 1994 based on requests from the FCM. The program was a 1/3 cost sharing program, where each level of government would be required to pay an equal portion of the projects’ cost. An early review of the program noted that it had achieved a high degree of intergovernmental cooperation and successfully funded thousands of projects, with only a few instances of pork-barrel politics<sup>73</sup>. An additional \$600 million was added to the program in the 1997 budget.

In 2000, the federal government rolled-up the Canada Infrastructure Works Program into the Infrastructure Canada Program, dedicating \$2.65 billion over six years to assist in funding capital expenditures in municipalities through the Strategic Infrastructure Fund. In addition, two complementary funds (the Green Municipal

Investment Fund and the Green Municipal Enabling Fund, together worth \$250 million) were created and placed with the FCM for management. Building on these programs, and reacting to greater pressure from the FCM and several big city mayors, not to mention urban members of the Liberal caucus, Prime Minister Chrétien announced a Caucus Task Force on Urban Issues in 2001, and included some of the Task Force's recommendations in the 2002 Throne Speech, particularly in relation to investing in competitive and healthy cities.

At the same time, Finance Minister Paul Martin was engaging the FCM to discuss their concerns and to indicate the federal government's willingness to expand its presence in municipal affairs. Indeed, Martin announced his intention to proceed with a 'new deal' for Canada's cities as early as 2002, while still the Minister of Finance<sup>74</sup>. Martin continued this theme throughout the Liberal leadership campaign in 2003, where the 'New Deal for Canada's Cities' was a key platform feature, and sought to deliver on this promise once he became Prime Minister. In the 2004 and 2005 budgets, therefore, measures were included to transfer a portion of the gas tax collected by Ottawa, as well as a GST exemption for municipal purchases. Additionally, the federal government agreed to consult with municipalities during the preparation of the budget. However, at the time these initiatives were announced, they had been repackaged into a 'New Deal for Cities and Communities'. The addition of 'communities' to the package was likely a result of pressure from members of the rural caucus, who had already been successful in ensuring that their constituencies were not overlooked in the development of the \$1B Municipal-Rural Infrastructure Fund (announced in 2003).

The New Deal signalled a realization at the federal level that municipalities were ill-equipped to deal with the plethora of issues confronting them without federal help. It also signalled an explicit urban policy from the federal government, although one that was poorly defined and broad in scope. No new federal department accompanied the New Deal (which in any case became somewhat watered down with the addition of 'communities', effectively making the program so broad as to be nearly useless in addressing the compounded problem of large cities), although a Cities Secretariat was created at the Privy Council Office and eventually moved to a new Portfolio of Transport, Infrastructure and Communities. While not a department on its own, the addition of a 'communities' link to Transport Canada marks the first federal incursion into urban affairs since the MSUA.

The latest rounds of federal involvement in urban affairs were precipitated to a large extent by the active involvement of the FCM. The FCM is Canada's foremost advocacy group for municipal issues, and comprises municipal officials from across Canada, as well as provincial municipal associations. The FCM was involved in the discussions that led up to the first federal experiment in urban affairs in 1970, but had not yet developed a common position or solutions<sup>75</sup>. At that time, the FCM's insistence on being included in constitutional negotiations of the late 1970s and early 1980s as a third level of government was met with resistance by the provinces, and therefore ultimately relegated the FCM to the sidelines. However, the FCM was instrumental in lobbying for more infrastructure funding from the federal government throughout the 1980s and early

1990s, eventually influencing the inclusion of infrastructure funding in the Liberal Party's 1993 campaign platform.

Yet it was not until the real effects of downloading and budget cuts were felt that the FCM was able to lobby with renewed urgency. In 1991, the Conservative government of Brian Mulroney capped transfers under the Established Program Financing provisions to the provinces, most of which similarly transferred less funding to their municipalities. These financial restrictions were exacerbated by the Chretien/Martin budget of 1995, which altered the funding mechanisms between the federal and provincial governments, and drastically reduced the overall level of payments. Again, in most cases, provinces passed these cuts on to municipal governments. It is in this context that the FCM once again began to advocate for larger changes to the structure of Canadian federalism, particularly with respect to municipal financing. A measure of their success can be seen in the New Deal itself, in addition to the fact that the FCM has been tasked with management responsibilities of the Green Municipal Fund provided by the federal government.

Since the election of the Harper Conservatives in 2005, the fate of the New Deal has been in question. As noted in the previous chapter, the Conservative government has articulated a vision of federalism that relies on strong provinces, particularly with respect to their constitutional authority over municipal affairs. A broad funding scheme that involves the federal government in municipal funding would appear, therefore, to be contrary to the Conservative platform. However, Prime Minister Harper has not



dismantled the Infrastructure and Communities Branch of Transport Canada, nor has he withdrawn the provisions of the New Deal gas tax transfer. The 2006 federal budget continued these programs, adding \$2B to the Strategic Infrastructure Fund and \$2.2B to the Municipal-Rural Infrastructure Fund (the weight given to the Municipal-Rural fund reflects, no doubt, the Conservative Party's link to rural areas of the country). In 2007 the Build Canada Plan was announced, touting \$33B in federal funding for infrastructure. Much of the funding, however, is comprised of existing monies made available through the New Deal, and given the lack of specificity and focus it is unclear how much funding will actually make its way into urban areas.

What *is* clear is that the thrust of open federalism has meant that the Conservative government has “substantially scaled back the federal urban agenda”<sup>76</sup>. More pointedly, the *Toronto Star* recently summarized Harper's approach with the headline “PM to cities: Drop Dead”<sup>77</sup>. Rather than pursue the New Deal with vigour, or add to it in any way, the Conservative government has opted instead to direct the thrust of its urban agenda to rectifying the fiscal imbalance with the provinces. As the FCM notes, by focussing its priority in this way, the federal government has defined its role in Canada's urban areas very narrowly<sup>78</sup>. Thus, while the core elements of the New Deal remain, it has been characterized as a program in transition, with the goals and intent of the program largely truncated and the overall policy direction in limbo<sup>79</sup>.

## *Fiscal federalism*

It is within this context of intergovernmental relations that municipalities are confronted with their greatest challenge: responding to their increasing responsibilities within the present fiscal framework. Indeed, no discussion of the federal structure in Canada is complete without serious reference to the revenue-generating capacity of each level of government and their corresponding expenditures. While federal/provincial squabbles over the so-called 'fiscal imbalance' have become commonplace in Canadian political discourse, there is much evidence to suggest that in reality, it is municipalities that are critically under funded and who have a more legitimate basis to advocate for more fiscal autonomy<sup>80</sup>. As one author puts it, "Canadian cities are among the most fiscally restrained in the world"<sup>81</sup>. As another argues, it is the dire fiscal situation confronting municipalities that is responsible for putting urban affairs back on the public policy agenda<sup>82</sup>.

As creatures of the province, municipal tax levers and spending responsibilities are strictly controlled. Local authorities must, by provincial law, balance their budgets and negotiate with the province to borrow for any capital expenditures. In addition, most municipalities are limited to property tax as a source of revenue, although provincial and federal grants, as well as occasionally other tax levers, are minimally available. As Tables 4.1, 4.2 and 4.3 illustrate, on average, municipalities raise over 52% of their revenues from property taxes, while grants account for just 17% of revenues. The proportion of grants has been declining and varies widely, from 24.9% (largely in the

form of conditional grants) of Toronto's budget to 2% of Vancouver's. User fees make up an additional 23% of revenues<sup>83</sup>. This heavy reliance on property taxes, combined with legislated balanced budgets, leaves municipal governments with little room to manoeuvre. Balancing budget expenditures may require municipalities to reduce service delivery, or to raise taxes and potentially chase away residents or business. Others point out that property taxes are among the least effective and flexible – they are highly visible, do not reflect economic performance, tend to favour unsustainable land-use patterns (single family dwellings), and make no differentiation based on ability to pay<sup>84</sup>.

The increasing calls for greater municipal access to sources of revenue have been slowly taken up by provincial governments in Canada. Vancouver, for example, has recently been granted the authority to tax hotel room stays, where 4% of the cost of the stay is returned to the city to be spent on tourism. Since 2005 the province transfers the city's share of all traffic fine revenues back to the city. Even so, BC's funding support for Vancouver remains lower today than it had been in 1996. In fact, between 1996 and 1997 provincial support decreased from \$20.5M to \$5.8M<sup>85</sup>. Ontario's recent *The Stronger City of Toronto for a Stronger Ontario Act* (2006) grants Toronto a wider, although still limited, array of tax options. Other funding arrangements also exist, such as Québec's vehicle licensing sharing scheme for Montréal. The federal government has also recently expanded its role with respect to urban financing, as noted, through the New Deal/Build Canada provisions and other infrastructure financing funds. Previous federal involvement was usually predicated on project specific goals (Winnipeg's 'Forks') or

mega-projects (such as the Olympic Games or World Expositions), and required provincial consultation and approval.

Such fiscal structures do not make a compelling case for reform on their own. Certainly flexibility and accountability are desirable, but nothing in the structure itself indicates that it is not otherwise working. It is only when these limitations on municipal financing are stacked up against the types of demands placed on cities in Canada that the picture becomes complete. Not only have municipal governments generally been most negatively affected by senior level government downloading throughout the 1990s, they are also confronted with a broad array of challenges that are unique to Canada's large urban centres. Canada's largest cities continue to attract a disproportionate number of immigrants<sup>86</sup>, are homes to our centres of innovation and industry, and bear the brunt of environmental degradation, homelessness and poverty<sup>87</sup>. The scale of infrastructure requirements in large centres cannot be compared to smaller centres or rural areas.

The combined effect of downloading on the one hand, and increasing pressures on the other, has prompted municipalities to renew their efforts to seek changes to the structure of fiscal federalism in Canada. The FCM has often led the way, conducting comparative studies and presenting options to Parliamentary committees (including the caucus Task Force). The Big City Mayors Caucus of the FCM has similarly advanced positions outlining financial constraints as the key issue<sup>88</sup>. At times, individual mayors have taken the initiative to press for greater funding. Former Winnipeg Mayor Glen Murray was an outspoken advocate for greater municipal authority, and Toronto mayor

David Miller took the initiative in 2007 to call for a portion of the GST to be allocated to cities with the “One Cent Now!” challenge. Despite these activities, municipalities remain fiscally restrained. They remain under the control of provincial governments with little recourse to policy innovation, and are increasingly unable to meet the demands for current infrastructure improvements, let alone new or forward-thinking infrastructure.

Underlying these demands is a rich literature on fiscal federalism that generally focuses on cost benefits and economic efficiencies<sup>89</sup>. In this literature, authors tend to restrict their analysis to questions of the ‘optimal’ vertical and horizontal fiscal gap between levels of government. But, as Lazar points out, such analyses are often incomplete in that they overlook the non-economic goals of fiscal federalism<sup>90</sup>. In Canada, for example, the period of cooperative federalism outlined in Chapter II was only partly driven by considerations of economic efficiency. Equally as important was the desire to foster a sense of pan-Canadianism through the construction of national programs. This goal is what Lazar refers to as the ‘quasi constitutional’ impacts of fiscal federalism, which are more difficult to measure but no less important than simple models of economic efficiency within the federation. Thus, what drives the debate on municipal fiscal imbalance should not only be viewed in light of what might serve economic efficiencies, but also by the potential impact on the overall national interest.

The question now is whether the proposed intergovernmental arrangements of open federalism will respond to these demands: calls from municipalities for increasing authority and fiscal resources to meet growing areas of responsibility. Using the two

specific issues of housing and transportation it is possible to illustrate where the needs are, and what sort of responses one might expect under open federalism.

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<sup>59</sup> Federation of Canadian Municipalities (2001) *Early Warning: Will Canadian Cities Compete?*

<sup>60</sup> Lorinc, John (2006) *The New City: How the Crisis in Canada's Urban Centres is Reshaping the Nation* (Toronto: Penguin)

<sup>61</sup> Andrew, Caroline (1995) "Provincial-Municipal Relations; or Hyper-Fractionalized Quasi-Subordination Revisited" in Lightbody, James (ed.) (1995) *Canadian Metropolitics* (Toronto: Copp, Clark, Pitmann)

<sup>62</sup> For useful summaries of these disentanglement efforts see: Canadian Urban Institute (1993) *Disentangling local government responsibilities: international comparisons* (Toronto); Graham, Katherine A., Susan Phillips and Alan Maslove (1998) *Urban governance in Canada: representation, resources, and restructuring* (Toronto: Harcourt, Brace & Company Canada); McAllister, Mary Louise (2004) *Governing ourselves?: The Politics of Canadian Communities* (Vancouver : UBC Press); and, Garcea, Joseph and Edward C. LeSage Jr. (eds.) (2005) *Municipal reform in Canada: reconfiguration, re-empowerment, and rebalancing* (New York: Oxford University Press). The attractiveness of the principle of subsidiarity is most effectively demonstrated by Graham et al.

<sup>63</sup> Graham et al. (1998) *op. cit.* and Garcea & Lesage (2005) *op. cit.*

<sup>64</sup> Sancton, Andrew (2000) *Merger Mania: The Assault on Local Government* (Montréal: McGill-Queen's University Press)

<sup>65</sup> Mavroyannis, Maria (2002) "Is Bigger Better? Recent Experiences in Municipal Restructuring" *Canadian Tax Journal* Vol. 50, Issue 3

<sup>66</sup> Sancton, Andrew (2000) *op. cit.*

<sup>67</sup> This distinction is best outlined by Bradford, Neil (2007b) "Placing Social Policy? Reflections on Canada's New Deal for Cities and Communities" (forthcoming, *Canadian Journal of Urban Research*)

<sup>68</sup> Bourne, Larry S and Jim Simmons (2003) "New fault lines? Recent trends in the Canadian urban system and their implications for planning and public policy" *Canadian Journal of Urban Research* Vol.12, Issue 1

<sup>69</sup> Andrew, Caroline, Katherine A. Graham and Susan D. Phillips (2002) "Introduction: Urban Affairs in Canada: Changing Roles and Changing Perspectives" in Caroline Andrew, Katherine A. Graham and Susan D. Phillips (eds.) *Urban Affairs Back on the Policy Agenda* (Montréal: McGill-Queen's University Press)

<sup>70</sup> See both: Lithwick, Harvey (1970) *Urban Canada: Problems and Prospects*. A report prepared for the Honourable R.K. Andras, Minister Responsible for Housing, Government of Canada. (Ottawa: CMHC); and, Wiesman, Brahm (1976) "A New Agenda for our Cities" in Oberlander, Peter (ed.) *Canada: An Urban Agenda* (Ottawa: Community Planning Press)

<sup>71</sup> Andrew, Caroline, Katherine A. Graham and Susan D. Phillips (2002) *op. cit.* p. 3

<sup>72</sup> Oberlander, Peter and Arthur L. Fallick (1987) *The Ministry of State for Urban Affairs: A Courageous Experiment in Public Administration* (Vancouver: UBC Centre for Human Settlements)

<sup>73</sup> Andrew, Caroline and Jeff Morrison (1995) "Canada Infrastructure Works: Between 'Picks and Shovels' and the Information Highway" in Susan Phillips (ed.) *How Ottawa Spends 1995-1996: Mid-Life Crisis* (Ottawa: Carleton University Press)

<sup>74</sup> Martin, Paul (2002) Speech to the Federation of Canadian Municipalities

<sup>75</sup> Tolley, Erin, and William Young (2001) *Municipalities, The Constitution, and the Canadian Federal System* (Government of Canada, Department of Public Works and Government Services, BP-276E)

<sup>76</sup> Bradford, Neil (2007a) "Whither the Federal Urban Agenda?: A New Deal in Transition" *Canadian Policy Research Networks* Research report F/65

<sup>77</sup> Toronto Star, November 9, 2007

<sup>78</sup> FCM, *Budget 2007 Analysis*

<sup>79</sup> Bradford, Neil (2007a) *op. cit.*

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- <sup>80</sup> This argument is advanced by a number of authors, notably: TD Economics (2002) "A Choice Between Investing in Canada's Cities or Disinvesting in Canada's Future" *Special Report, TD Bank Financial Group*; Kitchen, Harry (2002) "Canadian Municipalities: Fiscal Trends and Sustainability" *Canadian Tax Journal* Vol. 50, Issue 1; Lorinc, John (2006) *The New City: How the Crisis in Canada's Urban Centres is Reshaping the Nation* (Toronto: Penguin); and, Mackenzie, Hugh (2006) "The Art of the Impossible: Fiscal Federalism and Fiscal Balance in Canada" *Canadian Centre for Policy Alternatives*, July
- <sup>81</sup> Courchene, Thomas, J. (2005) "Citistates and the State of Cities: Political-Economy and Fiscal-Federalism Dimensions" *Institute for Research on Public Policy Working Paper Series* no. 2005-03
- <sup>82</sup> Slack, Enid (2002a) "Have Fiscal Issues Put Urban Affairs Back on the Policy Agenda?" in Andrew, Caroline, Katherine A. Graham and Susan D. Phillips (eds.) *Urban Affairs Back on the Policy Agenda* (Montréal: McGill-Queen's University Press)
- <sup>83</sup> Kitchen, Harry M. and Enid Slack (2003) "Special Study: New Finance Options for Municipal Governments" *Canadian Tax Journal* Vol. 51, Issue 6
- <sup>84</sup> While there is a wealth of literature and analysis on the shortcomings of property taxes, a useful overview is found in Slack, Enid (2002b) "Property Tax Reform in Ontario: What Have We Learned?" *Canadian Tax Journal* Vol. 50, Issue 2
- <sup>85</sup> City of Vancouver, Annual Report, 2006
- <sup>86</sup> McDonald, James T. (2004) "Toronto and Vancouver bound: the location choice of new Canadian immigrants" *Canadian Journal of Urban Research* Vol. 13, Issue 1
- <sup>87</sup> For concise summaries of the urban nature of such issues see: Conference Board of Canada (2007) *op. cit.*; External Advisory Committee on Cities and Communities (2006) *op. cit.*; and Bradford, Neil (2007b) *op. cit.*
- <sup>88</sup> See both: Mayors' Summit (2004) Press Release; and, Federation of Canadian Municipalities (2005) *Cities: Partners in National Prosperity* (FCM Big City Mayors Caucus)
- <sup>89</sup> See, for example, Oates, Wallace (1991) *Studies in Fiscal Federalism* (Brookfield, VT: Elgar)
- <sup>90</sup> Lazar, Harvey (2000) "In Search of a New Mission Statement for Canadian Fiscal Federalism" in Harvey Lazar (ed.) *Canada: The State of the Federation 1999/2000* (Montréal: McGill-Queen's University Press, 2000)

## V) THE CASES OF PUBLIC HOUSING AND PUBLIC TRANSPORTATION

The preceding chapters have outlined the evolution of federalism in Canada and the place of municipalities within this federal context. Where these two strands meet is in the cities themselves. The federal structure and processes of Canada and the place of municipalities within this framework are most clearly evident when simply assessing the state Canada's urban centres. While the focus of this chapter will be on public housing and public transportation, it is first necessary to assess the overall state of affairs in Canada's cities.

In the urban context, infrastructure is an imprecise word, covering everything from sewer and water systems, roads and community centres, sidewalks, parks and public transit, etc. While it is difficult to determine the precise cost of repairing and updating municipal infrastructure across the country, the Conference Board estimates the figure at \$120 billion<sup>91</sup>. Another estimate by the TD Bank shows that there is a \$2B 'infrastructure gap' in ongoing maintenance and upgrade funding each year<sup>92</sup>. Already in 1983 the FCM estimated the cost for infrastructure repairs to be \$12 billion<sup>93</sup>, and in November 2007 the FCM found an estimate similar to the Conference Board's, arguing that the cost for infrastructure upgrades is now \$123 billion<sup>94</sup>. In part, such high figures are due to the fact that much of Canada's municipal infrastructure is due for renewal or replacement. As well, they have generally been neglected, or simply been maintained to a level of basic functionality, for decades. Infrastructure costs are also high because cities have been driven to build property tax bases further away from their central cores.



The utilities and transportations connections between urban and sprawling suburban areas are thus extensive.

Of course, such assessments of infrastructure are generalizations, since there is no uniform state of infrastructure in Canada. In the older centres of Montréal and Toronto, infrastructure is naturally older and more extensive and therefore in need of repair. By contrast, Vancouver is not generally confronted with the problems of ageing but rather with the need for rapidly expanding infrastructure. In short, there is a wide differentiation from place to place, but taken together the infrastructure gap in Canada remains significant. Given the sheer size and cost of infrastructure renewal in Canada's municipalities, there appears to be an obvious role for higher levels of government, with the most common argument calling for the comparably large spending power of the federal government<sup>95</sup>.

Housing and transportation have been identified as issues for analysis not only because they are predominantly urban in nature, but also because there is a growing trend to link performance on such policy issues to broader policy outcomes such as quality of life and economic competitiveness. In fact, such links between urban infrastructure, transit, environment, and housing, on the one hand, and overall quality of life and global economic competitiveness on the other are commonly made in most reports and observations on the issue<sup>96</sup>. Some organizations have quantified these links in terms of overall quality of life. For example, Mercer Consulting and the Economist Intelligence Unit have ranked cities worldwide based on a number of specific criteria which include

housing and transportation<sup>97</sup>. Often, such assessments include comparisons based on ratios of income to average house prices, or percentage of time required to commute, on average, from home to work. While Canadian cities typically fare well in these rankings, it is largely due to other factors that receive higher survey weight, such as political stability and low crime rates.

### *1) Housing*

Notwithstanding links between housing and urban competitiveness, as Tom Kent notes, affordable housing in Canada is the “greatest of urban deficiencies”<sup>98</sup>. Moreover, he argues that without some attention to the housing issue in our urban centres the advantages of civic (read: urban) life are diminishing. At present, roughly 6% of Canadian households live in non-market social housing (compared to nearly 40% for the Netherlands, for example). Significantly, Canada is the *only* developed country in the world without a national housing policy. The result is that “Canada has the most private-sector-dominated, market based housing system of any Western nation”<sup>99</sup>.

That housing is an urban concern is not in doubt: as Moore and Skaburskis demonstrate, housing needs based on the percentage of income spent on housing (using a 30% and 50% threshold) are far greater in Canada’s urban areas than in rural areas<sup>100</sup>. They also show that the rate of those in dire need of affordable housing rose by a greater rate between 1991 and 1996 in urban areas as opposed to rural areas. Moreover, housing needs were demonstrably higher in Ontario, Québec and British Columbia, where

Canada's largest cities are located, than in the Maritimes or the Prairies. Similarly, TD Economics reported in 2003 that Vancouver, Toronto, and Montréal were the first, second and third place locations with the highest rates of housing affordability problems in 2000<sup>101</sup>.

Housing, like infrastructure, is an imprecise term. In its broadest sense, housing refers to the entire stock of housing units, whether owned or rented, market or non-market. For the purposes of this paper, however, housing refers to housing that is publicly owned or supported, as well as 'affordable housing', which includes housing that is subject to rent controls, rent supplements, or other regulations that protect the tenant from market fluctuations. Also, housing as a policy issue consists of two different strands. First, affordable housing is an issue for many people who actually have accommodation, but spend more than 30% (the traditional figure used by government and not-for-profit agencies in determining housing needs) of their income on shelter and are at risk of becoming homeless. Second, housing is also obviously an issue for those who do not have shelter at all, the already homeless. These two categories are increasingly linked, as rental costs continue to grow at higher rates than wages generally, and those who are housed but at risk of homelessness become priced out of the housing market.

In terms of the provision of affordable, low income, or other social housing, as Hulchanski points out, all levels of government bear some responsibility<sup>102</sup>. But he further notes that despite jurisdictional responsibilities, it is the federal and municipal levels of government that have played the most important roles with respect to housing

policy and implementation. Provincial activity in housing has been ‘an exception’. Others have noted the same, but emphasized that the federal government has made several advances into housing policy, often providing leadership and facilitating provincial and municipal action<sup>103</sup>.

1.1) The federal role:

The federal government has had a large role to play in the provision of public housing, as well as in assisting homeowners. The federal government first entered the housing policy field through the Canada Mortgage and Housing Corporation (CMHC), which was created in 1946. While the CMHC had been instrumental in the post-war period for providing mortgage insurance and assisting in the boom in home ownership (particularly in suburbs, which then later became a problem), it did not actively pursue non-market social housing until 1964. At that time, amendments to the *National Housing Act* provided for a municipally run housing program, fully funded by the federal government. Similar to the MSUA experiment, which came on the heels of a period of intense nation building by Ottawa, the *National Housing Act* was a way for the federal government to by-pass the provinces and establish a federal presence in pursuit of a national housing policy – ostensibly in the name of national interest. Following recommendations from a federal Task Force in 1969, the federal government increased its spending on social housing, such that between 1969 and 1980, 70% of all houses purchased were insured federally, and 28% of all new construction proceeded with a government subsidy<sup>104</sup>. Non-market social housing and co-operative housing programs

were also introduced in this time since, as the federal minister for urban affairs noted in 1973, housing was seen to be an issue of national importance<sup>105</sup>.

The 1950s through the mid 1970s was a period of extensive intergovernmental coordination in the delivery of housing services, as well as of increasing pressures on the housing market as baby-boomers sought to purchase homes similar to the detached homes they had grown up in. Some provinces also jumped in to offer similar subsidy and insurance programs as the federal government, generally elbowing their way into increased jurisdiction over the issue. As Carroll notes, since housing needs were not uniform across the country, provinces felt best positioned to deliver on their housing needs. Competing provincial and federal subsidies, combined with unfavourable market conditions, led to an eventual glut of federally constructed housing, and forced the federal government to redefine its role in housing policy in the late 1970s. The federal government then abandoned its broader programs dealing with neighbourhood improvement and introduced a block municipal grant in 1978.

These events, combined with effective private sector lobbying, convinced the Mulroney Conservative government in 1984 that non-market housing was unfair, and thus began a period of decreasing funding for housing<sup>106</sup>. In 1986 the federal government signed agreements with provincial governments to turn over authority for the remaining federal housing programs (including residential rehabilitation, non-profit and co-operative housing, as well as aboriginal housing policies) to the provinces. By 1993,

federal funding for new housing had been entirely eliminated (remaining funding was for existing housing stock).

In 1993, the newly elected Liberal government was faced with a number of economic and political considerations that made re-entry into the housing market a difficult issue. But, with the elimination of the federal deficit in 1997 and the negotiation of the SUFA in 1998, the federal government sought to return to an active role. Federal efforts were met, however, with provincial resistance. For example, when the federal government announced in 2001 the Federal-Provincial Affordable Housing Framework, which would have reached \$1B in federal funding by 2007-08, the provinces resented the requirement to provide provincial matching funds for any programs or initiatives.<sup>107</sup> Provincial reluctance to participate in the federal housing initiative was so great that the federal government threatened to extend funding directly to municipalities and housing providers as a way to by-pass the provinces.<sup>108</sup>

In summary, the role of the federal government in public housing can be characterized as historically significant but, more recently, unpredictable. While its traditional role has been to provide assistance to homeowners, this narrow focus began to expand to cover public housing in the 1960s and 1970s. More recent decades have been marked by retrenchment and renewal. However, the federal government's renewed interest in public housing in the early 2000s did not go so far as to articulate a national housing policy. Such a goal has long been the desire of a range of housing and homelessness advocates, who were given institutional backup in November 2007 by a

UN Special Rapporteur who recommended unequivocally that Canada develop and implement a national housing strategy<sup>109</sup>. The approach proposed by open federalism stands to leave Canada as the only developed nation in the world without one, and leave municipalities to the changing priorities of their provincial masters.

### 1.2) Toronto / Ontario

Ontario has a long history of involvement in affordable housing programs, including rent controls, provincially mandated restrictions on demolitions and conversions, and the creation of rental standards. The bulk of administration of housing programs, however, falls to municipalities. In most cases an agency is tasked with administering municipal housing programs. In Toronto, the Toronto Community Housing Agency manages the majority of the city's social housing, owning a total of 58,194 units (in 2005). The Agency is managed by a board appointed by the City Council and reports directly to the Council. In addition to owning and managing the largest proportion of social housing units in the city, the agency also manages a variety of rent supplement programs on behalf of the city. A range of other providers are also key players, including not-for-profit housing organizations (20,907 units), co-operatives (7,045 units), and private sector housing groups (3,260 units).

The city's involvement in social housing has grown since the mid 1990s. The federal government's retreat from social housing in 1993 was seen by some provinces as an opportunity to become further engaged in the housing issue. In Ontario, however, the Harris Conservative government chose in 1995 to use the opportunity to pursue market

oriented principles and effectively get the government out of housing. Ontario cancelled all funding for existing or future projects, transferred authority over social housing to municipalities, and simultaneously made it easier for private sector developers to enter the social-housing market. In total, the provincial government backed out of or cancelled 17,000 planned units, as well as over 3,000 rent controlled and 3,300 subsidised units. Figure 5.1 illustrates the effect of this withdrawal. Furthermore, in 2000, the provincial government passed the *Social Housing Reform Act*, transferring responsibility for social housing to municipalities. By 2001, through a two-stage process, all of the provincially owned social housing stock, as well as the responsibility for managing it, were transferred to the City of Toronto. Therefore, the City of Toronto is now responsible for 44% of the funding for social housing, while the province accounts for only 4%. A significant amount (34%) is received from the federal government, largely for the maintenance of units already owned federally through the CMHC. Toronto has been forced to turn to private sector housing providers to make up the funding slack. When federal funds were made available again in 2001, based on matching criteria, Ontario refused to accept the funding, preferring to leave it untouched.

As a result, waiting lists have grown and homelessness continues to be a problem (see Figure 5.2). Social housing waiting lists are over 71,000 in Toronto alone (over 122,426 for Ontario as a whole) and the average wait time is almost 8.5 years<sup>110</sup>. As Toba Bryant argues, the effect of the Ontario government's downloading and private-sector dominated approach to housing has been that homelessness and housing problems have 'exploded', and that the entire premise of the Harris government's approach was



'pathetically false'<sup>111</sup>. Moreover, as Hackworth and Moriah note, the reforms in Ontario between 1995 and 2001 were more ideologically based than means-tested<sup>112</sup>. The Conservative government was pursuing neo-liberal policies across the board (including its efforts to disentangle from municipal governments) and government-subsidized social housing was ripe for privatization. In effect, the Harris government was revisiting similar efforts by the federal Conservatives under Mulroney.

The election of the McGuinty Liberals in 2003 brought some change to housing policy. The provincial government, for example, took up the federal government's offer for cost-shared programs. But, while the 2005 Canada-Ontario Affordable Housing Program has added \$380M to the construction of new subsidised and social housing, critics maintain that the program is too little, too late. Also, the Homelessness Action Group in Toronto argues that some funds have not gone to the program's stated goals. They suggest that the province's 2007 budget allocated 60% of the federal funding to rent subsidies for existing housing stock, not new housing initiatives as intended<sup>113</sup>.

The Toronto experience in housing represents a clear illustration of the effects of the federal and provincial downloading exercises of the mid 1990s. The experience has been marked by policy schizophrenia, an exacerbated housing problem, and new pressures on the city. While steps have been taken recently to provide better solutions, there appears to be a limited willingness from the federal government to re-engage in the housing field. Indeed, open federalism appears to rely on a strong provincial response when the evidence here suggests that such a response is far from guaranteed.

### 1.3) Vancouver – British Columbia

British Columbia has a somewhat better record of delivering on social housing than Ontario. The province has demonstrated a greater willingness to maintain an active presence in the housing field. In fact, while Toronto has been assigned responsibility for housing, in Vancouver the province is the main provider and policy maker. Nevertheless, the province has only recently announced a comprehensive strategy and increased funding to deal with the continually increasing levels of homelessness and prohibitive housing prices.

Following the federal retrenchment from the social housing field, British Columbia continued to increase funding to social housing. In fact, total funding went from \$44.5M in 1992 to \$139M in 2004<sup>114</sup>. Much of this funding was administered by BC Housing, the provincial agency with responsibility both for social housing and rent supplement programs. While the City of Vancouver and the Greater Vancouver Regional District (GVRD) play key roles in the support of housing programs, their involvement is less than in Toronto since the provincial government has not undertaken a downloading exercise similar to Ontario's. The City has been a leader, however, in using the tools at its disposal to affect the development of social housing. For example, the council has implemented a requirement that 20% of all new large residential development be allocated to affordable housing. The Greater Vancouver Housing Corporation manages a proportion of the city's social housing stock, and a variety of not-for-profit and private

sector players are also involved. The GVRD, for its part, has developed a regional homelessness plan to coordinate region wide efforts.

It is the province, however, that plays the lead role in housing policy and funding. In 2006, the provincial government spent over \$200M on shelter and housing initiatives, and announced that 3,500 new units were under construction. In 2007, under a Provincial Housing Strategy, the Campbell Liberals announced \$2B in new spending over four years, as well as a housing endowment fund for 'innovative' housing projects.

While these developments are signs of active provincial involvement, it must be remembered that the strategy is not specific to Vancouver, and the overall plan for delivering housing remains directed by the province, not Vancouver or the GVRD. Also, there is some evidence to suggest that the provincial government has taken a broad view of its contributions to housing. John Irwin finds evidence that new funding offered by the federal government was actually diverted by the province into the health care system<sup>115</sup>. Rather than being used for construction of new units or the improvement of existing units, the province decided to use the funding to support existing 'assisted-living' units for senior citizens. There are merits, of course, in supporting the elderly, but such units, he argues, are more rightly seen as a component of the health care system, not the housing system.

In addition, even when sustained funding has been made available, the rate of homelessness in Vancouver has risen. The 2005 Homeless Count revealed that between

2002 and 2005 there was a 238% increase in 'street homeless' in Vancouver, with an additional 33% increase in the number of homeless in shelters or social housing<sup>116</sup>. Also of note, Vancouver is home to one of the country's most notoriously under-privileged urban areas: the Downtown Eastside. The most recent and comprehensive plan to deal with the housing and other problems in this area is a tri-level (federal-provincial-municipal) initiative, the very kind open federalism appears to reject.

Thus, while Vancouver has not experienced the same degree of policy polarization and reversals as Ontario, it remains susceptible to housing pressures and increasing levels of homelessness. As a result, the GVRD noted in 2007 that any local or regional housing strategy is ultimately dependant on the provincial and federal governments committing to partnerships with the City of Vancouver and the GVRD<sup>117</sup>.

#### 1.4) Montréal – Québec:

The Montréal experience is somewhat akin to Vancouver's, in that the provincial government, too, has largely avoided the policy schizophrenia of Ontario with respect to housing. In fact, Québec was among the first provinces to sign housing agreements with the federal government when funding was re-established in 2001. Interestingly, CMHC partnerships feature prominently in the intergovernmental arrangements to deliver housing in Québec and Montréal. A total of 8% of Québec households received some sort of rental assistance in 1999, up from 3% in 1981<sup>118</sup>.

Two provincial government programs largely cover the social housing component: AccèsLogic and Affordable Housing Québec. Both provincial programs grant financial assistance to housing co-operatives, non-profit organizations and municipal housing authorities in support of affordable housing initiatives. While generally managed provincially, agreements have been signed between the provincial government and the City of Montréal to allow it to manage AccèsLogic and Affordable Housing Québec within its jurisdiction. Municipally, the city has mandated the Société d'habitation et de développement de Montréal and the Société de développement de Montréal (combined under one umbrella in 2007) to work with the province in delivering on these programs.

It is through such partnerships that the city developed the Opération Solidarité 5,000 initiative, launched in 2002. Under the initiative, the city of Montréal aimed to create 5,000 affordable housing units by 2007. The city provided 15% of the funding and 30% of the building lots, with both provincial programs and CMHC contributing to the remaining funding (estimated at \$300M combined). The program encouraged proposals from not-for-profit and co-operative housing organizations, as well as the Office municipal d'habitation de Montréal. The program was so successful that the city has now reported that Solidarité 5,000 has been expanded to become Opération Solidarité 15,000, with a goal of creating 15,000 new affordable housing units by 2009<sup>119</sup>.

While these successes and remarkable absence of federal-provincial-municipal confrontation appear to paint a picture of an effective status quo, it is important to note

that Montréal's initiatives are heavily dependent on higher levels of government. The city has been successful at using such devices as land-use zoning and well established inter-agency relationships to advance several initiatives, but without federal and provincial funding such initiatives would be severely curtailed. The first recommendation of the city's most recent housing plan is to secure guarantees from the province for continued funding, and the second recommends that the city continue to lobby the federal government for funding increases<sup>120</sup>. Also, Montréal's generally lower housing and rental prices are at the greatest risk of rising faster than elsewhere, where prices and rents are already high. Such an increase would pose problems for an economy already more depressed than in Toronto and Vancouver. Finally, it is not insignificant, as Bunting, Walks and Filion argue, that the number of 'housing stressed' households in Montréal remains greater than the entire household population of Saskatoon<sup>121</sup>.

### 1.5 Housing Summary and Assessment

While provincial governments in British Columbia and Quebec have shown a sustained commitment to public housing initiatives, the same cannot be said for Ontario and the federal government. In the latter two cases, housing policy has been marked by unpredictability and instability. The retrenchment had a double effect in Toronto, which was forced to bear the brunt of policy reversals at both higher levels of government. Montreal and Vancouver have fared better, and successive provincial governments there have attempted to compensate for the loss of federal interest and investment. Yet neither has escaped the housing crisis. Both Montreal and Vancouver, like Toronto, have large

homeless populations, and housing affordability pressures continue to put more residents at risk of homelessness.

Moreover, there is little policy cohesion in the approach to public housing across jurisdictions. Toronto is far more private sector dominated than elsewhere, and largely responsible for public housing on its own. Montreal has seen some success in provincial/municipal partnerships, while in Vancouver the province has staked out the largest policy and program delivery role. Such policy differences are laudable on the one hand, demonstrating the ability of governments to experiment and tailor programs and services to their specific needs. On the other hand, this experimentation has not yielded significant results, in that housing remains a pressing and growing issue.

There have been some proposals for federal intervention in the housing policy field that attempt to reconcile these two features. Among others, the FCM has advocated for a national housing strategy that remains sensitive to local needs<sup>122</sup>. In their view, any housing strategy must meet a number of policy goals, including: meeting long term rental demand; meeting needs in growing communities; ensuring that new rental supply is suitable and affordable; providing housing for special needs; reinvesting in disadvantaged communities; and, renovating and adapting existing buildings. Such criteria form a useful baseline by which to measure the current open federalism approach.

How is open federalism likely to meet policy goals such as these? The short answer is that it is designed precisely not to meet these objectives, since they are largely

in provincial jurisdiction. In the same way that the federal Conservatives do not see the federal government as ‘in the pothole business’, it would equally see itself as not ‘in the renovation business’. Beyond such platitudes, however, lies an ideological thrust and policy decision: the federal Conservatives have taken the approach to housing that puts the emphasis on home ownership. Their 2005 platform makes this emphasis clear, and while it includes references to addressing homelessness, the thrust is on tax relief and tax incentives<sup>123</sup>. As outlined in table 5.7, such an approach not only fails to deliver a national housing strategy, it can only marginally address the discrete policy goals contained within such a strategy as outlined by the FCM. For example, while using tax breaks and incentives may reduce the burden of housing affordability and induce some private-sector development, the Ontario experience suggests that such expectations may be misplaced. Similarly, the Vancouver experience demonstrates that consistent municipal insistence on public housing quotas on new developments can increase overall stock, but without sustained federal and provincial support overall housing affordability remains problematic and homelessness continues to grow. Open federalism does not appear to offer solutions to such problems, and its insistence on jurisdictional clarity ignores the need to address overlapping policy goals in the area of public housing.

## *2) Transportation*

There is perhaps an even greater, more explicit link between economic competitiveness and public transportation than is the case with public housing. As the Société de Transport de Montréal points out, traffic congestion can lead to billions in lost



revenues due to delivery delays<sup>124</sup>. The Canadian Urban Transit Association (CUTA) similarly reports that not only can public transportation positively impact the economy by reducing congestion, it also stands to increase property values, influence the location of business within the city, reduce energy consumption, reduce transportation times (saving costs associated to long commutes but also allowing workers to be more productive while commuting), and produce transit-related employment<sup>125</sup>. Thus, transportation not only encompasses a wide range of issues, it can also be addressed from many angles. Initial treatments of transportation focussed on the efficient movement of goods and people from an economic perspective<sup>126</sup>. While these concerns still exist and are no less important, additional environmental concerns have added salience to the transportation issue, particularly in terms of public transit and alternatives to automobile use. Such concerns spill over into urban and regional planning discussions, as well as discussions on neighbourhood development and land use.

Moreover, while housing is a quality of life issue for those who are homeless or at risk of becoming homeless (and there are spill-over affects for select areas of the city), transportation is increasingly recognized as a quality of life issue for the vast majority of Canadians because of the link to environmental degradation. Urban transportation is such a multi-faceted issue that the Conference Board of Canada has claimed: “when it comes to advancing the *economic, social, and environmental* sustainability of our cities, the highest connective infrastructure priority is urban transportation”<sup>127</sup>. In many ways, public transportation is becoming recognized as a solution to a variety of problems, both economic and environmental. While the scope of such problems is in no way limited to

urban centres, it is only in larger cities where mass-transit solutions stand to have any real impact. It is also the case that Toronto, Montréal and Vancouver operate the largest transportation systems in Canada, and together represent the bulk of the Canadian economy.

It is often difficult to isolate the state of public transportation from the larger issue of infrastructure. Public transportation is linked to an entire system of transportation that includes roads, highways, airports, marine ports and the like. But, it is estimated that a huge proportion of infrastructure costs is tied up in transportation – both public and private. TD Economics estimates that of the total infrastructure gap, however it is calculated, transit and transportation accounts for fully 60%<sup>128</sup>. In addition, the Canadian Urban Transit Association estimated in 2004 that the infrastructure requirements of Canada's transit systems was \$21 billion for the four year period from 2006-2010<sup>129</sup>.

Despite its importance, transportation in Canada's cities has generally been left to municipalities to fund. This is particularly true with respect to public transit. According to 2001 statistics, transportation accounts for almost 20% of municipal spending, but it is argued that such expenditures are insufficient<sup>130</sup>. In addition, such spending may not include other, less apparent, transportation infrastructure such as bike lanes, walking paths, and the like. Canadian public transit operations rely predominantly on passenger fares for revenues, with municipal and provincial revenues accounting for the rest (see Figures 5.3 – 5.6). There is no direct federal subsidy for public transit operations in

Canada – the only G8 nation without such a subsidy – and there is no federal long-term public transportation funding.

2.1) The Federal Role:

Unlike housing, the federal government has not, historically, played a large role in the financing or development of urban transportation systems. It has tended to focus, as per the Constitution, on transportation areas within its jurisdiction, such as ports, waterways, and rail infrastructure. But, the federal government has not been entirely absent from urban transit issues. It has been a one-time capital funding partner, for example, in the construction and expansion of rapid transit lines in Toronto, Montréal and Vancouver – often in conjunction with federal spending for the hosting of mega-events such as the World’s Fair or the Olympics. More recently, in 2005 the federal Liberal government announced the Public Transit Fund and the Public Transit Capital Fund, worth \$1.3 billion, to assist provinces and municipalities to maintain or expand their existing public transit systems. These funds were in addition to any transit funding secured through the New Deal gas tax transfer, the Green Municipal Fund, or other infrastructure programs. In addition, Transport Canada operates several programs designed to share best practices and research on public transit solutions, such as the Urban Transit Showcase Program.

The current Conservative government has continued these programs, and in fact announced in March 2007 that it would provide \$960 million in funding to Toronto for rapid transit (Ontario had already set aside \$670 for the project, under cost-sharing

provisions). In October of 2007, the federal government announced the Building Canada Plan, bundling \$33B in federal funding to be directed at infrastructure. The Plan, however, includes only limited reference to public transit. Public transit is listed under a range of target programs under the program goal of building a cleaner environment, one of three overarching program goals. Finally, the federal Conservatives also introduced a tax credit for transit users, representing an indirect investment in transit of about \$150 million annually.

However, as with infrastructure generally, such funding is welcome but insufficient. For the sake of comparison, it should be noted that the U.S. federal government has allocated \$453 billion over the last 10 years to urban public transit initiatives through the Transportation Equity Act (see Chapter V). As of 2002, that amount represented an investment 100 times greater than from Canada's federal government<sup>131</sup>. Moreover, the latest federal direction does not represent the national transit strategy called for by the FCM, the CUTA, the Standing Senate Committee on National Finance, and others. While the new federal funding represents an increase in capital spending from 0% in 2001 to 18% in 2005<sup>132</sup>, it does not represent a long-term and dedicated urban transit strategy. Even the Council of the Federation, comprising provincial premiers typically resistant to federal encroachment, recommended in 2005 that the federal government dedicate long-term and stable resources to urban public transportation<sup>133</sup>.

## 2.2) Toronto – Ontario:

Even in this situation, where federal funding has not been typically available and municipalities are dependant on provincial support, provinces have not always provided consistent and reliable funding. As with housing, the Toronto experience offers some of the clearest lessons.

Public transit in Toronto is managed by the Toronto Transit Corporation (TTC), the largest transit body in Canada. Prior to 1998, the TTC received about 75% of its capital investments in transit from the provincial government. In fact, since 1972 the provincial government had financed the bulk of both capital expenditures for the TTC but also shared the operating losses (the difference between revenues generated by fare intake and operating expenditures) with the City, covering up to 68% of the losses between 1981 and 1993. At times, such heavy reliance on the provincial treasury produced undesired outcomes for the TCC, in that the provincial government would occasionally use its funding as leverage to influence the direction and decision making of the TTC<sup>134</sup>. But by 1998 those transfers had been eliminated by the Harris Conservative government in the disentanglement trade-off. The provincial government ceased to provide either capital or operating subsidies to the City for the maintenance of the TCC. The province also made the municipal government responsible for the transit systems' operating losses, which in 1998 were estimated to be \$159M annually. At the same time, the Ontario government chose to expend considerable resources focussing on road networks to reduce traffic congestion, without consideration for reducing the amount of vehicular traffic<sup>135</sup>.

The capital transfers did return in 2001 under the Ontario Transit Renewal Program (OTRP). Although they had been redesigned to require matching funds, the investments ultimately helped to reduce the total municipal transfer to the TTC, which was – and is – largely supported through property taxes. The Province provided \$62M under the program in 2002 and 2003, but reduced the amount to \$51M in 2004 under a re-named OTRP, the Ontario Transit Vehicle Program. In 2005, a total of \$69M was provided by the provincial government under a variety of programs, including the Transit Vehicle Program, a new Bus Replacement Program, the provincial component of the federal Canada Strategic Infrastructure Fund (CSIF), and the province's SuperBuild program. In 2006, the provincial Liberal government introduced a 2 cent gas tax transfer to municipalities for public transit, and in 2007 announced the Move Ontario 2020 Plan, a \$17B rapid transit plan for the Greater Toronto Area. Nevertheless, the current provincial component of the capital investments, \$145M in 2006, represents only about 30% of the capital subsidy budget (compared to 75% prior to 1998).

At the same time, federal initiatives have begun to assist the TTC. In 2002 the Canada-Ontario Infrastructure program was launched, with the CSIF following the next year. With the commencement of the New Deal provision in 2004, the federal government proceeded to eliminate the municipal GST and provide a gas-tax transfer to municipalities, through the provinces. Thus, whereas in 2001 the federal government had provided zero funding to the TTC for its capital expenses, by 2006 the annual capital contribution was \$166M. The federal government has not pursued operational subsidies

in addition to capital investments, however, and remains the only G8 country without such an operating subsidy.

### 2.3) Vancouver – British Columbia:

Vancouver is perhaps luckier than both Toronto and Montréal in that its current rolling transit stock is relatively new. The Sky Train system was not constructed until 1985, in advance of Expo '86 and twenty years after Montréal hosted the same event for which its Metro was originally constructed. However, luck is only part of the picture. The city has developed, with the provincial government, effective regional coordination measures that appear to have ensured effective planning. As well, the provincial government in BC has taken innovative steps to ensure relatively consistent levels of funding for the city's public transportation provider, TransLink, and has not attempted to download or reduce funding substantially as a result of the downloading pattern of the 1990s. Created by the provincial government in 1998, Translink oversees the city's Sky Train and bus system, as well as local roads and – interestingly – urban air quality. Until very recently, TransLink's board was largely appointed by the GVRD, with only three of fifteen members being appointed by the provincial government.

Similar to the TTC in Toronto, TransLink's largest single revenue generating source is transit fares (36%), but the share is far less (see Figure 5.4). While property tax funding from municipalities in the GVRD is also a significant component of the agency's budget (28%), a 12 cent/litre tax on fuel sold within the GVRD and collected by the province for public transit purposes is also a significant source of funding. This tax,

which was implemented in 1999, currently accounts for 30.5% of TransLink's operating budget. In addition, TransLink receives about 6% of its budget from a combination of hydro levies on GVRD residents, and a sales tax on parking sites and non-metered paid parking in any GVRD municipality. The province does not contribute to the operating costs of TransLink other than to transfer these fuel and sales taxes to the Authority.

Vancouver has also benefitted from federal funding for public transportation, although much of this funding has come by way of one time project-specific capital investment agreements, particularly in light of increased transit demands in advance of the 2010 Olympics. For example, in 2003, TransLink received \$6.3M from the federal government (in addition to \$1M from the province) to begin construction of a new Sky Train line connecting the downtown with the airport. In 2005 that federal contribution was increased to \$108.9M, and in 2006 it was increased again to \$125.6M. This federal funding in 2006 represents nearly 48% of the annual capital budget, and does not include the \$114M in new funding provided through the New Deal that has already been earmarked towards the acquisition of new buses and Sky Train cars<sup>136</sup>.

Although the provincial government has had a comparatively smaller funding role in TransLink, the provincial government retains significant control over the operations and planning ability of the Authority, and has recently moved to re-emphasize its authority over the body. In October 2007 the Liberal government of Premier Gordon Campbell announced that it would move to reorganize the Authority to effectively reduce its autonomy and provide greater provincial government direction. The new legislation



makes the province responsible for the selection of board members, and requires that future capital planning be done by the province – not TransLink. The province developed this new legislation in reaction to a Review Panel’s recommendations, which pointed out that there had been jurisdictional disputes among TransLink board members. While limiting the authority of TransLink, the legislation also proposes that the Authority be allowed to increase the fuel tax by a further three cents.

Despite these recent changes, Vancouver stands out for having been notably successful in reducing the number of car trips within the city, in part by resisting the impulse to build major freeways in the city core, but also by concentrating on core development, particularly on the downtown peninsula. In fact, a recent issue of *Canadian Geographic* lauded Vancouver’s approach to concentrated urban development as a ‘model’ for other large cities, calling the city a ‘showcase for sustainability’<sup>137</sup>. This theme was echoed at the June 2006 World Urban Forum hosted by Vancouver<sup>138</sup>. Even so, recent extension of the rapid public transit system in Vancouver was accomplished largely by the added impetus of the 2010 Olympic Games, which effectively ensured provincial and federal funding for an expansion that will include the airport. Other Canadian cities have been less successful at effective regional transportation management, and have been even less successful at securing such large one-time capital investments as Vancouver. And it must be noted that Vancouver has not altogether avoided sprawling development that mitigates against the effectiveness of rapid public transportation systems<sup>139</sup>.

#### 2.4) Montréal – Québec:

Montréal's public transit experience appears – like housing – to be a mixture of the Toronto and Vancouver experience. Public transportation in Montréal is managed by the Société de Transport de Montréal (STM), comprised of elected officials from the Montréal Urban Community as well as passenger representatives. Montréal's public transportation system is well developed and well used. In fact, more Montréalers use public transit than the inhabitants of any other city in Canada. On one day in 2005 the metro alone carried over 820,000 passengers<sup>140</sup>. However, Montréal also possesses some of the oldest rolling stock in the world, with many of its Metro cars having been in service for more than 40 years. New construction did not occur at all between 1988 and 2006. Like Toronto and Vancouver, fares make up the largest proportion of the STM's operating budget (51%), followed by a contribution from the City of Montréal (36%), comprised largely of property tax revenues (see Figure 5.5).

Until 1992, the provincial government subsidized the STM for its operating deficit, but changed its approach to provide a flat subsidy until 1995. In that year, in part as a reaction to the federal downloading exercise, the Québec provincial government reduced its support for public transportation, similar to the Ontario exercise. This move effectively eliminated nearly \$30M from the operating budget for public transportation in Montréal. The provincial government did not begin to fund operating expenditures again until 2005, when, in anticipation of a new provincial-municipal funding arrangement, the province provided a \$10.8M subsidy to the STM. However, during the province's absence from operating subsidies, the STM estimates that over \$83M was lost between

1992 and 2000 which, when combined with decreasing municipal transfers to the STM represented a 46% drop in public revenues<sup>141</sup>.

Since that time, the provincial government has not returned significantly to the field of operating cost subsidies, although a variety of programs and subsidies continue to exist, largely for capital investments and not operating costs. For example, the provincial public transit assistance program entitles the STM to be reimbursed for 'admissible expenses' at rates ranging from 48% to 75%. The rates vary according to the type of equipment purchased, and the type of work undertaken (new development or refurbishment). Additional one-time capital investments have also been made, including \$25M in 2005 for renovations to the city's deteriorating Metro cars, with a commitment from the province to absorb 75% of the projected \$1.1B total cost for replacement of the rolling stock. Moreover in 2005, the Québec government announced that \$360M made available through the New Deal financing agreement with the province and the provincial infrastructure investment organization would go to the STM's investment expenditures. Lastly, the provincial government's Green Fund has a budget of \$120M over five years to support public transportation projects, but is available to all transportation systems in the province.

The only operating subsidy from the provincial government came in 2007, as a result of the provincial government's 2006 public transit policy. Under that policy, which recommended that Montréal specifically review the process by which Montréal and other local communities share in the financing of public transit, Québec agreed to

subsidize the operating deficit of the smaller communities that are linked to Montréal's regional transit system, up to a maximum of 13% of the costs.

Like British Columbia and (more recently) Ontario, Québec has also pursued alternative tax sources to fund public transit initiatives, although these are limited at best. A 1.5 cent/litre tax (compared to 12 cents in BC) is applied to all gasoline purchases in the Montréal area and is directed towards the Agence métropolitaine de transport (AMT), which oversees the commuter train lines to Montréal's outer suburbs. An additional \$49M annually is provided to the AMT from vehicle registration fees, a taxation source that was first introduced in 1996. Yet even with these investments in public transportation, the City of Montréal's 2007 transportation plan notes that nearly \$8.1B over 20 years would be required to implement a modest transportation plan, in addition to the operating and maintenance expenditures currently required.

### 2.5 Transportation Summary and Assessment

Given the importance of public transportation in terms of the economy and the environment, as well as the aged state of public transportation infrastructure (particularly in Montréal and Toronto) all transit agencies reviewed here have noted their reliance on senior levels of government. Whether these governments have the capacity or desire to respond to greater urbanization and greater demands on public transportation is in question. And if the lessons of the 1990s are any indication, funding and support can be a function of both capacity and desire. New funding initiatives from the federal and provincial governments have generally undervalued the deteriorating state of public

transportation infrastructure. Where *billions* are ultimately required, millions are made available. The entire funding envelope of the New Deal gas-tax transfers – which are currently allocated across the country – could be put to use in any one city studied here.

The CUTA, citing a Transport Canada assessment, suggests that there are a variety of policy goals that could be met through a national transit strategy. These include: improving traveller choice; keeping downtowns healthy; containing urban sprawl; improving air quality and health; and reducing greenhouse gas emissions<sup>142</sup>. As highlighted in table 5.8, the open federalism approach preferred by the current federal government cannot effectively address any of these goals, even though they are easily considered national policy concerns. The proposed approach of open federalism does nothing to prop up the New Deal with further stable funding, not does it guarantee an operating subsidy. Furthermore, open federalism would dismiss the notion of a national transit strategy aimed directly at public transportation. Such a strategy has been called for repeatedly by the likes of the FCM, the CUTA and, more recently, the reports of the Conference Board and the EACCC. As the evidence here suggests, both provincial and municipal governments are only partially equipped to deliver on these policy goals in the absence of federal participation.

### 3) Summary – Public Housing and Public Transportation

The two cases studies, combined, demonstrate the huge challenges facing Canada's municipalities and the variety and inadequacy of federal and provincial responses. More importantly, they demonstrate the difficulties in approaching complex

urban problems using an open federalism approach. Where such an approach advocates clear lines of jurisdiction, housing and transportation demonstrate that policy goals are often overlapped, intertwined, and inseparable. It is particularly striking that the federal government would not want to play a greater, sustained and ongoing role in public transit, given the federal government's overall responsibility for meeting environmental goals under international protocols. At the same time, public transportation contains policy goals for the province, in terms of enhancing regional linkages and facilitating commerce, and for the municipality in terms of attracting residents and reducing congestion. Moreover, the federal government's environmental goals are also equally important to the other levels of government. Similarly, it is unclear why the federal government would not be interested in making housing a national priority, given the increasing pressures on affordable housing and the limited progress made to date.

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<sup>91</sup> Conference Board of Canada (2007) *op. cit.*

<sup>92</sup> TD Economics (2004) "Minding The Gap: Finding the Money to Upgrade Canada's Aging Infrastructure" *Special Report, TD Bank Financial Group*

<sup>93</sup> Andrew, Caroline and Jeff Morrison (1995) *op.cit.*

<sup>94</sup> Mirza, Saeed (2007) *Danger Ahead: The Coming Collapse of Canada's Municipal Infrastructure* A Report for the Federation of Canadian Municipalities

<sup>95</sup> Seidle, F. Leslie (2002) "The Federal Role in Canada's Cities: Overview of Issues and Proposed Actions" *Canadian Policy Research Networks Discussion Paper F/27*

<sup>96</sup> These links have been articulated by a number of reports already cited here, including the Conference Board of Canada's 2007 report, the report of the External Advisory Committee on Cities and Communities, the Liberal Caucus Task Force report, and the 2004 report by TD Economics, as well as: Berdahl, Loleen (2002) "Structuring Federal Urban Engagement: A Principled Approach" *Canada West Foundation* (November); Berdahl, Loleen (2006) "The Federal Role and Federal-Municipal Relations" in Young, Robert and Christian Leuprecht (eds.) (2004) *Canada: The State of the Federation 2004; Municipal-Federal-Provincial Relations in Canada* (Montréal: McGill-Queen's University Press); and, Shaker, Paul (2004) *More Than Money: The New Deal for Cities and a Federal Urban Lens* (Canadian Centre for Policy Alternatives, September 2004)

<sup>97</sup> Mercer Human Resources Consulting, *2007 Worldwide Quality of Living Report*; and Economist Intelligence Unit *2005 Global Liveability Rankings*

<sup>98</sup> Kent, Tom (2002) "For Affordable Housing, Have Ottawa Pay the Rent" *Policy Options*, March

<sup>99</sup> Hulchanski, J. David (2002) "Housing Policy for Tomorrow's Cities" *Canadian Policy Research Networks Discussion Paper F/27*, p. iv

<sup>100</sup> Moore, Eric and Andrejs Skaburskis (2004) "Canada's Increasing Housing Affordability Burdens" *Housing Studies*, 19 (3)

<sup>101</sup> TD Economics (2003) "Affordable Housing in Canada: In Search of a New Paradigm" *Special Report, TD Bank Financial Group*

- <sup>102</sup> Hulchanski, J. David (2004) "What Factors Shape Canadian Housing Policy? The Intergovernmental Role in Canada's Housing System" in Robert Young and Christian Leuprecht (eds.) *Canada: The State of the Federation 2004: Municipal-Federal-Provincial Relations in Canada* (Montréal: McGill-Queen's University Press)
- <sup>103</sup> Klodawsky, Fran and Aron Spector (1997) "Renovation or Abandonment?: Canadian Social Housing at a Crossroads" in Gene Simmer (ed.) *How Ottawa Spends 1997-1998 Seeing Red: A Liberal Report Card* (Ottawa: Carleton University Press)
- <sup>104</sup> Carroll, Barbara Wake (1990) "Housing" in Richard A Loreto and Trevor Price (eds.) *Urban Policy Issues: Canadian Perspectives* (Toronto: McLellen & Stewart)
- <sup>105</sup> Hulchanski, J. David (2004) *op. cit.*
- <sup>106</sup> Hulchanski, J. David (2002) *op. cit.*
- <sup>107</sup> FPT Ministers Responsible for Housing, News Release, April 15, 2003
- <sup>108</sup> Ontario Non-Profit Housing Association, News Release, April 21, 2003
- <sup>109</sup> UN Press Release, November 1, 2007
- <sup>110</sup> See: Ontario Non-Profit Housing Association (2006) "Where's Home?"; and, *The Toronto Report Card on Housing and Homelessness*, 2003
- <sup>111</sup> Bryant, Toba (2003) "The Current State of Housing in Canada as a Social Determinant of Health" *Policy Options* (March)
- <sup>112</sup> Hackworth, Jason and Abigail Moriah (2006) "Neoliberalism, Contingency and Urban Policy: The Case of Social Housing in Ontario" *International Journal of Urban & Regional Research* Vol. 30, Issue 3
- <sup>113</sup> See: <http://www.homelessness.on.ca/>
- <sup>114</sup> Irwin, John (2004) "Home Insecurity: The State of Social Housing Funding in BC", Canadian Centre for Policy Alternatives
- <sup>115</sup> *Ibid.*
- <sup>116</sup> 2005 Greater Vancouver Homeless Count
- <sup>117</sup> GVRD Draft Regional Housing Strategy, 2007
- <sup>118</sup> Société d'habitation du Quebec *Strategic Plan 2002-2007*
- <sup>119</sup> Information on the city's housing initiatives is contained on the city's web site ([www.ville.montreal.qc.ca](http://www.ville.montreal.qc.ca))
- <sup>120</sup> *Ibid.* Specifically, refer to *Habiter Montreal*.
- <sup>121</sup> Bunting, Trudi, Alan Walks and Pierre Filion (2004) "The Uneven Geography of Housing Affordability Stress in Canadian Metropolitan Areas" *Housing Studies* vol. 19 no.3
- <sup>122</sup> FCM (2004) "Moving Forward: Refining the FCM Recommendations for a National Housing Strategy"
- <sup>123</sup> Conservative Party of Canada : *Policy Declaration*, 2005
- <sup>124</sup> Société de Transport de Montréal (STM Today, 2002)
- <sup>125</sup> Canadian Urban Transit Association (2003) "Transit Means Business"
- <sup>126</sup> See, for example, Wiesman, Brahm (1976) "A New Agenda for our Cities" in Oberlander, Peter (ed.) *Canada: An Urban Agenda* (Ottawa: Community Planning Press), for such a treatment of the transportation issue.
- <sup>127</sup> Conference Board of Canada (2007) *op. cit.* p. 28 (my emphasis)
- <sup>128</sup> TD Economics (2004) "Minding The Gap: Finding the Money to Upgrade Canada's Aging Infrastructure" *Special Report, TD Bank Financial Group*
- <sup>129</sup> Canadian Urban Transit Association (2007) "Investing in Transit: A Growing Concern"
- <sup>130</sup> Kitchen, Harry M. and Enid Slack (2003) "Special Study: New Finance Options for Municipal Governments" *Canadian Tax Journal* Vol. 51, Issue 6
- <sup>131</sup> Brittain, Len S. (2002) "Financing Capital Expenditures" *Canadian Tax Journal*, vol. 50, no. 2
- <sup>132</sup> Canadian Urban Transit Association (2007) *op. cit.*
- <sup>133</sup> Council of the Federation (2005) "Looking to the Future: A Plan for Investing in Canada's Transportation System"
- <sup>134</sup> Toronto Transit Commission (1997) "The Track Ahead"
- <sup>135</sup> Lorinc, John (2006) *The New City: How the Crisis in Canada's Urban Centres is Reshaping the Nation* (Toronto: Penguin)
- <sup>136</sup> See TransLink's Annual Reports, from which these figures are compiled.
- <sup>137</sup> Canadian Geographic (June 2006)
- <sup>138</sup> This reflection is based on the author's personal attendance at the Forum.

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<sup>139</sup> Wellar, Barry (2006) "Sustainable Transport Practices Key to the Harper Climate Change Agenda"

<sup>140</sup> STM Annual Report, 2005

<sup>141</sup> STM Today, 2002

<sup>142</sup> CUTA(2002) "Public Transit and Our Quality of Life: Building Better Communities" (Issue Paper #3)



## VI) INTERNATIONAL TRENDS: MULTI-LEVEL GOVERNANCE

This chapter examines the state of urban affairs and municipal governance in two federal states (the United States and Germany), one confederation (the European Union) and, for the sake of a more full comparison, a unitary state (France). None of the countries surveyed here have escaped the need to reform the structures of urban governance to meet the challenges of the day, and their challenges reflect contemporary Canadian issues. Whether considering fiscal arrangements, intergovernmental relations, or areas of jurisdiction, the similarities among the countries reviewed are striking. At first blush, it appears that the German principle of subsidiarity, now enshrined firmly in European political structures, may prove to be the guiding rule for the future development of urban public policies. Insofar as accomplishing subsidiarity will require the attention and action of higher levels of government, the urban agenda will likely occupy the agenda of national and supra-national governmental organizations for some time. As well, it appears that international trends favour increasing interaction between and among levels of government as a means to resolving the challenges faced by urban centres.

### 1) United States

Not surprisingly, the situation in the United States is most similar to the situation in Canada. Also a federal state, the United States does not explicitly recognize municipal governments in its Constitution. Thus, municipalities are the legal responsibility of the state. However, municipalities in many states are governed by 'home rule'. Such cities

are free to develop their own charters and identify which areas of policy they are going to take responsibility for, so long as that area is not specifically legislated by the state. In other cases, however, 'Dillon's Rule' municipalities must have the express permission of the state legislature to act in a particular area of jurisdiction.

Although there is a significant range in the fiscal levers available to municipal governments in the U.S., they generally have more significant resource generating capacity themselves, or through their corresponding counties, than Canadian urban centres. For example, many cities/counties can levy sales taxes, taxes on TV or telephone utilities, vehicle registration, etc. Thus, when infrastructure or other demands come up, the cities are slightly better equipped to deal with them individually without negotiation with other levels of government. It should be noted, however, that many US cities are calling for a review of municipal financing, since the availability of tax levers to finance local responsibilities is not homogenous among all states. These responsibilities are also not homogeneous among states and municipalities. While it is difficult to generalize, the range of areas over which U.S. municipal government have responsibility appears to be greater than in Canada.

The federal government has limited constitution jurisdiction in urban issues, which are generally reserved for states or delegated to local authorities. Nevertheless the United States federal government has developed grants and other funding programs that has led to a greater involvement of the federal government in municipal affairs than is traditionally thought to be the case<sup>143</sup>. While the U.S. federal government indicated a

noticeable retreat from urban affairs under President Reagan, the Clinton Administration began to again expand the role of the federal government in municipal issues, but was careful to construct programs that were largely grant administration programs, not legislative encroachment into areas of municipal or state jurisdiction. Under Clinton, the federal government took the view that federal leadership in urban areas could be affected by establishing national standards with enough flexibility to allow states and municipal governments to choose their policy levers in order to achieve these standards.

Furthermore, the federal government saw its role as monitoring local compliance with national goals, rather than acting as a partner in the development and management of individual programs<sup>144</sup>. To facilitate these principles, roughly \$9 billion of a \$24 billion federal transportation block grant was made available directly to larger municipalities (those with populations greater than 200,000), bypassing the state legislatures and their respective departments of transportation. This move was seen as important in that it allowed larger municipalities to direct the funds to mass-transit, rather than succumb to the highway-happy politics of state politicians<sup>145</sup>.

The federal government has been most active in the areas of housing and transportation. For example, cities and counties can apply to the federal government's Safe, Accountable, Flexible, Efficient Transportation Equity Act (SAFETEA), which sets aside over \$250 billion over 5 years for transportation infrastructure. Its predecessor, the Transportation Equity Act, set aside \$203 billion over six years for municipal infrastructure projects. Similarly, the U.S. Department of Housing and Urban Development offers an annual \$5 billion community block grant for applicant cities,

among several other significant funding programs aimed at urban centres. Many of these grants are created specifically for designated cities – based on size or need – and funding is often transferred directly from the federal department to the municipal authority. As Vogel points out, in 2002-2003 federal funding constituted 8% of large city revenues<sup>146</sup>. In fact, the federal government has made so many grants available to applicant cities, it has created a web-based service to guide municipal authorities through the sometimes complex maze of grant applications.

The current Bush administration has not entirely reversed the Clinton approach, but the focus has been changed from strictly urban to urban-security. In addition, President Bush and the Republican Congress (pre-2006) preferred to adhere to a federal-state relationship, cutting mayors and other local officials out of the dialogue. Doing so has had adverse affects on municipal funding. The National League of Cities, the foremost organization representing municipal interests in the U.S., notes that in 2003 and 2004 almost 50% of states had cut municipal funding. A 2004 survey of municipal officials facilitated by the League indicates that fiscal concerns are one of the primary concerns facing cities, compared to the 2000 survey, in which officials ranked their fiscal situation as having been the most improved aspect of their concerns<sup>147</sup>. The League has also recently produced a report arguing that the fiscal arrangements for municipalities in the United States are “woefully out of date”<sup>148</sup>, and no longer meet the demands placed on municipalities, even with their greater tax levers than Canada. The League places advocacy for federal funding at the top of its list of priorities for the coming years.

Thus, the future direction of the federal government in the United States will be particularly informative, since many of the pressures in urban America are similar to pressures in Canada. Lessons may be hard to take away, however, given the variation among states and their municipal governments with respect to fiscal ability and program responsibility. The point here is simply that rather than treat jurisdiction as absolute, the federal government appears to have been willing to adjust the processes of federalism to better meet the needs of urban centres than open federalism appears to do.

## 2) Germany

In Germany power is divided between the federal government and sixteen Länder. In many ways, the federal system has served Germany well, although many of the problems of federalism are clearly evident. As in other federal countries, there continues to be debate regarding the distribution of resources (the fiscal imbalance), and jurisdictional disputes over areas of responsibility are not uncommon. The additional problems of European integration also, perhaps uniquely to Germany, influence the debate between the Länder and the federal government. The sub-national units claim that many of the costs associated with the 'Europeanization' of responsibilities hurts them most, as national governments shift responsibilities downward in order to meet pan-European criteria.

Unlike in Canada, Germany's municipalities enjoy a long tradition of carrying significant responsibilities. In part, this tradition is due to a rational belief in

'subsidiarity', or assigning responsibility to the lowest level of government while maintaining fiscal and administrative coherence. Municipal responsibilities are seen to be enshrined in the Basic Law (constitution) of Germany, although with limitations. While Article 28 of the constitution guarantees a right to local self-government, it is limited to within the scope of the legislative framework outlined by the Land. Thus, while local governments are recognized in the constitution, local governments remain, for all intents and purposes, 'creatures' of the Länder – which determine the municipal boundaries and charters. Larger cities sometimes carry out the functions of both local levels – and indeed the responsibilities of the Länder, in the case of Berlin, Hamburg and Bremen. Local governments in Germany deliver a significant range of services (including social services and cultural activities), which can be either 'general purpose' (matters of a strictly local nature) or 'delegated' (broader services assigned by the Land to local governments).

Nonetheless, the constitutional recognition of municipal self-government is often used by municipalities to challenge Land legislation in the courts, as was particularly the case throughout the territorial reforms of the 1970s<sup>149</sup>. Such challenges have not resulted in increased municipal roles, however. In fact, it is argued that the status of municipal governments in Germany is eroding<sup>150</sup>. Similar to the Canadian situation, Länder have been quick to speak on behalf of their respective cities in negotiations with the federal government. Unlike in Canada, however, Germany's three largest municipal associations (representing cities, towns and municipalities, and counties, respectively) often collaborate directly with the federal government and in fora such as the Financial

Planning Council and Economic Planning Council, among other institutions of the federation.

The scope of local sources of revenue is much broader than in Canada. Municipal governments have access to a portion of personal income tax, taxes business profits, property taxes and payroll taxes. Unlike the U.S. and Canada, however, where property taxes are the primary source of municipal revenues, in Germany property taxes account for only about 9% of the total municipal budget. Taxes on profits and the municipal portion of the income tax account for roughly 82% of revenues, taken together, and are often transferred from collection agencies in higher levels of government. Of course, powerful industrial or commercial cities (such as Frankfurt and Stuttgart) have greater leverage of local funds through the business profit tax, but other areas may require more significant transfers from upper levels of government.

Despite this range of tax sources, local governments face mounting debts. One report notes that in 2002 the total municipal debt in Germany was nearly \$11 billion (US)<sup>151</sup>. There are increasing calls from both municipal actors and observers alike for reforms to allow municipalities to raise more of their own revenues, rather than sharing from generally collected revenues (such as income tax). The Länder, notably, are firmly against such fiscal reforms, which they see as eroding their own sources of revenue and transferring fiscal authority to lower levels of government. Such disputes among and between Länder and municipalities should be familiar to Canadian observers. An even broader range of reforms is currently under review. A joint Committee on Modernizing

the Federal System was struck in 2003, and tasked with considering the relationships among all levels of government. While it failed to reach a consensus in 2004, a new package with a major focus on municipal demands was proposed in 2005. It, too, has stalled, but local governments have been successful in receiving an assurance that federal responsibilities cannot be downloaded to municipal authorities.

If lessons are to be taken from the German situation, it is that simple constitutional recognition within a federal system does not guarantee local autonomy or fiscal sustainability. The problems of jurisdiction, downloading, and fiscal authority endemic to federations have not been absent from Germany. However, the 'plight' of Germany cities should be measured against that which they already possess: active participation in many of the institutions of the federation, a climate in which debate on the structures of federalism is encouraged, access to a range of tax resources, and a high degree of policy interaction with other levels of government.

### 3) European Union

The EU has recognized the need to devote attention to local authorities rather than simply member states. Given the historical importance of cities (as demonstrated in both the French communes and German city-states noted above) in Europe, this development is not surprising. It is also unsurprising that individual regions began to form informal networks to advance their interests, given that many European regions carry local similarities and identities across state borders. These networks have become formalized



in recent decades, with the largest and most active being the 'Eurocities' network, which maintains offices in Brussels in order to monitor and collaborate with officials at the European Union.

The role of such networks is expanding. As a result of increasing levels of 'Europeanization', beginning with coal and steel and expanding into areas such as the environment and health, European initiatives began to implicate local governments as well as national governments. In addition to proposing and enshrining legislation and regulation that would ultimately be administered by local governments, municipal authorities were granted access to larger levels of grants and subsidies offered by the EU. By effectively coordinating with regional and national governments municipal authorities could influence the distribution of funding to local projects. Programs such as the European Regional Development Fund drive much of this networking.

The Council of Europe also recognized early on the importance of local self-government when it created, in 1957, the Standing Conference of Local and Regional Authorities of Europe (CLRAE). In 1994, the Council of Europe underwent restructuring and raised the profile of the CLRAE, moving it from a Conference to a Congress, a move that both increased the CLRAE's visibility within the Council and put it in a position to more effectively influence the Council's work. The CLRAE, comprising more than 200,000 municipalities across Europe, has proposed several declarations on local autonomy to the Council (including the European Urban Charter and the Convention on Transfrontier Cooperation), but its greatest achievement to date has been the development

and approval the European Charter of Local Self-Governance, which was opened for signature in 1985. The Charter seeks to ensure the rights of local authorities – including ensuring administrative independence in areas of local jurisdiction, as well as some measure of fiscal autonomy. In keeping with the principle of subsidiarity, the Charter advocates that jurisdiction over public policy questions be given to the government closest to the constituents in question, and that municipal and regional governments are equipped with the legal mechanisms through which to carry out their responsibilities and to ensure that democratic government continues at the level that is closest to European citizens (CoE). The Charter is in the process of ratification, the most recent being France on January 17, 2007, bringing the total to 27 states (incidentally comprising all European Union member states).

The CLRAE remains active to this day, advising the Council of Europe on matters that affect both local and regional levels of government. The CLRAE's two 'chambers', one representing local authorities and the other representing regions, have been focussing on urban issues that are common across Europe (and, indeed, in North America as well), such as social cohesion and sustainable development. Given the factors influencing urban public policy identified in the overview, the CLRAE sees its role as evolving and increasing, balancing the demands of globalization with the nation-state and European political structures.

One of the drawbacks of such a diverse set of interests across Europe is the tendency to have several groups competing for the same policy area. Within the EU, the

Council of European Municipalities was created in 1951 (indeed, pre-dating the CLRAE, although it did not, and still does not, have nearly as much clout), which changed to the Council of European Municipalities and Regions in 1981. In addition, there are the Assembly of European Regions and the International Union of Local Authorities. The number of groups acting across Europe to influence supra-national institutions perhaps reflects the fact that municipalities are *de facto* increasingly involved in the process of Europeanization, particularly when seen in the context of globalization of trade networks and communication.

As the European Union continues to expand the reach of the policy areas which it will address, it will undoubtedly find itself treading on municipal turf. Having moved from areas like steel and coal to areas such as health and the environment, the EU has moved from very specific issue areas to much broader ones, with implications on all levels of government across Europe. While the EU expands its reach, other levels of government are simultaneously restructuring and modernizing, which often entails transferring responsibility for policy areas to lower levels of government, particularly in those places most wedded to the principle of subsidiarity. EU policy expansion, therefore, coincides with policy devolvement, meaning that EU policy areas will increasingly be urban policy areas. In reaction to this trend, municipal governments may no longer be satisfied to observe EU activities or lobby from the outside. Rather, they may be inclined to exercise for direct participation in European deliberations as participant members. If so, the number of disparate pan-European urban-interest groups

may be reduced, as municipal authorities work to aggregate their interests on the European scene<sup>152</sup>.

Such pressures have prompted the EU to work towards integrated models that incorporate the principle of Subsidiarity. Yet subsidiarity in this case does not exclude other levels of government, instead the practice has spawned an ethic of ‘multilevel governance’<sup>153</sup>. Levels of government increasingly view public policy issues as opportunities to engage a number of partners horizontally, each with a particular constituency but focussed on the same problem. Going further, a recent study of European countries demonstrates that most are moving in the opposite direction of open federalism – towards explicitly outlining a national urban policy<sup>154</sup>. This is occurring in federal and unitary states. Notwithstanding structural differences, such as the historical authorities retained by many German cities, for example, such a trend appears to be the opposite of open federalism.

#### 4) France

France is typically viewed as one of the most centralized unitary states in Europe, with most power and authority located in the national government. Its operation is generally regarded as being quite unlike federal states such as Canada, Germany and the U.S. However, recent trends and ongoing reforms indicate that France, too, has developed structures of governance that are not unlike a federal state<sup>155</sup>. An ongoing

process of devolution and de-concentration of responsibilities has fostered greater local authority and autonomy within the unitary state.

With respect to local authorities, France has a complex governmental structure, with four levels of government: national, regional, departmental, and communal (moving from national to the most local – not necessarily by hierarchy). There are over 36,000 communes in France, the majority with very small populations, and thus there are also a large number of inter-communal institutions that administer programs for more than one commune. Generally, communes are responsible for immediately local concerns – waste and water, libraries, museums, local roads, and the like. Departments, meanwhile, number far less, but are responsible for broader programs and services, including major roads, public transportation, and some social services such as housing. The regional councils, meanwhile, are the least well-funded, but often carry out important planning functions. Their role has been increasing due to the Europeanization of government structures, since the EU and other bodies tend to give grants to regional authorities.

While each level of government is directly elected, their ability to make decisions and formulate public policy is typically viewed as limited. Indeed, new trends show that inter and intra governmental arrangements are the norm, so that no one level of government has complete policy responsibility over a particular issue<sup>156</sup>. Power is generally dispersed, such that each level has a central task or tasks, but the size of some of the smaller levels and the requirements put upon them often necessitate cooperation and collaboration with other levels to execute programs. Local authorities at all levels

are significantly dependant on transfers from the central government (accounting for between 35-40% of local budgets). Some local tax levers are available, including a portion of income taxes and a special *taxe professionnelle* (a tax on business profits). In 2004, reforms were introduced to attempt to reduce the role of the central government in financing municipal authorities. The result has been increased independence from the central government for *communes* and departments, but not for regional governments, which still receive 60% of their funding from the central government.

Several attempts have been made to decentralize the government structure of France. The last major push came in 1982, as part of President Mitterand's pledge to return some degree of power to local authorities. These reforms, while significant, are typically viewed as part of a series of ongoing reforms that continue to decentralize both administrative and policy functions. In part, these reforms have been prompted by the need to rationalize and modernize the government structures at all levels. In that regard, some have viewed the reforms as simply legalizing informal practices that had been used for some time, and simply strengthening the accountability structures<sup>157</sup>. Also in part, the reforms have been initiated in response to Europeanization processes, which apply the principle of subsidiarity. Since the broad reforms of 1982, any transfer of responsibility to another tier of government must be accompanied by the relevant fiscal transfer to administer the programs. Since many local administrators report to the central government, local authorities play an important role vis a vis the central treasury – reporting and collecting information on monies spent.

The central government nevertheless directs much of its work through the *Ministere des interieres*, and has recently created the national agency for social cohesion and equal opportunity. Formed in the wake of the riots in Paris' suburbs, the new agency is recognition of the links between urban well-being and social harmony, with particular emphasis on housing. President Sarkozy, faced with another round of sub-urban rioting, recently turned again to this and other agencies to begin reviewing the problems faced in urban and sub-urban Paris. In part, this focus is a result of downloading experiments in the 1980s and 1990s that actually reduced the availability of affordable housing, even as demand increased. The government also seeks the advice of the *conseil national des villes*, a body comprising municipal officials – both elected and non-elected – on major urban policies.

The complex intergovernmental relations in France are difficult to transcribe onto the Canadian experience. In France, municipal governments may have similar policy areas for which they are responsible, but this responsibility is less absolute than in the Canadian case. Overlapping layers of government mean that no one government trumps another, and cooperation among governments becomes necessary to deliver policy coherence. This development is important, since it recognizes that even in unitary states such as France there is significant room for structures that allow for greater local input into national policy and vice versa.

### 5) Summary: International Trends

The evidence from the countries examined here, comprising federal, con-federal and unitary states, demonstrates a movement towards multi-level governance, or what has been referred to here by Leo as deep federalism. It appears that, when confronted with similar urban pressures as in Canada, national and supra-national governments elsewhere have opted to *increase* the degree of intergovernmental arrangements, not reduce them. Multi-billion dollar funding packages have been made available for urban areas in the United States, for example, even though municipal governments there already possess far greater fiscal and policy authority in most cases than in Canada. Even where reductions in intergovernmental relations are perceived to be taking place, as in Germany, municipal governments there retain significant fiscal and policy authority, and are far more active in the institutions of federalism than municipal governments in Canada. Moreover, cities throughout Europe are the likely beneficiaries of the effects of the principle of subsidiarity, which has been embraced by the European Union, and the tendency of European countries generally to have an explicit urban policy.

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## VII) CONCLUSION

Several conclusions can be drawn from the preceding analysis. First, by firmly sticking to a rigid constitutional reality – that municipalities are a provincial jurisdiction – open federalism forces the federal government to subscribe to a narrow definition of its role with respect to Canada’s urban issues. That is to say, as Berdahl points out, the constitution assigns municipal *institutions* to the provinces, but it does not follow that the problems facing municipalities are therefore not within the federal sphere of interest<sup>158</sup>. On the contrary, most observers point out that the scope of issues facing Canada’s urban centres necessarily requires some federal involvement. As Seidle points out, the sheer cost of solving urban problems such as infrastructure necessitates, to some extent, federal funding<sup>159</sup>. And as this analysis has demonstrated, the complex nature of many urban issues increasingly involves the responsibilities of all levels of government.

Certainly, the Harper Conservatives are at least partly aware of this. For example, their approach to issues such as crime (one of their top priorities) reflects their understanding that federal actions have urban consequences. As well, the Conservative commitment to continuing the provisions of the New Deal and continuing to focus on infrastructure through the Build Canada Plan demonstrates some grasp of the magnitude of the problems in Canada’s cities. The *Globe and Mail* recently argued that the federal Conservatives actually have a decent record to stand on in terms of infrastructure funding generally, in sharp contrast to their rhetoric<sup>160</sup>. But the same editorial demonstrated the likely hazards of their insistence on clear lines of jurisdiction, noting that Finance

Minister Flaherty's refusal to even engage with mayors and the FCM amounted to a 'sneer' that may have longer-term consequences.

As currently structured, open federalism would limit the federal government's ability to articulate broader national policy goals in areas such as housing or public transit that are tailored to urban needs. Claiming that Ottawa has become involved in municipal areas where it has no jurisdiction and little expertise also appears to overlook the fact that such involvement was requested – repeatedly – by municipalities themselves, and to some extent by premiers (for example, within the context of Council of the Federation's call for greater federal funding for public transportation).

Second, the open federalism approach to Canada's urban centres also goes against a growing consensus among urban observers. A long list of reports, as noted, have expressly advocated an increasing federal role in Canada's cities. This involvement ranges from viewing federal policy through an 'urban lens' (rather than the traditional jurisdictional lens), to an all encompassing federal urban strategy. Such recommendations are usually accompanied by calls for greater autonomy for Canada's municipalities, particularly the larger ones. The Harper government's promises to include municipalities in any discussions aimed at rectifying the fiscal imbalance could result in some further fiscal autonomy for cities, but given traditional provincial opposition to such measures that outcome is questionable. Simply transferring tax room from the federal government to the provinces would not necessarily translate into further tax levers for municipal governments. Nor would it imply that provinces would not

impose the kind of conditions on grants to municipalities that they decry from the federal government. Without a federal presence to ensure compliance and press for national standards, there is no guarantee that provinces would actually deliver on improving urban conditions. As well, it must be recognized that the scope of challenges presented by Canada's urban centres may well be greater than they can, or would like, to solve on their own.

Third, open federalism has not built on the lessons of previous federal arrangements. Collaborative federalism has shown the risks of a too decentralized framework: increasing unilateralism, ideological differences in approach, and a patchwork of policies and programs that do nothing to reduce the disparity among provinces in terms of program delivery. Recalling Jeffrey's criticism of collaborative federalism<sup>161</sup>, provincial governments using federal funds for alternative projects or simply refusing to take up federal funding offers was the rule and not the exception. Open federalism currently offers no fall-back position should provinces fail to deliver programs and services – which they often do, as seen in the cases of housing and transportation. While several provincial governments have recently indicated their intentions to grant municipalities greater authority and flexibility – such as the Ontario government's recent changes to the Act governing the city of Toronto or the Quebec government's recent financing deal with Quebec municipalities – there is little permanency in these arrangements and the authorities they afford may be politically difficult to implement (such as new taxes).

Fourth, open federalism fails to recognize this shift in the global economy by adhering to jurisdictional allocations made in an entirely different era. It also appears to suffer from an internal logical inconsistency in this regard; open federalism assumes the federal government has the authority over the national economy, for example, yet at the same time asserts that municipalities are provincial jurisdiction. If the lessons Courchene and others point out are an indication, the national economy is *occurring* in municipalities, and it remains unclear how the federal government will ensure the success of Canadian cities in meeting national priorities without asserting any influence.

Fifth, as the case studies in housing and transportation demonstrate, provincial responses to urban demands vary widely and do not constitute an effective, cohesive approach to urban pressures in Canada. In housing, the provincial government of Ontario made a hasty retreat from the policy area in the 1990s, precipitating an exacerbation of the housing issue and leaving Toronto scrambling to find alternatives. In Vancouver, the city and the GVRD play a role in the implementation of housing solutions, but funding and policy direction are determined solely by the province. And, while funding has been made consistently available, it has not matched the increasing need for housing solutions, and at times has been directed to areas outside the domain of housing proper. In Montreal, meanwhile, effective partnerships have not lessened the risk of housing stress or homelessness.

Similar lessons can be taken from the area of public transportation. As the case study demonstrates, public transit initiatives have been beset by provincial withdrawal

and re-entry (Ontario and Quebec) and by the ‘provincialization’ of the public transportation authority in Vancouver. It is also noteworthy that government subsidies for operating expenditures remain low, notwithstanding some creative tax sources and funding schemes. Overall provincial funding remains low, and cannot, without sustained and targeted federal assistance, make up for the transportation infrastructure deficit.

Open federalism does not have a direct impact on these gaps. Its proponents would argue that it allows for creative municipal and provincial financing measures by reducing their expenditures in other areas. But, it does not guarantee that any freed-up funding would, in fact, make its way to those urban areas that need it most. Revenue saved in other areas could be watered-down and spread out over a wide range of issues or programs. Such a watering-down of policies and programs directed at the pressing issues faced by urban areas has already occurred – the broadening of the New Deal provisions to include ‘communities’ is only one example. Without explicit program goals identified, housing and transportation, along with a host of urban issues, will likely continue to go unaddressed.

Finally, open federalism flies in the face of trends elsewhere. Observers of Europe have noted that the future development of institutions within the European Union will likely include ever-increasing representation from cities and city-regions. As new issues emerge and authority to effectively deal with them is delegated, cities and regions may well begin to compete with sub-national units (such as the German Länder), effectively reducing their role in policy development and implementation. Such views

are complementary to the emergence of multilevel governance structures in Europe and, to some extent, the United States. As outlined in Chapter V, there is a growing tendency to move towards more – not less – intergovernmental cooperation in the face of mounting urban issues.

There are no simple solutions in a country as complex as Canada. The traditional complexity of managing interdependence in Canada's federal context have only become more complex given the rising importance of our urban areas and the changing nature of the global economy. As Canada's cities will likely continue to lack constitutional recognition for the foreseeable future, the challenge is increasingly how to include them in the administrative processes of federalism. The current move towards open federalism does not reflect the growing consensus on urban issues, and presents little hope for already under-funded and struggling cities. It fails to recognize, as Leo puts it, that "city politics is part of a national political system and that the workings of this system are often best understood, not by looking at discrete levels of government, but by treating the state as a unitary phenomenon which has an impact on cities"<sup>162</sup>.

Yet Canada is good at federalism, and our history of innovation provides us with significant clues as to the way forward. Municipalities have rarely been included in these innovations in the past, but that must not necessarily be the case. As municipal officials gain both confidence and voice (which they are) it is likely that the traditional back and forth between the federal government and the provinces will be replayed between municipalities and the provinces. Already, many cities have shown leadership in making

advances despite tepid provincial and federal attention. Notably, some have developed their own 'green' funds and action plans to develop and sustain better environmental practices. Vancouver runs an Environmental Grant Program, while Toronto has established the Toronto Atmospheric Fund. Both are designed to encourage innovative solutions to environmental problems, and both serve as leading examples to other municipalities<sup>163</sup>. Often, by providing initial funding, projects are better able to secure funding from other levels of government. Thus, future innovations will likely include municipal governments, and here open federalism has properly identified municipalities as consultative partners in some federal initiatives, such as efforts to rectify the fiscal imbalance. Where open federalism fails is its insistence on pulling back to traditional and constitutional definitions of jurisdiction and authority. It fails to recognize the power of federal leadership in achieving national goals, and that such leadership must not only be exercised within the framework of the constitution. In this regard, open federalism ignores the successes of cooperative federalism and the failures of collaborative federalism. The failures of the collaborative federalism era, in particular, are key developments in the assessment of the likely outcomes of an open federalism approach that relies on independent provincial responses to national concerns.

What is required is perhaps a modified return to cooperative federalism, akin to the deep federalism presented by Leo. There is nothing in law that would prevent the federal government from creating national programs to address urban issues, and allowing for provinces or municipalities to opt out with compensation provided a program with similar objectives is in place. Simply transferring tax room to other levels



of government and hoping for the best would be contrary to the fact that Canada's cities are the 'nexus'<sup>164</sup> of many indicators of national health and prosperity. It would also result in a further decentralization that goes against trends elsewhere. Engaging in the techniques of cooperative federalism, where federal leadership features prominently but not exclusively, and where tri-lateral arrangements and consultative mechanisms are in place, would allow a simultaneous centralization-decentralization dynamic. For the federal government, it would mark a return to its role of protecting the national interest – and successful cities are clearly a national interest. For the provinces and for municipalities it could open more avenues for innovative policy development, open new avenues for funding to address shortfalls, and stands to better recognize the paradoxical upward and downward movement of economic power in glocalization.

Canadian federalism has often focussed too much on questions of jurisdiction. Yet, as Hueglin notes, some original federalism theories focussed not on the question of “who *has* the right to do what”, but rather was seen as “procedural principles that are meant to answer questions about who *should* best do what, and to what extent, in order to ensure the fairest outcome for all”<sup>165</sup>. Open federalism, with its focus on spheres of jurisdiction and competencies within those spheres, does not live up to such a conceptualisation. An updated form of cooperative federalism may, when appropriately combined with multi-level governance principles and whole-of-government approaches to complex public policy issues, provide for a more effective intergovernmental framework to ensure the sustainability of our urban areas in this urban age.

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<sup>159</sup> Seidle, F. Leslie (2002) "The Federal Role in Canada's Cities: Overview of issues and Proposed Actions" *Canadian Policy Research Networks Discussion Paper F/27*

<sup>160</sup> Globe and Mail, November 29, 2007

<sup>161</sup> See discussion, Chapter II.

<sup>162</sup> Leo, Christopher (1995) "The State in the City: A Political Economy Perspective on Growth and Decay" in James Lightbody (ed.) *Canadian Metropolitcs* (Toronto: Copp Clark Pitman)

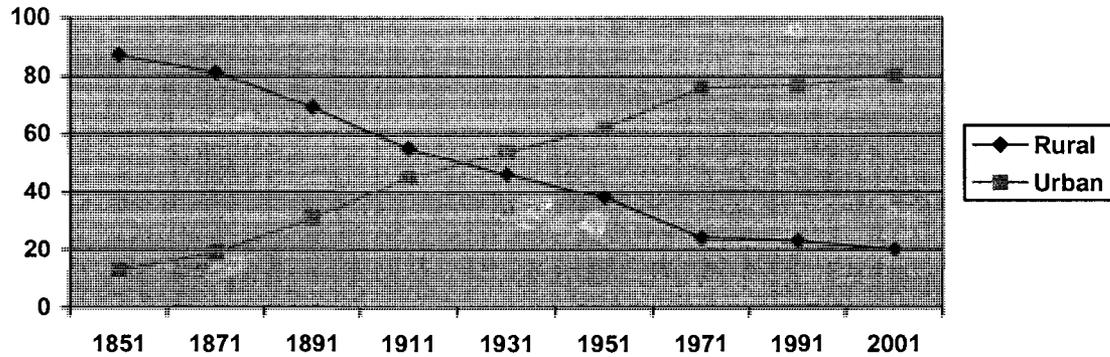
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ANNEX A: FIGURES AND TABLES

Figure 1.1: Rural-Urban Trends in Canada (1851-2001): % Population



Source: Statistics Canada

Table 3.1: Comparative Overview of Canadian Federalism

	Period	Demand Stimulus	Primary Mover	Primary Mechanism	Showcase Policy	Transfers to
<b>Classic</b>	1867-1945	American federal experience	N/A – sovereign spheres	BNA Act	N/A	N/A
<b>Cooperative</b>	1945-1969	Welfare State construction	Federal government	Pan-Canadian programs, opting out	Canada Pension Plan	Provinces Individuals
<b>Executive</b>	1970-	Politics Regionalism/Quiet Revolution	Prime Minister, Premiers	Negotiated, treaty federalism	Meech Lake, Charlottetown Accord	Provinces
<b>Collaborative</b>	1993-2005	Budget cuts Efficiency Politics	Provinces	Framework agreements	SUFA, Child Care	Provinces Individuals
<b>Open</b>	2005-	Politics	Provinces	Constitution	Charter of Open Federalism <sup>1</sup>	Provinces
<b>Deep</b>	N/A	'Glocalization' Local interests	Federal with cooperation	Tri-lateral agreements	Vancouver Agreement Winnipeg Core Agreement <sup>2</sup>	Provinces Municipalities Individuals

<sup>1</sup> Without a significant depth of policy initiatives to date, the Charter perhaps best reflects the open federalism concept.

<sup>2</sup> These agreements were designed and implemented during the collaborative era, but reflect the idea of deep federalism given their reliance on all levels of government, the attention to local interests and the shared cost mechanisms in place to support them.

**Table 4.1 Provincial and Federal Grants (% of Municipal Spending)**

	Provincial Grants		Federal Grants	
	1988	2001	1988	2001
Ontario	30.5	20.0	0.9	0.3
Québec	7.8	13.8	0.2	0.2
British Columbia	14.0	4.7	1.1	0.4

*Source: Kitchen & Slack (2003)*

**Table 4.2 Municipal Revenue Sources (% of Municipal Budget)**

Revenue	1988 <sup>10</sup>	2001
Property Tax	48.6	52.2
Other Own Source	28.5	30.8
Unconditional Grants	5.8	2.4
Conditional Grants	17.1	14.6

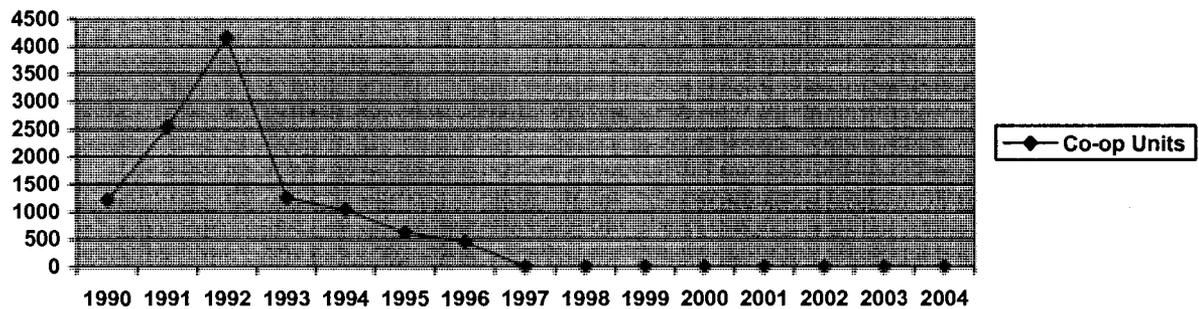
*Source: Kitchen & Slack (2003)*

**Table 4.3 Big Three Revenue Sources (% of 2006 Municipal Budget)**

	Property Tax	Other Sources (User Fees, etc.)	Provincial/Federal Grants
Toronto	41	15.5	24.9
Montréal	66	16	12
Vancouver	63	34	2

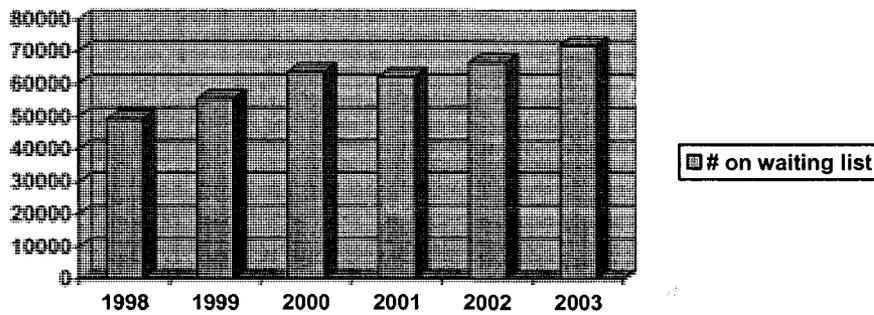
*Source: Municipal Financial Statements*

**Figure 5.1: Ontario Co-operative & Non-Profit Housing Starts 1990-2004**



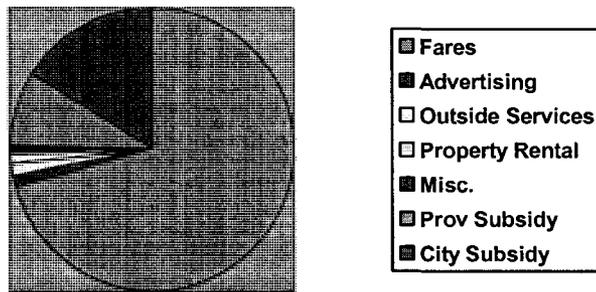
*Source: ONPHA, 2005*

**Figure 5.2: Toronto Social Housing Waiting List**



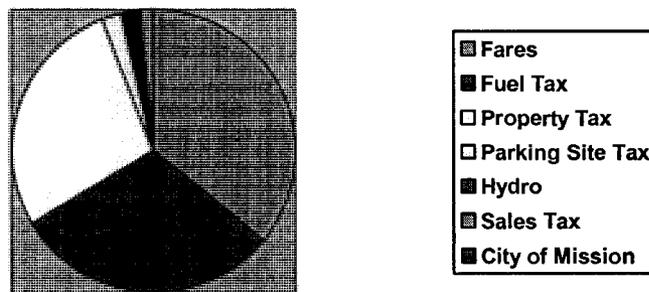
*Source: Toronto Report Card (2003)*

**Figure 5.3: TTC Operating Budget 2006**



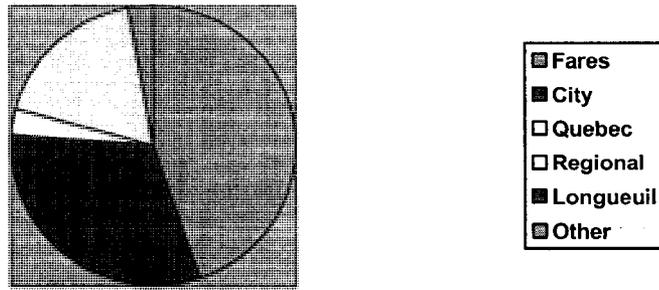
*Source: TTC Annual Report 2006*

**Figure 5.4: TransLink Operating Revenue Sources 2006**



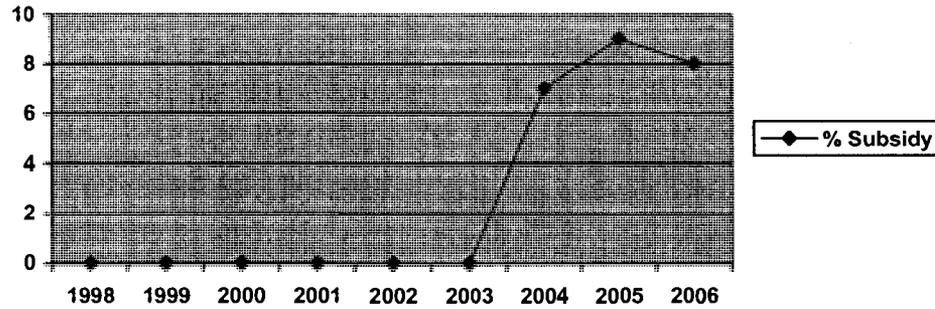
*Source: TransLink Annual Report, 2006*

**Figure 5.5: STM Operating Revenue Sources, 2006**



*Source: STM Financial Report, 2006*

**Figure 5.6: Ontario Provincial Operating Subsidy to the TTC 1998 – 2005 (% of Budget)**



*Source: TTC Annual Reports (Author's Calculations)*

**Table 5.7: Public Housing Policy Goals (FCM) and Open Federalism**

<b>Policy Goal</b>	<b>Likely outcome of open federalism approach</b>
National Housing Strategy	No national housing strategy. Funding for public housing to remain jurisdiction-specific and subject to ideological swings.
Meet long term rental demand	No long-term approach. Funding for long-term rental programs subject to provincial funding and policy priorities
Meet needs in growing communities	Overall needs will remain unmet, let alone the particular needs of fast-growing centres.
Ensuring that new rental supply is suitable and affordable	Suitability and standards left to municipal and provincial law. Affordability unaddressed except insofar as tax incentives may reduce burden.
Providing housing for special needs	Special needs housing largely a provincial concern, to be addressed in the context of provincial priorities, except for Aboriginal housing (federal jurisdiction).
Reinvesting in disadvantaged communities	No guarantee that disadvantaged communities will receive support.
Renovating and adapting existing buildings	Only federally owned existing stock may be renovated, other existing stock may be renovated subject to available provincial and municipal funding. Criteria for adapting existing buildings to incorporate more public housing likely left to municipalities.

**Table 5.8: Public Transportation Policy Goals (CUTA) and Open Federalism**

<b>Policy Goal</b>	<b>Likely outcome of open federalism approach</b>
National Public Transit Strategy	No national public transit strategy. Funding for public transportation to remain largely through fares and property taxes.
Improving traveller choice	N/A
Keeping downtowns healthy	Without significant federal funding, new transit lines may be passed up in favour of existing infrastructure repairs, without bringing new passengers into downtowns.
Containing urban sprawl	Urban sprawl is a provincial and municipal responsibility, and both have largely failed historically.
Improving air quality and health	Funding for new technologies or improved systems that contribute to better air quality remains limited. Provincial and municipal funding has tended to favour car-use.
Reducing greenhouse gas emissions	Same as above.

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