

Municipalities and the REAL Canadian Fiscal Imbalance

There has been much talk about a “fiscal imbalance” in Canada, but it has always been in the context of a perceived imbalance between the federal and provincial governments. This is a false argument. The REAL fiscal imbalance is between the federal and provincial governments, together on the one hand, and Canada's municipalities on the other.

Canada's municipalities are increasingly unable to meet critical infrastructure and social services needs, and are forced to go, cap in hand, to the federal and provincial governments for help. Then, even when they get funding, it is usually project-specific, addresses capital but not operating costs, and doesn't address the overall, ongoing requirements.

Our towns and cities drive our economy, our competitiveness – and our prosperity. But to keep up with their infrastructure and other needs, municipalities need stable, predictable, long term funding. The Federation of Canadian Municipalities has been stressing this for years.

The Liberal government under Paul Martin helped by allocating to municipalities a portion of the federal gas tax revenue. Given the serious and immediate infrastructure deficit, doubling the gas tax portion right away (as one option) would provide more of that much-needed stable and predictable revenue. (Revenue from a price on carbon could also be very useful.) The provinces need to step up right away too – after all, municipalities are, constitutionally, ‘their’ responsibility.

But the underlying structural problem – the real Canadian fiscal imbalance -- remains.

The federal and provincial governments tax on economic growth, on both personal and corporate income. As that grows, so does their revenue. The federal and each of the provincial governments has the ability to determine what tax rates, what deductions, what tax-based policies it wishes to pursue, each determining its respective total revenue – but all based on economic growth.

Municipalities, on the other hand, cannot tax income – they rely primarily on property taxes. Over the years, as Canada has gone from mostly rural to now overwhelmingly urban, and as towns and cities are responsible for so much more than they were originally expected to do, this system is increasingly inadequate. Not only does this cause serious economic distortions, key needs are not adequately addressed – Canada now faces a major infrastructure deficit, including key items such as water and sewer facilities, public transit and roads.

The real solution is a bold overhaul of the Canadian tax system – to create a simpler, much more effective tax system that will cover ALL orders of government. The current regime was established over 150 years ago, when

Canada was almost entirely rural. But Canada's population is now mostly urban, and the burden on municipalities has steadily increased - police services, local roads, transit, water supply and treatment, garbage disposal and recycling, fire and emergency services, water distribution and collection, library services, local parks and recreation, community planning, bylaw enforcement, zoning and building inspection, as well as public health, social assistance and social housing services -- even taxi and marriage licensing. Larger municipalities also bear a significant part of the burden of helping new immigrants who can't find jobs, need language training and a variety of specialized social services.

Clearly, in Canada in 2013, ownership of property is not the only determinant of who actually uses municipal services and infrastructure, or which aspects, and is no longer the most relevant factor in determining one's obligation to support those services. Canada needs a tax system that makes sense for 21st century Canada.

Each one of us in a single taxpayer, but we pay in too many complicated ways.

Taxation needn't go up, particularly if we can be more efficient in our overall spending. But our tax system needs a major overhaul – of sources of revenue as well as in allocation of that revenue – to more effectively and efficiently address the respective responsibilities of each order of government and the costs of infrastructure and services so important to our society as a whole.