IMFG@10: The Past, Present, and Future of City Finance and Governance

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About IMFG

The Institute on Municipal Finance and Governance (IMFG) is an academic research hub and non-partisan think tank based in the Munk School of Global Affairs at the University of Toronto.

IMFG focuses on the fiscal health and governance challenges facing large cities and city-regions. Its objective is to spark and inform public debate, and to engage the academic and policy communities around important issues of municipal finance and governance. The Institute conducts original research on issues facing cities in Canada and around the world; promotes high-level discussion among Canada’s government, academic, corporate, and community leaders through conferences and roundtables; and supports graduate and post-graduate students to build Canada’s cadre of municipal finance and governance experts. It is the only institute in Canada that focuses solely on municipal finance issues in large cities and city-regions.

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Overview

On January 26, 2015, the Institute on Municipal Finance and Governance (IMFG) marked its tenth anniversary in the presence of an overflow crowd at the Munk School of Global Affairs. IMFG@10: The Past, Present, and Future of City Finance and Governance began with opening remarks from Premier Kathleen Wynne, followed by a panel moderated by IMFG Chair Alan Broadbent that featured Enid Slack (Director, IMFG), Richard Bird (Senior Fellow, IMFG and Professor Emeritus, Rotman School of Management), and Zack Taylor (Assistant Professor, University of Toronto Scarborough). This overview highlights some of the major themes raised at the event.

As Alan Broadbent describes in his introduction, the Institute was founded a decade ago to fill a gap in our knowledge about municipal finance and governance. The IMFG was designed to focus on solutions, provoke a vibrant discourse on issues, undertake high-quality research, and encourage a new generation of scholars interested in municipal finance and governance.

Premier Kathleen Wynne paid tribute to the IMFG’s early recognition that our future prosperity would depend on our ability to understand the changing role of municipalities: “Since founding the Institute in 2004, IMFG’s insightful, evidence-based analysis has done so much to help change the way policy makers and citizens think about municipalities.” She also touched on many of the issues that the panelists went on to discuss: the potential for new revenue tools for cities, provincial-municipal relationships, and the importance of finding new forms of inter-municipal cooperation.

Where the panelists did concur is on the reluctance of political leaders to impose tax increases, based largely on the opposition of the public towards paying more for the services and infrastructure that functioning cities require. “Everybody wants clean water, regular garbage pickup, the snow removed, and a ‘world-class’ transit system…but they want someone else to pay for it. That simply has to change,” said Slack. Bird noted, “It is up to those who live in cities to see that they get the leadership that will deliver what they need, just as it is up to those leaders to figure out how they can get elected while at the same time persuading voters to understand that for the most part it is both fair and necessary that you get what you pay for, and pay for what you get.” Taylor observed that the City of Toronto had demanded and was granted access to new revenue sources by the province in the last decade, but that “using this new authority has proved politically elusive…Local politicians have not sold the public on the benefits of diversifying operating revenues, and in fact, have made electoral hay from opposing it.”

The papers that follow delve into these questions in more depth, and provide a fruitful basis for further discussion. The IMFG looks forward to continuing to publish and disseminate relevant and insightful research that sparks and informs public debate, and engages academics and policymakers on important issues of municipal finance and governance.
The Origins of IMFG

Alan Broadbent

On behalf of the board of the Institute on Municipal Finance and Governance—myself, Janice Stein, and Colin Robertson—and the staff, welcome to the tenth anniversary of the Institute.

I’d like to begin by telling you how the IMFG came to be. I had been interested in cities and their place in Canada for a number of years, and had the privilege of working with Jane Jacobs and others. A great deal of good work was done by many people on issues related to transit and transportation, land use, public health, culture, and the many other facets of urbanism, but almost every one of them bumped up against the same issue: finance.

The other bump in the road was governance. Did our cities have effective governance structures that could meet the challenges they faced? Were mayors, councillors, and city staff equipped with the tools they needed to do the job, and did they have the powers that would allow cities to control their destinies?

My colleagues and I, especially Mary Rowe, found ourselves asking where we should go to find out answers to these questions. Where was the place that did the research and accumulated the knowledge that could help move us forward? Which university housed the institute, or what think tank was specialized in these issues?

We did get answers to these questions, but what we found was a very small set of dispersed expertise, recognized gurus like Richard Bird at the University of Toronto and Harry Kitchen at Trent University. And everyone we asked had one name to recommend: Enid Slack in Toronto.

Now, we knew Enid, for she had been active with us in our work, and we often found ourselves chatting about problems long after meetings had broken up or conferences dispersed. So we raised the possibility of creating a “go-to” place for municipal finance and governance. And it was a relatively short step from that point to the creation of IMFG.

Did cities have sufficient fiscal health to do anything more than struggle along, let alone prosper and thrive?
Enid and I had some design principles at the outset:

• We wanted to focus on solutions, rather than complaints. We were not merely going to describe problems—although that is an important step in understanding what we’re dealing with—but we would focus on solutions, on identifying what might work.

• We wanted to contribute to a vibrant discourse on issues, so we would seek out expert voices, and new voices, often from other places.

• We wanted to do serious high-quality research.

• We wanted to develop a new generation of people interested in municipal finance and governance, so we wanted students coming through the Institute and contributing to the work.

Over the ten years, we have been able to stick to those principles pretty well, and we hope they will continue to serve us well. We have held about 100 events such as this, published more than 50 documents and reports, and received extensive coverage in the media as we have tried to contribute to the urban discourse.

Along the way, we have had tremendous support from the TD Bank, where vice-president Scott Mullin saw the value of what we were trying to do early, and helped with generous financial support. Derek Burleton from TD Research has also been a steady supporter with expertise and program advice. Diamante Development Corporation endowed one of our fellowships. The City of Toronto has also been a strong supporter, spearheaded by City Manager Joe Pennachetti and his predecessor Shirley Hoy. And the Province of Ontario has made a tremendous difference with both their financial support and the participation of senior officials and politicians.

I want to say a special word about Enid Slack. Our standard routine is that I introduce Enid as one of the top five experts on municipal finance in the world, and she informs the listener that there are only five. Well, there are more than five, and she is in the top five, and in my book is number one. She has been a wonderful colleague with whom to found the Institute, and has been relentless and clear-eyed in our development and in our commitment to quality. Without Enid there would not be ten years to celebrate, nor would there be people like you to celebrate with us, for one of the great gratifications of our ten years is that we have attracted a serious and expert audience for our work.
attract business investment and skilled workers. And, we have heard a lot of grandiose schemes for cities to pay for those services and infrastructure—ask the federal government, ask the provincial government, turn to public-private partnerships, and so forth. When IMFG hosted its inaugural event in February 2005 on the *City of Toronto Act*, which was passed a year later, we talked about the need to empower Toronto and other major cities with more revenue tools and greater fiscal autonomy.¹ I repeated this idea in 2011 in one of the first IMFG papers on financing large cities and metropolitan areas.²

It is fair to say that there have been some positive developments in municipal finance in Canada since 2005. The *City of Toronto Act* was passed in 2006, providing Toronto with additional revenue tools. This legislation permits Toronto to levy any taxes it chooses—with the exception of taxes on income, sales, fuel, hotels, and other such exceptions. The Province of Ontario uploaded some social service costs from municipalities, reversing the previous downloading trend that had occurred in the late 1990s. The Province of Saskatchewan introduced sales tax sharing with municipalities; the municipal share is now one percentage point of the provincial retail sales tax. The Province of Alberta is negotiating with Calgary and Edmonton to introduce city charters but, at the time of writing, it is unclear what that legislation will mean for municipal finance in those two cities. At the federal level, we saw the introduction of the “New Deal for Cities,” which also included smaller communities. (Of course, in a federal system, the federal government can give money to cities, but for cities to be able to levy new taxes and thereby really get a new deal, provincial legislation is required.) Fuel tax sharing with municipalities has been made permanent at the federal level and in some provinces. Overall, there have been some new revenues for cities in Canada.

Despite these positive developments, however, the sources of municipal revenue have changed very little in the last decade. Looking at Canadian cities overall,
we find that property and related taxes still account for about half of local revenues (54 percent in 2012), user fees for less than a quarter of revenues (22 percent), federal and provincial transfers for 18 percent, and other revenues for 6 percent. Compared to ten years ago, taxes have increased very slightly; transfers are up a little; user fees have stayed the same; and other revenues have fallen.

What does all this mean for the fiscal health of cities?

At IMFG, we are interested in what these changes (or the lack of change) mean for the fiscal health of cities—the ability of cities to meet expenditure needs with existing revenue sources now and in the future. We have devoted much of the past ten years to analyzing this question. Later in 2015, we will be releasing a new book on the fiscal health of cities with chapters on Ontario, Quebec, U.S. cities, and cities in other OECD countries. Prior to the recent Ontario municipal election, we also released a study on the fiscal health of Toronto. What did we find?

You may recall the release of the paper in which André Côté and I compared Toronto's fiscal health to that of an aging Maple Leafs defenceman: “He may be a solid performer on the ice and well cared for by training staff, but he is increasingly expensive and in need of major knee surgery.” In other words, the city’s fiscal health is sound on most measures (property tax increases, debt load, etc.), but it faces cost pressures and its aging infrastructure and investment needs present a huge financial challenge. The same can be said for other major cities in Canada.

The problem with much of the research to date on measuring urban fiscal health, however, is that it does not include measures of the state of the urban infrastructure or future pension liabilities (a study on municipal pensions across Canada will be published by IMFG later in 2015), so the fiscal health of cities looks good now, but the future is much less certain. We have not invested enough in infrastructure and the backlog in in transportation and housing needs, in particular, in cities like Toronto is large and growing. We also lack funding to build new infrastructure to respond to growth.

Where do we go from here?

So, what have we learned and what needs to happen? Ten years ago, we said that Canadian cities need more revenue tools and more fiscal autonomy to do what they are supposed to do. What is different now? A recent IMFG Paper by André Côté and Michael Fenn suggests that the time may have come for provincial empowerment of cities. The authors’ historical review of provincial-municipal relations in Ontario suggests that provincial fiscal restraint in the past has been a catalyst for reforming the relationship between provincial and municipal governments. We are certainly living in a time of restraint. Now may be the time for the provincial government to empower municipalities with other revenue tools.

But we need more than just new revenue tools for cities. As we showed in our paper on Toronto’s fiscal health, cities could make greater use of their existing revenue tools. Residential property taxes, at least in some cities, could be increased. An upcoming IMFG paper on property taxes in the Greater Toronto Area suggests that many municipalities in the region, including Toronto, have room to increase residential property taxes. Municipalities could also borrow more to invest in needed infrastructure. Borrowing for long-term capital investments makes sense because it means that those who enjoy the benefits of the infrastructure over the next 25 to 30 years will also be paying for them. Yet most Canadian municipalities remain well below provincially imposed borrowing limits. As an upcoming IMFG paper by Kyle Hanniman suggests, they would be wise to increase borrowing for infrastructure, especially given prevailing market conditions.

So why has so little changed in municipal finance in the last ten years? Here is where the political economy of municipal finance comes into play. Even if provincial governments chose to empower cities and give them more financial tools, how could we be sure that cities would use them? Our work on the fiscal health of cities shows that many cities in Canada are not using all of the revenue tools at their disposal today to pay for needed infrastructure. Toronto, for example, introduced
a vehicle registration tax in September 2008, only to abolish it in January 2011. Property taxes have increased in many cities by less than the rate of inflation over the last decade.

The reality is that politicians find it easier to get elected if they promise only modest or no tax increases. The key question is therefore, how do we get people to agree to pay for the services and infrastructure they want? Everybody wants clean water, regular garbage pickup, the snow removed, and a “world-class” transit system—but they want someone else to pay for it. That attitude simply has to change.

What should cities do?

One way to change it is to do a better job of linking the services we receive with how we pay for them. As Richard Bird and I note in a recent paper, we need to strengthen the connection between local expenditures and local revenues (this is known as the Wicksellian connection).\textsuperscript{8} If people know how their taxes are being used, they are more positively disposed towards paying those taxes.

We have seen this connection made in a number of ballot initiatives in the United States. IMFG held a series of events in 2011 and 2012 on funding transportation, and we brought in speakers from the United States and Europe.\textsuperscript{9} One of the things we learned was that although taxes are never popular, taxes dedicated to improving mobility and reducing travel times can generate public support. We also learned that a dynamic mayor in Los Angeles was able to work with community leaders to pass the referendum. Vancouver is now considering holding a referendum to increase the provincial retail sales tax in Metro Vancouver to pay for transit improvements—the first effort of this kind in Canada.

What should the federal and provincial governments do?

To start, they need to treat different cities differently—cities and communities are not the same. National governments around the world are recognizing that large cities and metropolitan areas are different from other urban and rural areas in many important ways: size and density, financial and administrative capacity, the complexity of the challenges they face, and their economic importance. These differences affect the nature and level of expenditures they make and their ability to collect revenues. From a municipal finance perspective (and other perspectives), they need to be treated differently.

In a recent study on governance for the U.K. Department of Science, André Côté and I describe the asymmetric treatment of cities by the U.K. government, implemented through “city deals” to support local economic development.\textsuperscript{10} These so-called “bespoke” arrangements, negotiated individually to reflect the unique needs and context of each city, are designed to promote growth by providing more powers and financial tools, spurring economically transformative projects, and strengthening local governance. We need to recognize the different needs of different cities in Canada, for example, by making strategic investments rather than giving a little something to everyone.

Where does IMFG go from here?

We have done a lot of work on the fiscal health of cities at IMFG and we will continue to do that work over the next decade. We also plan to do further work on governance in Canadian cities, on the impact of climate change and extreme weather on municipal finance,\textsuperscript{11} and on the role of “big data” in improving local service delivery and fostering municipal economic growth and innovation. These are some of the research areas we are thinking about, but we are always interested in other ideas from those who follow our work. We will continue to focus on publishing and disseminating solid research that informs and elevates the public debate on municipal finance and governance issues and sometimes even provokes policy makers to make the changes that will improve how our cities are financed and governed.
A Global Perspective

Richard Bird

Despite my ambitious title, I want to make only three points in these brief remarks:

First, we are not alone: almost every country and every person in the world has been or is soon going to be affected by how well urban areas are governed and financed. Cities and local governments face similar problems everywhere: political units seldom match economic realities, and money is hard to come by. No one escapes.12

Second, perhaps surprisingly, the universality of urban problems is good news in the sense that it means we can learn from experience elsewhere. One lesson, for example, is that sometimes the problems we face may not be what we think they are. For example, if almost every large city has similar problems in financing rapid transit, Toronto’s problems are unlikely to be solely the result of whatever a particular politician or government did or did not do in the past, and they are equally unlikely to be solved simply by changing political leadership. Though better leadership can certainly help, when a democratic political system has a record of bad policy decisions (or non-decisions) over a long period of time, it is unfortunately true that we usually end up getting what we deserve. Another, and more encouraging lesson, however, is that we may sometimes discover solutions to our problems by learning more about how others facing similar problems have coped with them.

Finally, although many urban problems may be universal, there are unlikely to be any universally applicable solutions. Almost never can one simply plug solutions developed elsewhere into a specific local context without considerable adaptation and development. One key role of the IMFG is to help us understand what lessons we can draw from global experience elsewhere.

The Urbanization of the World

When this Institute was launched ten years ago, Canada was already a largely urban country, with about 80 percent of its population living in urban areas, and about one-third in the three largest cities—Toronto, Montreal, and Vancouver. In 2005, however, in the world as a whole, more people lived in rural than in urban areas. But the tide was moving quickly toward urbanization everywhere, and right now, more than half the world’s people live in urban areas. By 2050, projections are that around two-thirds of the world’s population will be urban. That is, more than six billion people—almost as many as the entire population of the planet only ten years ago—will be urban residents. The scale and pace of recent and anticipated urban growth, especially in developing countries, is unprecedented.

Much of this growth will take place in large cities. The Toronto metropolitan area, if broadly defined to include the Hamilton area (the Greater Toronto and Hamilton Area or GTHA), contains over six million people. It is by far the largest urban area in Canada. But it does not make the first 50 in the world in population terms, and barely meets the UN’s criterion for classification as a “large” city—namely, a population of at least five million.13 In world terms,
Universal Problems

All local governments have problems. Local governments everywhere are pressed to spend more to satisfy the needs and demands of their residents as incomes and populations grow. However, even the best-run localities seldom find that the revenues directly under their control can accommodate these demands. Cities, big and small, have additional problems because although their revenue sources are often the same as other localities, their populations are not just larger and often richer but also denser and more heterogeneous. The biggest cities and metropolitan regions usually have all these problems and more besides. These cities also often have more resources to help tackle their problems, but they almost never have either a governance structure that adequately encompasses the true city-region or a fiscal structure adequate to allow them to cope with all their problems on their own.

Although large cities often have both higher and different expenditures and revenues than other local governments, they are generally treated in the same way as smaller communities. One reason such issues are usually dealt with inadequately is that there is seldom a single “metropolitan government.” Apart from the city-state of Singapore, urban finance, like urban governance, is everywhere under the control of higher-level governments. Some countries, including Germany, China, and some Latin American countries, have created city-provinces with more legal power than cities, but even in these cases, not all the economically “metropolitan” territory is usually covered. Some cover wide areas but, like London (U.K.), they have less fiscal autonomy than Toronto. Many U.S. cities have more fiscal autonomy than Toronto, but are also more fragmented. No one seems to have it quite right. Even the biggest cities depend on the higher-level governments, which establish the governance and finance structures within which they must operate. They all try to make up—to varying extents—for the almost inevitable deficiencies that arise in large part from these structures.
In addition, because a variety of governments and public agencies provide services in most metropolitan regions, problems arise in coordinating efficient service delivery and sharing the costs appropriately across the region. In the Toronto region, for example, the issue of rapid transit has been much discussed in recent years. Most of the discussion has focused on how the 325,000 or so people who work in the downtown core get to and from work. Almost never is it mentioned, however, that this is less than 15 percent of the total employment in the region or that more than 350,000 people work in a lower density area to the northwest around Pearson Airport. The latter area, which straddles the borders of Toronto, Mississauga, and Brampton, has almost no rapid transit service at all.

The restructuring of the City of Toronto a few years ago did nothing to improve the situation. Indeed, instead of improving coordination between these economically interdependent, urban local governments, it may have worsened matters by heightening resistance in the surrounding municipalities to measures perceived to benefit the newly enlarged city. Is a worker fighting through heavy traffic to get to a plant in Brampton likely to be willing to pay more so that a neighbour who commutes to downtown Toronto pays even less of the cost of that journey than he or she does now? Should suburban workers be expected to do so? Is any politician, local or provincial, likely to tell them they are?

This is more a governance problem than a financial one. When cities are not expected to finance such expensive and expanding “people” services as education, health, and housing, the property tax and user charges that Canadian cities have at their disposal may often provide an adequate fiscal and financial base to provide the level of services for which their residents are willing to pay. Even large capital expenditures like those for rapid transit could in principle be financed to a considerable extent using the present local revenue base to service the borrowing needed to carry out such projects.

In principle, one should neither subsidize nor tax urban areas, large or small, as such, and all cities should be encouraged (and assisted) to price scarce public resources properly (especially the use of space and public services). In India, for example, one of the most striking features of some large and dense urban areas is the existence of large, essentially vacant public lands owned by state companies or even a municipality itself. One reason such lands remain underused is that they are viewed as so costless by public bodies that they are often not even carried on their books. Such misuse of scarce urban resources in the public sector is hardly limited to India.

Putting urban areas on more of a self-financing basis would soon put a halt to such practices. However, implementing a self-financing system would require better governance and fiscal structures for local governments—both with respect to relationships within the region and those with the rest of the province and country—than we have now, either in India or Canada. Indeed, no country in the world has managed to resolve these complex issues satisfactorily. In the real world, as politicians know all too well, so many compromises are needed to make significant changes that the results inevitably fall short of the ideal.

This reality does not imply we should cease trying to improve outcomes. But it does mean that within our existing imperfect systems, we must pay constant attention to how well we cope with the ongoing and new problems that come up as the world changes, how we might do better, and what we can learn from experiences elsewhere. As noted earlier, one aim of the IMFG is to help in this task.

Local Solutions

One lesson from a global perspective is that no country, developed or developing, has as yet managed to get a firm grip on the problems arising from rapid urban expansion. However, since a number of countries seem to have had somewhat more success in some
respects than we have, there is much to be learned from considering such ingredients for a better urban governance and finance system from the bits and pieces we find all around the world—more coordinated metropolitan government structures, better local taxes, better pricing of urban services (including congestion charges on roads and perhaps land value recapture systems), sound use of local borrowing, and better use of public-private partnerships and more innovative approaches.

Cities in metropolitan regions have different challenges and opportunities compared with more isolated cities; cities subordinated to provincial governments are different from cities with “home rule” or a legal status more like that of a province. Cities in which incomes are growing are different from those facing more adverse economic circumstances. Very large cities with more heterogeneous populations have special problems, as do cities in which the nature of the local economy is shifting rapidly. Every city has its own version of the universal problem of inadequate “free” revenue to do what people want done.

But each city also exists under a specific legal regime, faces different economic and political challenges, and is run in different ways and with different degrees of competence. Such local differences make local solutions necessary. Every city thus needs to compound its own prescription within its constitutional possibilities from the fiscal and financial ingredients mentioned above—including, of course, such popular though largely illusory “solutions” as appealing for someone else to pay the price and take the political heat for doing so.

In reality, no lasting solution can be found in expecting other people to pay for services to make life easier for urban residents. Nor can problems be solved simply by asserting that cities simply need to tax and spend better. Yes, they often can do better—work harder, be more creative, and keep on trying. But to do so will require more attention to the difficult, time-consuming, and seldom immediately rewarding task of ensuring that those who run cities are held accountable to those who live and work in them and largely finance them. Such problems are not exclusive to large cities, although they may often be more difficult to deal with in more complex and heterogeneous environments.

Local governments of any size are not free to write their own constitutions or choose their own fiscal systems. For the most part, they have to work with what they are given, and they are seldom given what they need to do the best job possible. Even so, that job can often be done better—with greater creativity, more energy, and sustained application—than it is now. In the end, however, it is up to those who live in cities to see that they get the leadership that will deliver what they need, just as it is up to those leaders to figure out how to get elected while persuading voters to understand that it is both fair and necessary that you get what you pay for and pay for what you get.
Thanks to IMFG, we now know more than has been known in decades about municipal finance and governance, particularly in Toronto and Ontario, but also elsewhere in Canada and around the world. But there is so much more we do not know, and should know, and I hope that the Institute continues its good work for years to come.

I would like to pick up on some of the themes already introduced. In particular, I would like to consider current demands for local autonomy in relation to the ability of municipalities and urban regions to manage long-term change and meet unexpected challenges. As a political scientist who studies contemporary and historical local government, planning, and urban politics, my focus may differ from that of an economist. I am concerned more broadly with the governance and governability of urban regions as social and economic spaces, and as built and natural environments.

Urban resilience and anticipatory governance

I have recently become interested in the notion of urban resilience. This concept has gained currency in recent years as the Brookings Institution, the MacArthur Foundation, the World Bank, and various academics and consultants have become interested in why some cities seem to bounce back from adverse events and conditions better than others. Much of the research has been on the capacity of social and economic networks, infrastructure, and ecosystems to absorb sudden shocks such as natural disasters, economic recessions, or armed conflict.27

I think we should pay equal attention to slow shifts: incremental long-term changes in, for example, the nature of work and the economic base, the demographic composition of the population, lifestyles and household structures, energy costs, and the natural environment due to climate change. While the shifts may be slow, their cumulative effects may be no less transformative or challenging.

Some shocks and shifts are entirely predictable; others are not. Recognizing that cities are constituted by dynamic and complex interdependencies, those who adopt the urban resilience perspective view the future as uncertain, and, with uncertainty, comes risk. Governments will play an indispensable role in managing known and unknown risks because their regulatory and spending decisions define the rules and incentives within which urban development occurs. The governance dilemma is how to structure these properly.

Traditionally, policymaking and planning have been viewed as processes of identifying a preferred outcome or end-state and allocating resources to make it happen. Accepting complexity and indeterminacy, however, leads in a direction very different from that of deterministic, “blueprint” planning. Instead of working toward a single, predefined future, governments foster resilience by building foresight and flexibility into policy and fiscal frameworks so that they are compatible with many possible futures. Borrowing from recent work in political science and planning, I refer to this as anticipatory governance.28

Implicitly or explicitly, the urban resilience literature often portrays metropolitan areas as actors capable of
making decisions and implementing policies. But is this true? We know that in metropolitan areas in Canada, the United States, and elsewhere in the world, governmental authority is divided among numerous municipalities, special-purpose bodies, each of which to some degree possesses independent resources and capacities. Multiple authorities may work together or at cross-purposes, posing an enduring coordination problem. What might anticipatory governance for urban resilience look like when authority is dispersed among multiple levels of government and between multiple governments at the same level?

**Evaluating contemporary demands for local autonomy—is there a dark side?**

It is in this context that we should critically evaluate widespread contemporary demands in Canada for greater municipal autonomy from provincial strictures and the customization of authority for large municipalities. Can local political and fiscal autonomy be expanded and large cities empowered in ways that increase local policy innovation and democratic accountability without impairing the potential for anticipatory governance?

Demands for local autonomy rest on several arguments. First, it is argued that local governments are closest to the community, and therefore, should be given the authority and fiscal resources to solve community problems on their own. Second, it is often argued that specific large urban centres have needs that differ from those of small cities and rural areas, and so their local governments need additional powers and resources. Finally, some have also argued that if local governments have greater responsibilities and the autonomy to exercise them, they will attract political leadership that is more creative, nimble, and talented. The potential advantages and disadvantages of greater municipal autonomy and differential authority for large municipalities should be considered carefully.

In my research on the historical development of Canadian local government since the 19th century, I have been struck by the fact that provincial governments have actively managed local government as a system. While the specific goals and institutional choices have changed significantly over time, provinces have intervened, usually in times of fiscal or political crisis, to ensure that local governments have the fiscal and administrative capacities they need to remain solvent and carry out their responsibilities. Ontario and other Canadian provinces have maintained a high degree of uniformity, or symmetry, in their treatment of municipalities and the assignment of municipal authority. From the 1930s through the 1970s, this uniformity was paralleled by institutional reforms designed to smooth out intermunicipal inequities on the premise that residents are entitled to similar levels of particular services regardless of the municipality in which they live.

This approach contrasts with the American norm, in which local government arrangements are characterized by idiosyncratic arrangements. As a result of identical demands over a century ago, American municipalities exercise considerable autonomy in the sense of operating with minimal state oversight, and many large cities derive their authority from charters that they may amend as they please. A fundamental characteristic of American local government is the toleration of inequity and variation in the name of choice. Within and between metropolitan areas, municipalities may provide very different packages of services in different ways, and at different rates of taxation. In theory, autonomous local governments are more responsive and accountable to their residents. In practice, autonomy is meaningfully exercised by those municipalities that possess sufficient fiscal and administrative capacities. Moreover, greater intermunicipal inequity and variation undermines municipalities’ incentives to collaborate on resolving large and expensive problems.

As Canadians contemplate demands for greater local autonomy and differential authority for large urban municipalities, they should consider what degree of inequity or variation they are willing to tolerate.
conditions, they are willing to tolerate, and what implications there may be for policy coordination in urban regions. Let us look at two current examples.

First, consider the City of Toronto, which during the past decade demanded and was granted access to new revenue sources by the province. Actually using this new authority has proved politically elusive, however. Local politicians have not sold the public on the benefits of diversifying operating revenues, and, in fact, have made electoral hay from opposing it. The great virtue of local government—its proximity to community interests and sentiment—may have the effect of making it politically impossible to exercise greater fiscal autonomy. The City’s unique ability to generate new tax burdens could, depending on how it is used, divert investment to cheaper locations in the metropolitan area. The province could, of course, extend the new revenue-raising powers to every municipality, and has certainly felt pressure to do so. Would this move lead to more creative municipal policymaking that increases the capacity for anticipatory governance for the social, economic, environmental, and fiscal resilience of metropolitan areas? Or would it encourage destructive competition among municipalities that undermines this capacity?

Consider Alberta, where the provincial government recently announced that it would move quickly to revise the province’s Municipal Act with the goal of enhancing local autonomy and accountability. Earlier, Alberta pledged to bring in special charters for Calgary and Edmonton that will grant them additional powers and resources. All of this is happening in parallel with debates over the authority and legitimacy of provincially sponsored metropolitan planning bodies for Calgary and Edmonton, and the introduction of provincially administered plans for broad regions. To the outsider at least, it is unclear whether provincial and municipal decision makers are thinking about these reforms holistically. How might, for example, strengthening Calgary and Edmonton alter the function and politics of metropolitan coordinating bodies? Will greater autonomy for the province’s other 340 or so municipalities support or undermine the province’s regional planning program? Will the fiscal shock that is currently roiling Alberta cause provincial planning and support for metropolitan coordination to collapse, as occurred in Ontario in the 1970s?32

**Provincial governments: indispensable yet inconsistent**

These examples point to the indispensability—and inconsistency—of provincial governments. Much of what local governments do is mandated, funded, or otherwise regulated by provinces. Especially in the three decades after the end of the Second World War, provincial oversight and intervention paid enormous dividends as infrastructure and service systems were expanded to meet a growing population, particularly in Toronto. In recent decades, however, provinces have been inconsistent in their management of local government systems. Electoral timetables are short, vested interests strong, budgets stretched, and public appetite for taxation limited. In this context, local autonomy has become a convenient political justification for increasing municipal responsibilities without commensurate fiscal resources, and infrastructure investment (especially for transportation) has not kept pace with population growth.

This brings me back to my central question: Can local political and fiscal autonomy be expanded and large cities empowered in ways that increase local policy innovation and democratic accountability without impairing the potential for anticipatory governance? A more holistic perspective will reveal the costs, as well as the benefits, of local autonomy. I suggest that we not seek the answer solely at the municipal level. Anticipatory governance to ensure the resilience of our urban regions to sudden shocks and slow shifts is inescapably multi-level governance. It will require the mobilization of legal authority, knowledge, and fiscal resources at all levels.33 It will not be an easy task, but recognizing the central constitutional, political, fiscal, and administrative roles of the provincial government in urban governance is a good place to start.
Endnotes


13 Population data in this and the preceding paragraph come from http://www.demographia.com/db-worldua.pdf; city classifications come from United Nations, World Urbanization Highlights, 2014 Revision, which places the Toronto urban area (defined a bit differently) as no. 56 in the world table.

14 On Canada, see the interesting study by Gordon, D., & Janzen, M. (2013). Suburban Nation? Estimating the Size of Canada’s Suburban Population, Journal of Architectural and Planning Research, 30 (3), 197–220. Data on changing urban population density (and urban form) around the world reported in http://www.demographia.com show similar trends towards reduced, not increased, density in many large urban areas around the world; see also Angel, S. (2011). Making Room for a Planet of Cities, Cambridge, MA: Lincoln Institute of Land Policy. (Different sources sometimes show different results in part as a result of the different ways in which they define “urban areas”—the “built-up area” definition largely used in the sources cited, the often broader “metropolitan” labour market concept sometimes used in economic studies, or the generally narrower political unit—the formal municipality—used by many others.)


18 The employment figures are reported in Cox, W.(2012). Improving the Competitiveness of Metropolitan Areas, Frontier Centre for Policy, Policy Series,135.

19 For two recent assessments of the adequacy of the current revenue base, see Tassonyi, A., Bird, R. M., & Slack, E. (2015). Can GTA Municipalities Raise Property Taxes? An Analysis of Tax Competition and Revenue Hills, IMFG Papers on Municipal Finance and Governance (forthcoming); and, McMillan, M, & and Dahlby, B. (2014). Do Local Governments Need Alternative Revenue Sources? An Assessment of the Options for Alberta Cities, University of Calgary School of Public Policy, SPP, Research Paper, 7 (26), (forthcoming). Of course, if cities are expected to finance public services like those mentioned, they must depend either on the kindness of others—the province—to fund such services or, if they are expected to do so themselves to any extent, they will require more elastic and dependable revenue sources such as sales or income taxes; for further discussion, see Lotz, J. (2012). You Get What You Pay For: How Nordic Cities Are Financed, IMFG Papers on Municipal Finance and Governance, 7.


26 See for example, the many cases discussed in Martinez-Vazquez, J., & Frank, J. (eds.), Decentralization and Infrastructure: From Gaps to Solutions, Washington: World Bank (forthcoming).


30 This was brought about by three mechanisms: equalization grants, amalgamations of municipalities, the transfer of functions from municipalities to empowered upper-tier bodies (counties, so-called “regional municipalities,” and, in British Columbia, regional districts).

31 While individual municipalities may collaborate voluntarily to achieve objectives of mutual interest, they are unlikely to agree to social, economic development, or infrastructure policies that result in “winner” and “loser” municipalities, even if the result will be aggregate benefit at the regional scale.

32 Ontario’s empowerment of county governments in urban areas as regional municipalities in the late 1960s and early 1970s were intended as a means of strengthening the local government system so it could implement provincially developed regional plans. Faced with recession and public opposition, however, the province abandoned its ambitious regional land-use and economic planning and development program, leaving the newly empowered municipalities to go their own way.
