C.D. Howe Institute
Commentary

www.cdhowe.org No. 226, February 2006 ISSN 0824-8001

The Urban Papers

Running on Empty:

A Proposal to Improve City Finances

Jack M. Mintz and
Tom Roberts

In this issue...
Canada's municipalities, with cooperation from the provinces, should overhaul their revenue-raising mechanisms. The claim that new municipal taxing powers are necessary, however, has yet to be substantiated.

The Study in Brief

As cities rise to a new threshold of prominence, many commentators have argued that their resources have not kept pace with their responsibilities. While the 2005 federal budget committed Ottawa to sharing part of its fuel tax revenue with Canada's municipalities, pressure remains on Ottawa and the provinces to find new ways to give cities access to a richer revenue stream.

How to relieve the pinch? Various options have been suggested, including giving cities a share of sales and income taxes, raising property taxes, or relying more on user fees or excise taxes on hotels and fuel.

It is important for Canada to ensure that municipal funding includes adequate access to resources and the right incentives for municipal politicians to respond to the needs and wishes of their voters. In our search for a better financial model to improve political accountability, we find that an additional tax field for municipalities is generally not warranted, although it is important to provide municipalities with greater flexibility in financing their expenditure responsibilities. We conclude that current tax fields are adequate, since in most provinces, more revenue could be generated from residential property taxes or user fees. Additionally, municipalities can make more use of excise taxes, such as fuel and hotel taxes, to fund transportation and tourism: several cities already share, or have the right to share, in such taxes with the provinces.

A sensible approach to municipal funding problems would be to: (i) shift most social service costs to the provinces; (ii) pursue municipal property tax reforms to reduce the scope for tax competition and exportation; (iii) raise more municipal revenue from user fees where reasonable; and (iv) reduce provincial transfers to municipalities. One effect of our fiscally neutral proposal would be improved political accountability, because taxpayers would clearly see where their money is spent and who spends it.

Ontario and Alberta may be special cases, for differing reasons, where further alternatives could be considered. While we maintain that the residential property tax should be better exploited in these provinces, giving them additional flexibility in taxing powers might be considered. One option is a novel tax field: an earned income tax on residents, to be applied to employment and self-employed earnings of municipal residents and collected through the income tax system.

The Authors of This Issue

Jack Mintz is President and Chief Executive Officer at the C.D. Howe Institute and Deloitte & Touche LLP Professor of Taxation, J. L. Rotman School of Management, University of Toronto.
Tom Roberts was the C.D. Howe Fellow, 2004-05.

* * * * * *

C.D. Howe Institute Commentary© is a periodic analysis of, and commentary on, current public policy issues. James Fleming edited the manuscript; Diane King prepared it for publication. As with all Institute publications, the views expressed here are those of the author and do not necessarily reflect the opinions of the Institute's members or Board of Directors. Quotation with appropriate credit is permissible.

To order this publication please contact: Renouf Publishing Company Limited, 5369 Canotek Road, Ottawa, Ontario K1J 9J3; or the C.D. Howe Institute, 67 Yonge St., Suite 300, Toronto, Ontario M5E 1J8. The full text of this publication is also available on the Institute's website at www.cdhowe.org.

$12.00; ISBN 0-88806-679-1
ISSN 0824-8001 (print); ISSN 1703-0765 (online)

Municipal leaders were relieved to hear last year that they will receive a share of the federal gas tax. Like manna falling from federal heavens, their share will total $5 billion over the next five years. Mayors who felt like exiles from Ottawa's agenda have applauded their improving fiscal fortunes in face of demands for more infrastructure spending. But while the gas tax transfer has made mayors happier politicians, it fails to achieve a "cities agenda" whereby municipal governments are given greater responsibility for raising taxes to fund their expenditure responsibilities.

In this *Commentary*, we look for a financial model for municipalities that would improve municipal financing and encourage greater independence and responsibility. The key is to allocate appropriate expenditure and tax powers to municipalities, which would also have greater autonomy in choosing their tax policies. It is often argued that municipalities need another taxing power beyond the property tax, which, by itself, is considered insufficient to meet their commitments (Kitchen and Slack 2003, TD Bank 2004). Ideas include an income surtax, sales tax, or excise taxes on fuel and hotels. Giving additional taxing powers to municipalities seems to be an inviting idea for those wishing to see cities with powers similar to other levels of government. Nevertheless, in our search for a better financial model to improve political accountability, we find that an additional tax field for municipalities in the provinces is generally not warranted, although it is important to provide municipalities with greater flexibility in financing their expenditure responsibilities.

To a great extent, municipal finance has not kept pace with the challenges faced by our growing cities. While urbanization contributes significantly to economic growth as people are able to undertake transactions at lower cost (Aedes and Glaeser 1995; Krugman 1991), the greater demands placed on municipal governments to provide a good quality of life have strained resources. Thus, it is important for Canada to make sure that the municipal funding model provides both adequate access to resources and the right incentives for municipal politicians to respond to the needs and wishes of their voters.

Caution is required in seizing on bold reforms, lest they create inefficiencies and distortions. Municipal financing is fraught with issues that include the following:

- *The Drawbacks of Downloading:* In Ontario, municipalities are partly responsible for provincial welfare programs, and must spend a large share of their expenditures on social services, including social assistance, childcare, immigration services, social housing and the homeless. This arrangement was also the case in Nova Scotia until 2002. Yet economic downturns can affect some municipal areas, such as those heavily reliant on slumping industries, more than others. What's more, local jurisdictions are less able to cope with higher local welfare costs and rising deficits alone, without sharply raising taxes or issuing municipal debt that is sold at higher interest costs than provincial debt.

We wish to thank many reviewers of our paper who helped improve its content. Special thanks to Finn Poschmann, Enid Slack, Almos Tassonyi, Allan Doheny, and Glen Grunwald for their comments. Errors remain the responsibility of the authors.

- *Taxing Out-of-Towners:* Municipal taxing powers currently provide opportunities for mayors and councils to shift taxes onto non-residents who pay for public services of primary benefit to residents. Particular concerns have been raised about high non-residential (business) property taxes in excess of the value of municipal services used by businesses (Kitchen 2004; Bish 2003; Slack 2002). Often, the owners live outside the community. This can lead to tax exportation outside the community, where non-residents pay higher prices for goods exported to them, or receive lower returns for property investments in the municipality with the heavy tax burden on business.
- *Where Does the Buck Stop, or Start?:* Provincial transfers to municipalities — and the new gas-tax transfer from the federal government — undermine political accountability. As Inman (2005) points out, the transfer mechanism has eroded political accountability in many countries, such as Brazil and the United States, to their detriment. Fiscal costs escalate when municipal politicians have little incentive to reduce costs and keep taxes as low as possible for their voters. Political accountability is improved if elected politicians wishing to spend money on public services must raise revenues from the voters who benefit from those services. Transfers on a limited basis are appropriate if some municipal services are of some benefit to residents in other jurisdictions (e.g., transportation networks). They also make sense if there is a need to equalize sharp differences in fiscal capacities among rich and poor municipalities so that basic public services can be provided at comparable tax rates. Otherwise, there is not much reason for provincial governments to transfer revenues to municipalities, which then fund municipal services that primarily benefit local taxpayers.

What is remarkable is that the expenditure and taxing powers assigned to municipalities vary considerably across provinces, so no single solution for improving municipal financing is necessarily appropriate for Canada as a whole. While Ontario has downloaded a share of social services expenditures to municipalities, in most other provinces this expenditure responsibility rests almost entirely with the province. Alberta makes extensive use of user fees to fund municipal services. Further, some Canadian municipal governments already have access to the excise tax field, such as fuel or hotel taxes. Nevertheless, there is a common set of principles for local financing that applies to all of these different jurisdictions.

A sensible approach to municipal funding problems would be to (i) shift most social service expenditures to the provincial level to be funded by the provinces, (ii) carry out municipal property tax reforms to reduce the scope for tax competition and tax exportation, (iii) raise more municipal revenue from user fees where it is reasonable to do so, and (iv) reduce provincial transfers to municipalities. A net effect would be improved political accountability, since taxpayers would see where their money is spent and who spends it. Our proposal would be fiscally neutral for the provinces, although one could consider a longer-run reform in which the provinces reduce revenues to create tax room for municipalities. We devise a method to determine whether municipalities require an additional tax field based on the above adjustments and taking into account the new federal gas-tax transfer to the municipalities.[1]

Our conclusion is that a new municipal tax field is unnecessary in most provinces, since greater revenues could be obtained from residential property taxes or user fees. Compared to others, these are better tax fields for municipalities with expenditure responsibilities that are not sensitive to upturns and downturns in the economy, such as fire, police or park services. Additionally, some municipalities could make further use of excise taxation for funding transportation and tourism (fuel and hotel taxes). Several cities already share, or have the right to share, in such taxes with the provinces. However, as we shall see, Ontario and Alberta are special cases. While we maintain that the residential property tax should be exploited further to fund municipal services in these provinces, additional flexibility in taxing powers might be given some consideration. This could be achieved through a novel tax field: an earned income tax on residents. It would be applied to employment and self-employed earnings of municipal residents, and be collected by the province through the regular income tax system. Other forms of taxation — such as the broader income tax or general sales taxes — are too harmful to economic growth or are difficult to implement properly.

Cities are rising to new thresholds of global importance, as centres of commerce, population and economic growth. This rising salience in itself, however, says nothing in favor of providing more external funding, or implementing massive new local public expenditures. The realization of a global role for cities will depend on local government's ability to facilitate the contributions of all sectors of the community, not on its ability to monopolize a region's growth.

In the balance of this *Commentary* we elaborate on these arguments, focusing only on municipalities rather than other local government bodies that deal with education or health. In the next section, we review key principles for the financing of municipalities. We then evaluate the current municipal financial structure in terms of the principles we describe. Finally, we provide our recommendations for a better municipal financing model, followed by our conclusions.

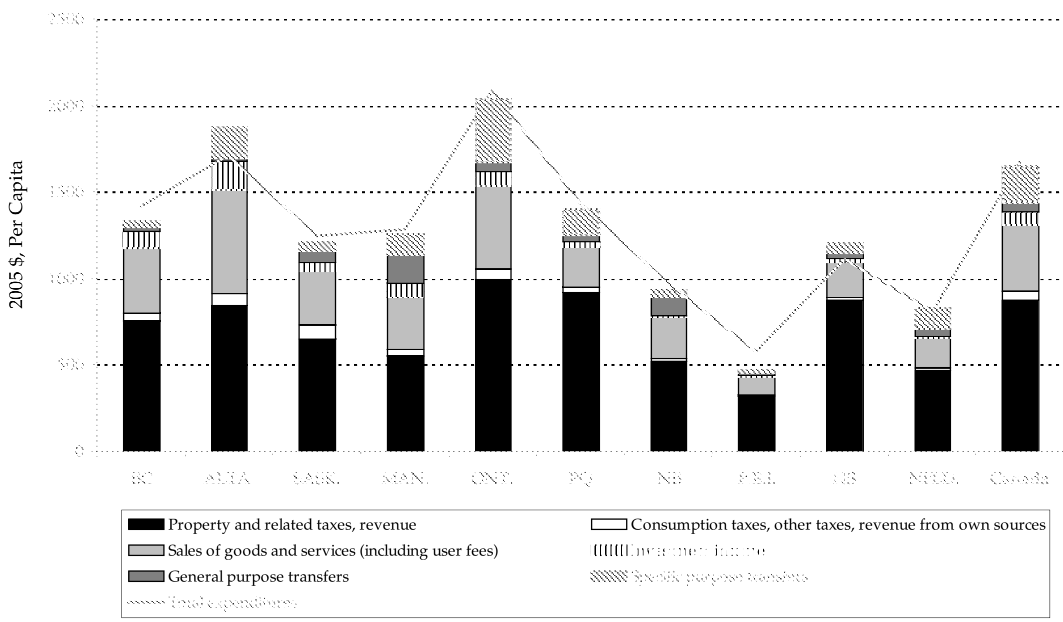
Existing Municipal Revenue Sources:

At present, the primary source of revenue for municipalities by province is the property tax, as seen in Figure 1. User fees are next in prominence. Other municipal tax sources are rarely used. British Columbia remits a share of its fuel tax to the Greater Vancouver Regional District. Edmonton, Calgary and Montreal are also given a share of provincial fuel taxes. Vancouver and Montreal impose hotel occupancy taxes, while Winnipeg and Toronto have the right to do so.

Historically, municipal governments had both income and sales taxes (Kitchen 2003). Municipal income taxes actually pre-dated the 1917 federal income tax and operated until 1941, when the provinces rented their income and estate taxes to the federal government for transfers. After the Second World War, the provinces resumed income taxes but did not permit municipalities to occupy the tax field.

1 We do not analyze the impact of our proposals on provincial fiscal equalization revenues.

Figure 1: *Canadian Municipal Revenues by Province – 2003*



Source: Authors' calculations, based on Statistics Canada Financial Management System data.

Quebec was the only province that allowed municipalities to levy sales taxes. Until 1964, Montreal levied its own municipal sales tax.

Financing Principles For Municipalities

The appropriate allocation of financing powers to municipalities should be based on four principles: (i) efficiency; (ii) minimal administrative and compliance costs; (iii) flexibility and autonomy in financing public services; and (iv) political accountability. These principles form the basis of governance for any type of municipality, from small towns to metropolitan cities.

Principle One: Levying Efficient Taxes

Taxes discourage work effort, savings, investment and risk-taking. The tax system that harms the economy the least is one that does not interfere with the allocation of resources, which is best achieved by households and businesses responding to market prices. Thus, a tax system is most efficient when it is neutral, imposing similar relative burdens on all products and business activities. Only in some limited situations, when market prices do not reflect household and business decisions that affect others (such as pollution), could some differential taxes be appropriate. However, even in these cases, other policy interventions at the provincial or federal level might be more effective than tax policies.

With respect to efficiency and the allocation of taxing powers to municipalities, two sub-principles should be borne in mind.

The first is that tax policies should not inhibit the free flow of goods, services, capital and labour across jurisdictional boundaries. Therefore, the best taxes to allocate to municipalities are those paid by the resident households and businesses that benefit from municipal services. Seen in this light, user-pay related fees or taxes (such as transit and toll charges or gasoline taxes) that cover the costs incurred to provide municipal services are appropriately assigned to municipalities.

The second is that tax powers should be allocated to the level of government that can minimize fiscal spillover effects among jurisdictions. These arise when taxes in one jurisdiction affect the economic well-being of residents in another jurisdiction. Such spillover effects distort decisions made by governments and also undermine political accountability. Spillover effects arise from three specific sources.

Tax Exportation: Governments may "export" taxes by assessing levies on non-residents to pay for services of benefit to residents (as discussed earlier). For example, a municipality may choose to levy high non-residential property taxes, knowing that the tax burden falls on business real estate owned by non-voting, non-residents, or else by residents of the municipality who form a small part of the voting population. Higher taxes lead to higher prices for goods and lower real estate returns for non-residents and residents alike. The effect of tax exportation to non-residents is to lower the political cost of raising taxes and therefore increase the amount of municipal public spending.

Tax Base Flight: A government that taxes mobile households and businesses will trigger a "tax base flight." Taxpayers move to low-taxed jurisdictions when high-tax jurisdictions levy taxes that surpass the value of the municipal services provided to the taxpayer. When all jurisdictions try to avoid levying taxes on mobile households or businesses, too little spending results. As a rule, the economic cost of municipalities levying taxes on mobile populations is higher than it is using a coordinated approach for tax policies. Tax base flight, however, has the beneficial impact of discouraging the sort of high-tax policies on mobile bases that lead to tax exportation.

Joint Occupancy: Fiscal spillovers also arise from joint occupancy of tax fields by different levels of governments. For example, in many provinces, both provincial and municipal governments levy property taxes. Higher property taxes levied by one government reduce property and other tax collections (such as income taxes) for the other level of government (Locke and Tassonyi 1993).

Principle Two: Minimizing Administrative and Compliance Costs

Taxes are costly to collect — administrative and collection costs are borne by governments and taxpayers bear compliance costs. In countries with multiple jurisdictions — with multiple and overlapping taxing powers — administrative and compliance costs can be significant (Erard 1997). Provincial and municipal governments reduce both administrative and compliance costs to the extent that they jointly collect property and other taxes, rather than duplicate the same task.

Principle Three: Facilitating Flexibility and Autonomy

Each level of government needs access to sources of revenue that are appropriate for its activities. Municipal governments with relatively stable expenditures associated with public services such as protection, parks and recreation and roads, require relatively stable sources of financing. These include user-pay related charges and property taxes. In some jurisdictions, provincial approval of tax policies in these areas is required, which limits municipal flexibility in determining their tax policies. For example, in Ontario, the province sets the parameters for municipal taxation and user fees, although the municipalities can set the rates within the parameters. In some instances, provincial restrictions might be appropriate, such as in limiting tax exportation, but otherwise municipalities could be given much more autonomy in developing their property tax and user fees.

Principle Four: Improving Political and Economic Accountability

A municipality, in its decisions to allocate budgets among competing services, is accountable to its electorate, whose members pay for these programs through the tax system. Our concept of accountability, though, is not limited to merely avoiding scandals and extreme mismanagement through standard auditing and operating procedures.

In a broader sense, political and economic accountability is enhanced when governments must fund programs with the revenues they raise from taxes levied on their residents. In contrast, relying on tax-paid transfers from other levels of government has the opposite effect. If taxpayers cannot identify how many of their tax dollars are spent on which program by what level of government, they have no grounds for assessing their governments' performance. Without applying this broader idea of accountability, city politicians will not have the incentive to make expenditures that are economically justified or to seek opportunities to reduce costs in service delivery.

Accountability is also enhanced when the burden of municipal taxes falls on residents and business activities within the municipality, rather than being exported to non-residents, or is shared with other governments through joint-occupancy of tax fields.

Expenditure Requirements for Municipalities:
Expenditure programs should be given to municipalities if their local orientation places them in a better position to determine what people want the most from their governments.

Political accountability is enhanced as people demonstrate their preferences for public goods by moving to the municipality that offers the best combination of tax-financed public and private goods (Tiebout 1956). Thus, public services that primarily serve the local population, including police and fire protection, residential roads, parks, museums and other leisure-related activities, are arguably best provided by municipalities.

On the other hand, some expenditure programs should be allocated to the province when municipalities are incapable of providing services optimally. One reason why provinces are more suitable to co-ordinate some services arises when "spillovers" occur; that is, when expenditures made by one municipality benefit (or harm) residents of other municipalities. Since municipalities do not take into account benefits provided to (or costs imposed on) other municipalities, they may spend too little (or too much) on program services.

Large transportation networks linking communities in a region are clearly one good example in which regional or provincial provision or co-ordination is necessary. Most provinces tend to cover the cost of regional transportation networks, leaving residential streets as a municipal responsibility. Another example relates to the provision of social assistance. With shocks specific to a community (like lower nickel prices affecting Sudbury), the province is in a better position to absorb them and pool the risks among communities. Municipalities are also less able to administer social assistance programs to prevent fraud, since they do not have the information readily available to check income or wealth that may be derived from other sources.

Most provinces except for Ontario have allocated social assistance to the provincial level. In Ontario, municipalities administer social assistance according to the same provincial standard. The province covers 80 percent of the program costs and 50 percent of the administrative costs through conditional grants. Yet, 21 percent of Ontario municipal expenditures still go towards social services such as social assistance, which is a substantial commitment from the perspective of municipalities (Figure 2).

Problems With the Financing of Municipalities: A Divergence From Principles

The current structure of municipal financing can be significantly improved to pursue the principles as laid out in the previous section. We highlight the main areas where problems exist and offer feasible solutions.

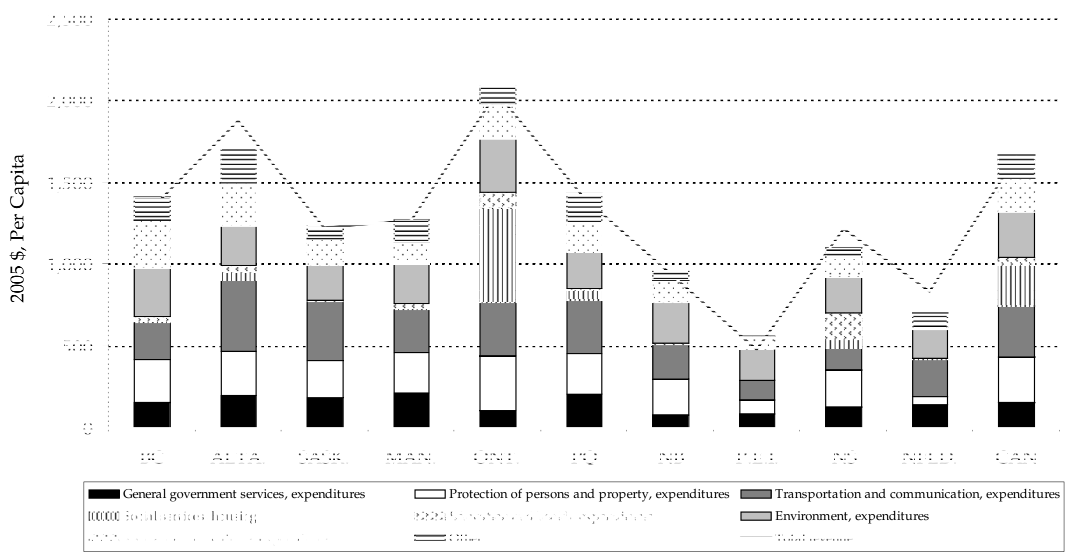
Improving the Efficiency of Tax Policy

While it is nearly impossible for a tax to completely avoid economic distortions, the set of principles we introduced earlier provides a useful guide for minimizing inefficiencies in the municipal tax system and achieving a balance in the municipal taxes governments use to finance their expenditures. The mix of local tax sources has to be tailored to the particular context of local governments, which is substantially different from that of other levels of government.

Property Taxes

The property tax is one of the oldest taxes in Canada and the largest source of revenue for municipalities (Treff and Perry 1999). Property taxes, on average, account for 8.7 percent of all taxes paid by Canadians, and 4 to 5 percent

Figure 2: *Canadian Municipal Expenditures by Province – 2003*



Source: Authors' calculations, based on Statistics Canada Financial Management System data.

excluding the portion that goes to provincial education (Vander Ploeg 2004, 4). Municipal property taxes per capita in 2000 constant dollars grew at a 1.9 percent rate per year between 1961 and 2000, while total federal and provincial taxes accounted for the increasing tax burden in Canada. They grew at 3.2 and 5.3 percent, respectively, on a real per capita basis. This is in part due to the expansion of many social programs at the federal and provincial levels (Vander Ploeg 2004).

The property tax is often criticized for being unfair since an individual's property tax is unrelated to their ability to pay (Ontario Fair Tax Commission 1993, 639). The property tax burden, as a percentage of annual income, is greatest for lower-income residents. This observation is also true for any necessary expenditure such as food or rent. However, property taxes can be justified as being a fair source of revenue for two reasons.

First, municipal spending on protection, parks and recreation, infrastructure and other services primarily benefits residents living in the jurisdiction. As a payment for services that enhances the value of property, a clear argument can be made that the property tax is better at fairly treating different households according to the benefits received from municipal services.

Second, property taxes are a form of tax on wealth (Technical Committee on Business Taxation 1998) and, therefore, their legal incidence largely falls on owners of capital (structures and land). On a lifetime basis, the property tax can be progressive (Davies, St. Hilaire and Whalley 1984). The elderly, whose retirement income may fall to levels well below those in their working lives, still benefit from the municipal services that add to the value of their property. Provincial governments, aware that the poor have the greatest difficulty in meeting property tax payments, have provided property tax credits under the provincial tax systems. As well, they may have mandated a similar measure by the municipalities. This existing arrangement acknowledges that income redistribution is not the prerogative of municipalities.

Property taxation can still conform to the main principles that should be found in a revenue source appropriate for municipalities, despite the perceived problem of fairness. A key requirement is that the characteristics of the revenue source should relate well to the responsibilities placed on municipalities. As McMillan states "finance must follow function" (Boothe 2003). The revenue sources available to a municipality should also be considered in the context of the entire tax burden faced by residents. Property taxes, unlike any other tax, are in part a tax on housing consumption that is only lightly taxed under existing sales taxes, and in part a tax on real estate investments that escape the income tax.

Property taxes, in particular, are the least harmful tax to assign at the municipal level. In an open economy, a tax on real estate can be relatively efficient, since a significant portion of the property tax is capitalized in prices for land and structures that do not move (Rosen, Boothe, Dahlby and Smith 1998). The immobility of the tax source is more important at the municipal scale than at any other level of jurisdiction. However, property taxes can create economic distortions, especially when they vary by types of land development and the use of property, such as differential tax rates for single-owner versus multi-residential property. Differential rates also apply to industrial and commercial property, even though it is unlikely that these types of businesses benefit as differently from municipal services as the rates often imply. Further, differential rates across neighbouring municipalities can eventually distort the location decisions of households and businesses.

The sharp visibility of the property tax helps improve accountability, which helps residents relate the services that they receive to their actual costs. With many municipal services that have a public good element, the private benefits going to any particular individual are difficult to assess, and it can also be difficult to break down the costs of servicing different groups. This makes accountability and visibility that much more important, so that expenditures and investment can be disciplined by how much people actually want to pay for them.

Most commentators concede that the property tax is here to stay in Canada, but this does not mean that substantial improvements cannot be made to reduce some of its distorting characteristics, which municipalities have helped to develop. Provinces have also contributed to the existence of these distortions, and it would indeed be a compelling idea to have provinces withdraw from the field, or give more room to municipalities for property taxation. For example, Ontario's new provincial education property tax inappropriately preserves high taxes on non-residential property in Toronto, rather than levying taxes at a flat rate on all property in the province. In this paper we will remain focused on the municipal role, however.

Improving the Efficiency of Property Taxation:

A major problem of municipal financing in Canada is the over-taxation of business property and the under-taxation of residential property, especially single-owned homes. Differential municipal taxes on the use of property should be the major focus for property tax reform since it affects efficiency, fairness and political accountability. Slack (2002) points out that favouritism toward residential property is an inherent part of the property tax system', and is entrenched enough that reform is stiffly resisted. Instituting property tax reform is problematic since it results in "significant windfall gains and losses for individuals" (Tassonyi 1993, 30), especially given that markets capitalize future expected taxes and services into current property values.

These differential property taxes would be justified if municipal services also varied by the use of property. While there has been limited Canada-wide analysis, several studies have suggested that business property taxes are in excess of the value of municipal services provided to businesses, while residential property taxes are less than municipal services provided to residential property (Kitchen and Slack 1993; KPMG 1995; Hemson 2003). The over-taxation of non-residential property results in tax exportation and tax-base flight, since businesses will relocate where there is a better balance of municipal services and taxes. Tax exportation affects location decisions within regions more heavily than between regions. For instance, a firm may prefer to avoid high non-residential property taxes in the city centre that exceed the municipal services provided, and locate instead in an outlying area where municipal benefits and taxes are better balanced (Slack 2003).

The property tax distortion working against businesses particularly affects their long-term competitiveness, since the property tax on real estate is repeatedly repaid on the same investment (Bish 2003). Just like the federal and provincial capital taxes that have been reduced in recent years, non-residential property taxes that are in excess of municipal service benefits especially hurt businesses in cyclical industries. They must pay the tax regardless of their profitability. Would-be entrepreneurs may remain more satisfied to stay in the regular workforce, or to keep themselves in the informal sector. This will be a contributing factor to lower Canadian productivity since entrepreneurialism is one of the catalysts for innovation and economic growth.

The extent of over-taxation varies within the non-residential category itself. Depending on the province, municipalities have a range of property classes and sub-classes for which they can set rates, within certain constraints. The experience of B.C. offers one example, where the "major industry" property class stands out for its heavy tax burden, which is above and beyond other non-residential property tax rates in B.C. and in Canada (Bish 2003).

Multi-residential units (condominiums are treated as single-occupied housing) routinely face higher tax rates than single-family units, yet it is questionable whether, on a per capita basis, they demand more municipal services. An argument often made for higher taxes on multiple-resident housing and non-residential property is that those owners can deduct their property taxes from income taxes, and so can reasonably face higher property taxes. However, in order to cover the property tax expenditure, property managers and businesses must earn sufficient income that is subject to tax. This tax on income generated by property used in production fully offsets the tax value of the deduction for property taxes. This is no more an advantage than in the case of residential property owners who do not deduct the cost of property taxes but also pay no taxes on the imputed rental income they implicitly earn from their owner-occupied housing.

The over-taxation of business is evidence of the potential harm that can be caused by giving municipalities autonomy in the absence of some limitations on their ability to tax property. The harm arises because political representation is not evenly distributed between different property classes. The majority of municipal voters are residential and do not own businesses, while many businesses are owned primarily by non-residents. The result is that in the short-term it can be politically rewarding to shift the tax burden away from residences (Bish 2003).

Ontario, for its part, has introduced a ”range of fairness” for business taxation, which limits to some degree the over-taxation of non-residential property. In the period 2001 to 2003, Ontario municipalities could not increase levies on commercial, industrial or multi-residential classes if the tax ratio of that class relative to the residential tax rate exceeded the prescribed provincial threshold: 1.98 for commercial property, 2.63 for industrial property and 2.74 for multi-residential property. This provision to limit property tax increases was weakened in 2004 when municipalities were permitted to increase their tax rates on a category by 50 percent of the residential tax rate increase if they were at or above the threshold.

As another example, New Brunswick taxes non-residential properties at a rate of 1.5 times that of residential property, which provides a far more neutral treatment among different property classes than in Ontario.

In a later section, we provide some estimates of the extent to which non-residential property taxes are in excess of the cost of municipal services that would accrue to businesses.

User Fees

User fees are a revenue source that municipalities could exploit better as an efficient and fair source of revenue to fund public expenditures. With user fees, municipalities are better able to determine the demand for their services and residents are more cost-conscious in their demands for those services. User fees might not raise large revenues but instead curb excess demand — the net effect is the same, in that cities become more independent in their financing.

Examples of user fees include toll charges, parking fees and transit fares in managing transportation services. Further, since some residents benefit more from municipal services, the user fee is appropriate to ensure fairness among taxpayers — those who benefit the most from public services pay more to cover the costs for them.

Inevitably, some concern would arise from the impact of higher user fees on people of fixed or low income. But income redistribution should not take place through the pricing of a specific good or service, particularly at the local level. As Kitchen points out, the current system of under-charging for hydro and garbage services amounts to a “subsidy for larger households that use a lot of electricity and water and generate more waste” (Boothe 2003, 29). These subsidies redistribute income, but in a manner that provides more support for the rich than for the poor. Hydro and garbage collection are to a large extent private goods so pricing according to marginal cost is an important principle. Unlike health and education with high per capita costs and significant social and distributive benefits associated with their provision, no compelling arguments exist that society should subsidize lawn maintenance or garbage disposal.

In actual practice, user fees may be set at levels that are too high or too low. High user fees might be set when governments are monopolists in the provision of certain services, such as those related to transportation and protection. Even when fees are set on a partial-recovery basis, the incentives on the part of bureaucrats to keep costs to an efficient level is lacking without competition. On the other hand, user fees may be set too low. For example, accounting costs for depreciation and inventory expenses are under-assessed since such costs are based on historical rather than replacement values (Tassonyi 1993, 24).[2] Further, given that municipalities themselves do not pay corporate income and certain other business taxes, they may inappropriately charge too little for their services.

Social Services

Critics often cite the downloading of services from provinces as a source of fiscal duress for municipalities. Only Ontario, however, has downloaded a significant share of social services and social housing expenditures to its municipalities in recent years, while other provinces have typically centralized social service spending at the provincial level. As a consequence, municipal social expenditures are minimal across the provinces, with the exception of Ontario and, in the case of education, Nova Scotia. In Nova Scotia, the province had assumed responsibility of all health, justice, and social services spending by 2002.

As mentioned above, the Ontario provincial government funds 80 percent of social service program costs and 50 percent of administrative costs through conditional grants. However, social services in Ontario still made up 21 percent of municipal expenditures in 2003. A greater share of the expenditures is better left with the province to both administer and fund, given that economic shocks vary by community and populations move to where social assistance is most generous.

Some exceptions apply and those are social services that depend strongly on local preferences. The best example of this is social housing, since local governments are already heavily involved with zoning and land use planning. Investments in the area of social services are also relatively more stable over time. Even though demand for social housing is related to social assistance policies best

2 In some cases of natural monopoly, such as with electricity or water distribution, a large fixed-cost investment to build and maintain the infrastructure network is required for the provision of the service, while the variable costs of providing the product are relatively small. One pricing scheme in these cases is to have a subscription charge to users of the service, to cover the fixed costs, and an additional price for whatever quantity is consumed (Dewees, 2002, 588). It may be better, though, to think of the subscription charge as something to be incorporated in the property tax, as opposed to a distinct payment. A subscription to a major infrastructure service such as water, sewage, and electricity is more obviously a long-term benefit to a fixed entity, the property, which is capitalized into its value and remains even after business or residential tenants have moved on. Attaching an expensive fixed subscription charge to tenants' initial connections may not accurately reflect the benefit that different users receive either, since heavy users benefit more from the access and receive more consumer surplus.

determined by the province, it is less critical to restore the responsibility for this component back to the province. Other, less costly, social services that could be allocated to either level of government include child care, immigration settlement services, homeless shelters and family and support services. These would need to be examined on a case-by-case basis in Ontario as to which level of government should provide them.

Transfers from Other Levels of Governments

Three rationales exist for transfers made from provinces to municipalities: (i) they bridge the fiscal gap between the responsibilities of municipalities and the limits of their revenue sources, (ii) they promote expenditures on programs that would otherwise be under-funded by municipalities, because of the spillovers which are produced, and (iii) they equalize the fiscal capacities of rich and poor municipalities to provide services.

The fiscal gap is the weakest rationale, since it does not explain why cities would not be better off to raise this revenue themselves through existing or other revenue sources. Financing municipalities through provincial or federal transfers reduces political accountability since the government that spends the money does not need to raise taxes from its voters, who benefit from such spending (Inman 2005). Further, transfers are the least reliable of all municipal revenue sources, and one can argue that municipalities will never be sustainable as long as these revenues are important. The steady reduction in transfers for most provinces in the past couple of decades confirms that cutting transfers as opposed to other programs is often the least politically costly decision for higher levels of government (Boothe 2003, 55).

The case for transfers to support certain public services that generate spillovers benefiting other jurisdictions is also weak. The object of the transfer is to change the price at which a municipal government might provide the service so that they may take into account the benefit accruing to non-residents. However, efficient decision-making will not prevail if transfers distort priorities or the fungible money is used for other purposes. If spillovers are sufficiently important, it would be better if the province (or a regional body) provided the service.

A good example of this has been in the area of transportation, where spending on transit benefits not only residents in a city but those living in surrounding municipalities who commute to work. While a transfer might encourage more spending by a municipality on transportation networks, the decisions made by municipalities will be distorted in other ways. First, if costs are shared, the municipal authorities might be less resistant to rising costs since another government picks up part of the tab. Second, the provincial transfers are paid in part by taxes forthcoming from non-residents who have little say in the administration of the system. A better approach is to establish an elected regional body to handle regional transportation networks which would be funded by taxes or fees to cover its cost. The Vancouver region uses this approach. Political accountability is best achieved through this route.

The use of transfers to equalize fiscal capacities has some merit but suffers from a problem similar to one experienced in federal equalization payments to the provinces. Those municipalities that improve their fortunes through better policies — and by attracting businesses and households with efficiently provided services — are penalized by receiving less equalization.

Federal Involvement in Municipal Infrastructure

In recent years, the federal government has been providing funding for infrastructure projects, including many benefiting municipalities. Under the 2005 budget, the federal government will provide a $5 billion gas-tax transfer to the municipalities to be implemented over the period 2005 to 2010. It will be distributed to the provinces on a per-capita basis, rising to a projected 5 cents per litre (Canada 2005, 171). The NDP-brokered amendment to the 2005 federal budget would also provide the equivalent to a one-cent gas-tax transfer for urban transit that will primarily benefit the larger cities.

An unresolved question is the extent to which municipalities face an infrastructure "deficit" in the next couple of decades. A deficit implies that there is a difference between some optimal amount of infrastructure spending and the current amounts being expended. While it is easy to estimate the current expenditure and compare it to past expenditure, no estimate has been undertaken of the optimal amount of infrastructure needed at the municipal level based on economic benefits and cost calculus.

Too much infrastructure spending could result if municipalities seek gold-plated projects that are expensive to fund — a problem, for example, that arose with Edmonton's public transit system funded in the 1970s by the provincial government. Two reports from the Federation of Canadian Municipalities in 1985 and 1996, which survey city officials, have often been the weak basis for many cited estimates of the cost of bringing Canadian infrastructure back to an "acceptable" standard (Mintz and Roberts 2004). It is possible that cities could damage their bid for more infrastructure spending by basing estimates on wish lists rather than on objective ideas of what is economically justified.

The federal government's involvement in municipal infrastructure planning is not without considerable risk. Infrastructure demands vary quite significantly across the provinces — transportation problems in Saskatchewan's rural economy are quite different from Toronto's urban issues. Provinces are in a better position than the federal government to determine how much tax revenue should be devoted to infrastructure spending, along with other needs like health-care and education. Thus, the federal gas revenue transfer undermines political accountability at the provincial level.

A Strategy for Moving Forward

In order to examine whether or not municipalities have the capacity to resolve the problems described in the previous section, we develop some scenarios that incorporate the appropriate changes to their situation — a reduction in business taxes to match the level of municipal services, an improved design of user fees, reduced municipal expenditures on social services in Ontario, and new federal funding from gas tax revenues. Estimates are provided below as forecasts for the 2006 fiscal year.[3]

Better Matching Property Tax Levels to Benefits of Municipal Services

As discussed previously, municipalities tend to rely too extensively on non-residential property taxes and too little on residential property taxes. Our proposal would reduce the differential between the tax rates applied to residential and non-residential properties to better reflect the municipal services provided. To arrive at an estimate of the differentials, we first estimate how the benefits of municipal services are distributed between residential and non-residential property and then compare that to the amount of municipal taxes that each property class pays (see further discussion on methodology in the appendix). This methodology yields some interesting results on a province-by-province basis.[4]

Alberta seems to have a particularly high level of over-taxation for the non-residential class since it relies on revenues from "business taxation and grants in place" and "franchise and concession contracts," in addition to the usual amount of business property taxation.

New Brunswick stands out as having an unusually low amount of business over-taxation, according to the available municipal financial statistics for 2004. Again, this might reflect a limitation in the way this information is organized, rather than providing a conclusion that there is no over-taxation of non-residential property in New Brunswick. But New Brunswick limits its municipalities to a ratio of 1.5 for non-residential property tax rates to residential rates, which is low in comparison to some other provinces.

In the other provinces, the reduction in non-residential taxation to a level that matches the value of municipal services for non-residential property would result in a loss of municipal revenues. Losses would range from $38 dollars per capita (from a total $834 per capita) in Newfoundland to $196 per capita (from a total $1,876 per capita) in Alberta.

As non-residential property taxes are in excess of municipal benefits, the flip-side is that residential property taxes are less than the cost of municipal services of benefit to households. Many municipalities could therefore consider further increasing residential property taxes to fund their programs rather than resort to non-residential property taxes or a new tax field. This can be a difficult transition, and may have to be implemented with a long-term timetable, something not characteristic of municipal governance.

3 To estimate the effect of various policies, Statistics Canada's Financial Management System (FMS) database is used, which provides the most comparable information existing for the expenditures and revenues of Canadian municipalities.

4 Our standard for assessing the over-taxation of non-residential property is conservative. We do not attempt to force a ratio between benefits and costs similar to the subsidized ratio that exists for residential property. This would require an even greater reduction in non-residential property taxes.

Enhancing the Revenue Potential of User Fees

Greater reliance on user fees will raise more gross revenue or reduce demand, or do some combination of both. In each case, the net effect is that municipalities generate more net revenue for their needs. For analytical simplicity, we assume the case where an increase in user fees results in an increase in gross revenues.

What is the appropriate user fee level? If user fees were set at efficient levels, they would be levied to cover long-run incremental costs in providing the service, with a fixed charge for users to cover fixed costs of supply. This two-part user fee would yield the greatest amount of revenue to the municipality supplying the service, as well as being most fair in application. However, efficiency is not the only criterion in establishing policies. Consideration must be given to administrative and compliance costs — for example, setting toll charges for major roads makes sense but it is more difficult to apply toll schemes to residential streets. Also, governments are monopoly suppliers of some services and cost-recovery user fees could be set too high if governments do not control costs. Further, low-income individuals may have difficulty covering the costs so fees might therefore be set below marginal cost, even if this is not an ideal way to redistribute income. In the end, a tradeoff is involved in setting user fee policy; governments must balance benefits and costs in establishing user fees.

For these reasons, as part of our assessment, we compare the politically chosen user fee policies of the provinces. Our purpose is to establish some reasonable benchmarks for financing. Since the benchmarks are calculated as the proportion of user fees out of expenditures, they are not related to the fiscal capacity of municipalities.[5] Inevitably, the very nature of any benchmark is somewhat arbitrary; but its purpose is to help in a relative comparison, not to give a conclusive and absolute value. We maintain that this approach is better than to have no estimate at all. This approach is also conservative, since it does not attempt to speculate about where to find the balance between benefits and costs in using user fees to finance municipal expenditures. Instead, an attainable goal for user fees is determined by what has already been achieved elsewhere, even if the optimal rate could be higher.

It would not be sufficient to simply compare the average reliance on user fees between provinces, however. We chose a benchmark for an appropriate proportion of revenues from user fees, for a particular program, after considering the various proportions that are already covered by user fees in different provinces. Different municipal programs are more appropriately financed by user fees than others, and the municipalities of different provinces have different patterns of program spending, so the benchmark is set on a program-by-program basis.[6] The chosen

5 Arguably if the municipalities of less affluent provinces are more dependent on transfers from their provincial government, which in turn relies on federal transfers, then they may have less capacity to raise user fee revenues to these levels. However, there is not much evidence that the benefits or drawbacks of fiscal federalism are passed on to municipalities. Provincial transfers to municipalities appear to be more dependent on other factors; for example Ontario's municipalities receive among the highest proportions of transfers out of total revenue, due to their responsibility for social services and transportation.

6 Information on user fees by program is only available through the municipal financial statistics sources of some provinces, and in aggregate the figures do not correspond perfectly to the data ...

proportion is often the highest proportion out of the provinces, unless there is a compelling economic argument for either more or less reliance on user fees.

For instance, user fees for protective services, such as police and fire crews cover 3.5 percent of costs in Quebec, 3.1 percent in Alberta, 10.1 percent in Newfoundland and 2.7 percent in Ontario (see Table 1). We chose the 3.5 percent figure as an ideal benchmark of what is achievable, since it is the highest value, without being an outlier, for how much of the expenditures for this program could be covered by user fees.

As another example, a benchmark for user fees is set at 50 percent for public transit. This is higher than the highest rates of 42 and 41 percent of expenditures that are covered by user fees in Alberta and Ontario, but it is a typical subsidy rate found in Europe for public transport (Brueckner 2003). At one extreme, it is not even clear that any subsidy is always warranted — Hong Kong's transit system is fully funded by users as it earns a profit. The right subsidy for a municipality may depend on innumerable factors such as the externalized costs that are saved by reducing congestion and accidents, for that region's level of traffic. Given the uncertainty of this at a macro scale, a median approach is warranted.

It is true that different municipalities will face different cost structures. For example, larger cities have economies of scale in the provision of some services. This enables them to reduce unit costs and finance a larger proportion of expenditures with user fees. Yet it is speculative to say that this will produce an overall bias at the provincial level, and at least by using proportions of expenditure, there is no pricing of this form that is mandated for any given municipality.

The result is that there is substantial room for improvement in finding the right mix of revenues between user fees and taxes. The municipalities of most provinces do not rely on user fees to the extent that they could. In our 2006 forecast, user fees could undergo an increase of as little as $48 per capita in Ontario and $173 per capita in Quebec (Table 2). Alberta is an exception since user fees already cover 35 percent of municipal expenditures in that province.

It is not a matter, however, of simply raising existing user-pay rates by some fixed percentage. Some user fees should be increasingly relied upon since they can be effective and efficient in accomplishing public policies. We illustrate two areas in more detail.

Waste Collection and Disposal

In recent years, many municipalities have introduced a variety of unit pricing programs, or "pay-as-you-throw" (PAYT) for better waste management (Kelleher et al. 2005). The user-pay approach has included systems where residents pay a fee for garbage bags, using municipally approved tags or bags, or rent containers that are designated for waste disposal.

---

footnote 6 cont'd

...that has been adapted for the FMS. However, the data from provincial sources is only used for determining proportions of user fees to program spending, and the estimated proportion of business over-taxation, rather than for any absolute numbers. Consequently, the use of these proportions with the FMS data should not detract from the overall validity of the analysis.

Table 1: *Enhancing the Revenue Potential of User Fees*

User Fees as a Proportion of Expenditures		Current User Fee Rates					
Expenditure Category	Target Rate	British Columbia	Alberta	Ontario	Quebec	Newfoundland	Nova Scotia
	percent				*percent*		
General government services, expenditures	5		4.7	1.9	2.8	0.4	2.9
Protection of persons and property, expenditures	4		3.1	2.7	3.5	10.1	1.1
Transportation and comm- unication, expenditures (not including public transit)	9	9.4	8.9	4.4		1.9	30.9
Roads and streets, expenditures			7.4	2.9	2.5		
Public transit, expenditures	50		42.3	41.0	1.6		
Health, expenditures[a]	30		42.4	1.2	13.1		117.0
Social services, expenditures			7.5	15.5			
Resource conservation and industrial development, expenditures	15		7.3	7.9			7.3
Environment, expenditures	100		93.7	44.5	64.7	17.8	23.7
Water purification and supply, expenditures		133.8	105.5	47.9			
Sewage collection and disposal, expenditures		98.9	105.8	55.4			
Garbage and waste collection and disposal, expenditures		96.8	66.3	22.1			
Other environmental services, expenditures			88.6				
Recreation and culture, expenditures	40	29.0	21.0	14.5	12.1	16.0	24.6
Housing, expenditures	1		0.7	11.5	27.8		
Regional planning and development, expenditures[b]	90		130.4	21.3	14.6	0.4	7.3
Other expenditures	30		31.6				

Source: Authors' calculations, based on Statistics Canada Financial Management System data.

Notes: [a] Including ambulance services
[b] Includes "Subdivision planning and development," which includes a large amount of user fees in Alberta.

Table 2: *Impact of Policy Initiatives to Improve Municipal Financing Forecasted for the Year 2006*

2006 Forecast	British Columbia	Alberta	Saskatchewan	Manitoba	Ontario	Quebec	New Brunswick	Prince Edward Island	Nova Scotia	Newfoundland
	2005 $, per capita (unless otherwise indicated)									
Increase in User Fees	116	0	67	72	48	173	128	80	139	105
Reduction in Non-Residential Property Taxes	-126	-196	-80	-62	-80	-51	0	-46	-162	-38
Social Serv., realigned to province	2	34	5	2	501	14	0	0	56	2
Transfers, equiv. to social services	-2	-34	-5	-2	-501	-14	0	0	-56	-2
New Federal Transfers, Per Capita	33	27	31	32	33	32	33	31	31	30
New Change in Balance	22	-169	17	42	2	154	161	65	8	97
Additional Infrastructure Req'd (Low Estimate)	64	64	64	64	64	64	64	64	64	64
Adjusted Change in Balance	-41	-233	-46	-22	-62	90	97	1	-56	33
Additional Infrastructure Req'd (High Estimate)	130	130	130	130	130	130	130	130	130	130
Adjusted Change in Balance	-107	-299	-112	-88	-128	25	31	-65	-122	-33
Provincial Change in Balance (2005$), '000s	-41,897	-979,017	-13,519	10,974	-378,052	906,072	96,276	4,637	-21,813	34,664
Social housing, percentage of municipal expenditures	0.7%	0.8%	0.2%	0.5%	6.2%	3.4%	0.1%	0.0%	0.0%	0.5%

Table 2 cont'd on next page

Table 2: *Impact of Policy Initiatives to Improve Municipal Financing Forecasted for the Year 2006 (cont'd)*

TABLE 2: ASSUMPTIONS

	British Columbia	Alberta	Saskatchewan	Manitoba	Ontario	Quebec	New Brunswick	Prince Edward Island	Nova Scotia	Newfoundland
Increase in User Fees	27%	-17%	19%	21%	9%	61%	47%	70%	62%	58%
Reductions in Business Tax Revenue, property and other: (2005 $, '000s)	-456,158	-509,949	-68,619	-61,998	-830,536	-360,079	0	-5,680	-130,270	-17,661
Reductions in Property Tax Revenue Needed to Balance Business Property Benefits and Taxes:	-17%	-30%	-13%	-13%	-8%	-7%	0%	-13%	-21%	-11%

Source: Authors' calculations, based on Statistics Canada Financial Management System data.

These systems are successful in reducing the amount of waste that residents throw away, to varying degrees, and it represents a substantial improvement over the traditional method of financing waste services with flat fees or property taxes. Illegal disposal is possible but this can be managed and has not nearly outweighed the benefits of assessing user fees to cover the various costs of landfill operations, transportation and incineration. Currently, only about 200 user-pay programs operate in Canada, compared to over 5,000 in the United States, which cover 20 percent of the US population (Kelleher et al. 2005). According to provincially available figures on municipal finances, user charges for garbage and waste collection and disposal are about 22 percent of waste management costs in Ontario, 66 percent in Alberta, and 97 percent in British Columbia. A breakdown was not available for the other provinces.

Public Transit

Although transit to a large extent provides private benefits to users, important social benefits are realized by reducing congestion on over-used roads and pollution. Some evidence suggests at the same time that subsidies for public transit may contribute to urban sprawl, similar to other transportation subsidies (Brueckner 2003). This occurs because it lowers the private cost of living away from a city centre, even when the social cost of that travel is higher. Although there might be some argument for a higher subsidy for train transit than for roads, large subsidies for urban transportation are not efficient. The best course of action would be to differentiate public transit fares according to zones and time of day. Smart cards would deduct the appropriate amount of fare based on the departure and arrival zone, and whether or not travel occurred during a rush hour. Longer-distance travelers currently benefit more and impose more cost on most transit systems, without paying a higher fare. As well, commuters expect transit systems to have a capacity that is only fully used during peak hours. Further, charges for passes could vary according to other benefits so that, for example, those who obtain both parking and riding benefits would pay more than those who only ride the system.

A successful transit system may depend on keeping fares affordable, but it must also reach a service threshold where enough people consider it accessible and reliable enough to be a viable transportation alternative. In the long term, the ability of a transit system to determine its own course and find reliable funding by raising a significant proportion of its own revenue will be the best strategy.

An Improved Realignment of Expenditure Responsibilities

As discussed, social service spending, outside of social housing and some selected services, is best left to the provinces. Ontario is the only place where this is really an issue with social services comprising 21 percent of total municipal expenditures in 2003; even there, the province covers a large share of the costs. As part of our proposal to improve municipal financing, we allocate the majority of non-housing social services, of which the main component is social assistance, to the provincial level in exchange for an equal reduction in provincial transfers to the municipalities to preserve the provincial budget.

This final step is fiscally neutral for both provinces and municipalities. It allows us to isolate the municipal analysis from complications that would arise from leaving the provinces with a revenue shortfall or windfall. The proposal will also help to fulfill the objectives of promoting more accountability by provincial and municipal governments, and ensuring that government responsibilities lie at the appropriate level.

In Ontario, social spending totals about $190 per capita in 2005 dollars more than the total per capita grants that the province transfers to municipalities. The province could transfer these expenditures to its budget over time if it is willing to accept a budget shortfall or to raise other taxes to cover it. Otherwise, our realignment of expenditure responsibilities could eliminate most social services spending at the municipal level (except for some social services best left to municipalities such as housing).

Is A New Revenue Source Needed?

Under our suggested financial framework, municipalities in most provinces could have a substantially better financial structure, without resorting to a new tax field. Table 2 illustrates the impact of various policies on the per capita revenues received by municipalities, by province. The only significant municipal deficit would be in Alberta, while Ontario's transfers to the municipalities are not large enough to counter-balance a complete shift in social services. These two cases will be further discussed below.

The burden of proof lies with those who would argue that municipalities need new revenue sources. With new revenue sources, there would be greater scope for inefficiencies, higher administration and compliance costs and less accountability to the extent that new tax sources — income, sales or payroll — can be exported onto non-residents. Municipalities have not sufficiently explored the options available to them. McMillan argues with respect to the rapid urbanization after World War II that "cities were not better situated to cope with the demands of rapid population growth then than now and ... they have managed to cope with periodic episodes of rapid growth in the past" (Boothe 2003, 106). Arguably, property taxation, along with other revenue sources currently available to municipalities, may be adequate to meet revenue requirements in the foreseeable future.

The development of additional revenue sources cannot be ruled out, but neither should it be pursued when much room for improvement exists within the reach of municipalities, without further complicating the taxation landscape.

Nor should one think that new revenue sources that are susceptible to the business cycle are a panacea for the ills of municipal taxation. Income and sales taxes in the United States have "introduced considerable instability into municipal revenues and caused serious financial problems during the last economic downturn" (Bish 2003, 26). An income surtax charged at the municipal level would increase the level of income taxation in Canada just at a time when taxation of investments at the corporate and personal level would most hurt Canada's competitiveness. A surtax on a provincial sales tax would result in greater taxation of consumption — a better option than taxing income — but this option makes little sense in provinces with value-added taxes since it would be very costly to operate. It makes even less sense in provinces with poorly designed retail sales taxes. In Ontario for example, almost a third of the tax burden would fall on business intermediate and capital inputs.[7]

The property tax is relatively free of this problem, where "of all taxes paid by Canadians, [it] has been the most stable and the most predictable" (Vander Ploeg 2004, 12). It is the least harmful tax for municipalities to levy since it is more efficient as discussed above. It may also be that the property tax will be less affected by the demographic shift that could slow the growth of the income tax base over time.

There is no way of knowing if a particular tax is worth the cost unless it can be clearly associated with a particular area of services. Even tax-weary Canadians will respond favorably when a tax is appropriate and when accountability is clear. If this link between cost and benefit is obscured, it will help fuel the perception that infrastructure and municipal services are under-provided (Vander Ploeg 2004, 32).

Nonetheless, at the present time, the provinces significantly limit the ability of municipalities to levy user fees and other related charges. Provinces should provide greater flexibility to municipalities to levy their existing taxes and fees so long as certain limitations are in place, such as limiting the ability of a municipality to levy taxes and fees on politically under-represented groups like business owners. Greater flexibility also encourages greater experimentation in the design of user fees and property-related taxes that could improve the financing of municipalities over time. This would truly enhance the "cities agenda" for municipal governments.

A Plan for Alberta and Ontario

Alberta and Ontario stand out from the rest of the provinces for their own respective reasons. Fast-growing Alberta already relies on user fees to a greater extent than the other provinces, so it is not as easy to argue that they can increase emphasis on this revenue source, and still meet the objective of reducing business taxation. Alberta's municipalities would be left with a reasonably substantial shortfall. In Ontario, municipal expenditures on social services are greater than provincial transfers, so a simple reallocation to the province could not be adequately balanced by a reduction in transfers.

Alberta: To improve Alberta's financial structure, the province's municipalities would need additional revenues (or have some expenditure responsibilities transferred to the province). Assuming some additional revenue is needed, two possibilities could be considered. The first would be to make greater use of the

7 Data obtained from Finance Canada for 2002 suggests that the taxes on business inputs in Ontario total $4.6 billion, which is roughly one-third of total collections in that year.

under-used residential property tax field. This would have the advantage of improving accountability since the municipal politicians would need to seek increased resources from their own residents to spend on expenditure priorities. The other alternative is to have a new tax field available to the municipalities: income, sales or payroll.

In our view, the best option would be to increase residential property taxes to provide significant revenues for funding any shortfalls. The current property tax rates are relatively low (historically, and compared to high non-residential property taxes) and the financial position of Alberta's municipalities is fairly robust. This option would also have the previously mentioned benefits of working with the current tax sources. However, we do have one further alternative that is discussed below.

Ontario: Shifting back the whole of social assistance to the provincial government would result in a net burden for the province, because this amount is greater than could be compensated for by reductions in provincial grants. This net burden would have to be covered by a reduction in other provincial expenditures or, alternatively, a realignment of provincial and municipal taxes. In exchange for a complete shift of social assistance and with a reduction in municipal non-residential property taxes, as we recommend, Ontario would have some tax room to increase other taxes to fund new social service responsibilities. For the province this maintains the fiscal neutrality.

Considering Possible Alternatives

We believe that municipalities have adequate tax fields to fund their responsibilities in the provinces. However, some consideration might be given to alternatives, especially in the cases of Ontario, with its remaining social program costs, even after our recommended uploading of services, and Alberta, where fast economic growth is straining municipal finances already reliant on user fees and municipalities are reluctant to raise property taxes on their residences.

One alternative would be further use of excise taxation for funding transportation and tourism (fuel and hotel taxes). But this approach has limitations. For example, Ontario has recently agreed to give hotel, tobacco and entertainment tax fields to municipalities, but it is not clear these limited excise tax fields satisfy the hunger that municipal politicians have for more fiscal flexibility. Moreover, distortions can result: these tax fields are welcomed by municipal politicians since they are politically easy to levy, given that either non-residents pay the tax or they are regarded as "sin" taxes.

If an additional tax field is given to municipalities, it would be best to ensure that the principles we have enunciated are applied in its selection. We particularly emphasize efficiency, the cost of compliance and administration and political accountability. Using these criteria, any new tax field should be one paid by the municipal residents themselves, since the taxes are less subject to tax exportation and tax competition, and ensure better political accountability.

Accordingly, another alternative is an "earned income" tax on residents, although we view it as inferior to relying on residential property taxes and user fees. Such an earned income tax would apply to employment and self-employed earnings of residents.[8] Like consumption taxes, the advantage of the earned income tax is that it would be efficient and fair by not disadvantaging savers. It is especially important in an aging society to allow people to accumulate wealth more quickly, thus providing resources for their retirement. Further, the tax could be collected by the province through the regular income tax form. The rate could be chosen by the municipality with a restriction imposed by the province on its level and perhaps an exemption for low-income households. The one drawback associated with this tax is that residents could avoid the tax if they receive labour compensation through dividends from incorporated businesses. Any earned income tax would also need to be levied at a relatively low rate.

In Table 3 below, we show that a 1-percent earned income municipal tax would yield $6.2 billion across all provinces. It would provide a growing source of revenue for the municipalities if it were chosen as an additional tax field. Nevertheless, however attractive this new field might be for cash-strapped cities, our analysis suggests that there is enough room in the current tax fields available for cities to meet their fiscal needs.

Conclusion

Municipal governments need a better financing structure. They rely too much on non-residential property taxes and intergovernmental transfers that may distort their decisions. They rely too little on residential property taxes and user fees. In Ontario, municipalities are responsible for social assistance programs that are best administered by the province. After an analysis of the flows of revenues and expenditures, we conclude that better municipal financing could be achieved without resorting to new tax fields allocated to the municipalities. Instead, we argue that municipal governments can improve their financial structure with more limited, but nevertheless, effective measures. In Ontario, this would entail social services being transferred from municipalities to the province (with an offset in provincial transfers to municipalities). Across Canada, this would entail municipalities shifting from non-residential property taxes to greater reliance on residential property taxation and user fees.

Making greater, smarter use of current tax fields is our preferred option for meeting the fiscal needs of cities. However, we acknowledge that municipalities in Ontario and Alberta are special cases that could warrant consideration of a new tax field — an earned income tax.

Municipalities also need more independence in their fiscal decisions, for instance in their ability to levy property taxes, development charges and user fees. Certainly, provinces could provide some greater flexibility to municipalities to levy fees in a manner that they wish. But those communities should first be held to account on two scores: they should limit the tax burdens they place on non-residents, and forgo their over-taxation of the non-residential sector.

8 Pension and RRSP withdrawals could be included as part of earned income but this would require that contributions to plans should be deducted from earned income.

Table 3: *Revenue Generated by a 1 Percent Tax on Earned Income, Canada, 2005*

	Household Net Income Group (*dollars*)								
	Min-15,000	15,001-30,000	30,001-45,000	45,001-60,000	60,001-75,000	75,001-100,000	100,001-Max	All	Potential Revenue
	Dollars Per Household								*Milions of Dollars*
Newfoundland	65	61	176	293	381	499	1025	139	72.9
Prince Edward Island	80	85	167	248	358	419	867	143	20.3
Nova Scotia	76	73	175	290	392	540	859	154	146.0
New Brunswick	72	73	181	306	382	486	855	146	109.6
Quebec	86	95	201	313	417	543	944	181	1,350.1
Ontario	106	79	184	315	417	526	962	209	2,628.4
Manitoba	86	77	200	315	393	512	970	174	193.5
Saskatchewan	83	81	190	343	380	504	978	174	170.4
Alberta	106	88	229	326	443	556	1159	244	776.2
British Columbia	84	87	180	266	427	573	946	177	759.5
All	95	85	192	308	417	537	982	195	6,226.8

Source: Simulations prepared by Finn Poschmann using Statistics Canada's Social Policy Simulation Database and Model, Release 10.2; responsibility for the results and their interpretation lies with the authors.

Appendix: Methodology for Estimating the Municipal Over-Taxation of Non-Residential Property

This appendix describes the methodology used to estimate the excess of non-residential property taxes over the value of services that could be attributed to the non-residential sector. For this purpose, we use Statistics Canada's Financial Management System (FMS) data and provincial databases of municipal financial statistics. The FMS data provides a core set of relatively cross-province-consistent figures which can be compared between provinces. The provincial figures give a breakdown by property class, which allows for further calculations; unfortunately the FMS data itself does not provide a breakdown of tax revenue by property class.

We consider excess non-residential taxation to be that amount by which municipal non-residential taxation exceeds the estimated benefits of municipal services to the non-residential sector. After calculating excess taxation as a proportion of the total property tax bill, it can then be used to adjust the amount of revenues in the FMS database for what municipalities would lose if they were to correct that over-taxation.

A large-scale analysis introduces difficulty in comparing results between provinces since municipalities will have different practices with respect to assessment, property classification, grants and exemptions. Comparisons between the provinces should thus be made with caution, but this *Commentary* should offer a reasonable first-order approximation of the types of differences in municipal financing between provinces, and it reveals a definite feature of non-residential over-taxation. All figures that are eventually presented in dollar amounts are derived from FMS data, while provincial databases allow for a *proportionate* estimate of the ratio of non-residential over-taxation out of total property taxation. No attempt is made to compare tax rates alone, since these will not account for many other differences in assessment.

Part of the rationale for higher taxes on business property is that they might require more services in relation to their assessed value than do residential properties, for instance, if they attract consumers from outside the municipality, who place demand on the municipality's services. To estimate how much over-taxation is taking place, one has to account for the differential level of services that may be provided to different property classes, and relate that to how much in municipal tax is paid by that respective property class. We follow a similar methodology to that employed by KPMG (1994), Kitchen and Slack (1993), and Hemson (2003), although it is adapted to the particular limitations that exist with the available provincial databases for municipal financial statistics. This methodology may not be ideal, but we contend that this is a better practical alternative to no methodology at all.

No detailed data exist on how much of a municipality's expenditures benefit which property classes. Provincial municipal financial statistics and the FMS do, however, break down expenditures according to program. At the program level, the distribution of benefits among property classes can be estimated with relatively more accuracy. For instance, recreation programs and public libraries will mostly benefit residences on a direct level, even if the entire community benefits indirectly. Transportation infrastructure is a benefit for non-work travel, pure business travel, and for commuting, and, correspondingly, its benefits are shared among residential and non-residential classes. This exercise requires several assumptions in regard to these different programs; yet the conclusion should be reliable as long as there is no overall bias in estimating the benefits to each type of property class.

Every program expenditure amount is first adjusted for the amount of own-program revenues, in the form of sales charges, and a weighted average of other non-tax revenue sources, such as transfers. This allows the costs and benefits to balance as much as possible, for ease of comparison. We then multiply each program's expenditure by the respective proportion for that program that serves either residential or non-residential classes. Totaling these results across all programs gives an approximation of benefits by property class (Example A).

Example A:

Non-Residential Benefits = Σ i=1 to n (Program$_i$ expenditures — program$_i$ sales charges — weighted average of non-tax revenue sources) x (Proportion of program that benefits the non-residential sector.)

Other assumptions are that we attempt to consider the benefits of immediate consumers rather than ultimate beneficiaries; administrative services are estimated to benefit residential and non-residential in the same proportions as the overall distribution of benefits from other municipal expenditures; shares of assessment value are often used for services that have a property-based element to them. We do not attempt to include the provincial component of property taxes in the analysis.

Table A.1: *Methodology for Estimating the Municipal Over-Taxation of Non-Residential Property (dollars)*

		British Columbia	Alberta	Ontario	Quebec	New Brunswick	Nova Scotia	Newfoundland
RESIDENTIAL	Assessment	276,516,334,694	155,032,863,807	1,019,887,223,200	280,661,258,484	17,128,201,600	27,190,159,400	11,288,237,104
	Estimated benefits[a]	2,269,585,667	1,133,389,596	8,756,862,262	4,803,113,031	254,667,401	540,066,612	202,019,798
	Property-related taxes paid	1,457,329,680	1,090,912,994	7,503,091,963	4,666,255,103	246,234,872	337,253,641	169,811,536
	Other taxes	170,300,256		293,922,678				
	Net	641,955,731	42,476,602	959,847,621	136,857,928	8,432,529	202,812,971	32,208,262
	Proportion of over-taxation	n/a	n/a	n/a	n/a	n/a	n/a	n/a
NON-RESIDENTIAL	Assessment	57,604,509,886	47,804,564,273	188,377,415,566	74,735,123,947	5,407,120,900	10,380,502,547	3,122,474,800
	Estimated benefits[a]	723,457,513	622,744,904	2,730,528,596	2,221,043,637	117,975,949	237,012,240	86,152,645
	Property-related taxes paid	983,556,593	985,854,793	3,451,292,503	2,713,250,911	118,814,654	276,056,713	118,401,139
	Other taxes	35,477,335	418,486,667	135,199,347			89,759,810	
	Net	-295,576,415	-781,596,556	-855,963,254	-492,207,274	-838,705	-128,804,283	-32,248,493
	Proportion of over-taxation	29.0%	55.7%	23.9%	18.1%	0.7%	35.2%	27.2%
TOTAL TAXATION ATTRIBUTABLE TO NON-RESIDENTIAL OVER-TAXATION		11.2%	31.3%	7.5%	6.7%	0.2%	18.3%	11.2%

Source: Authors' calculations, based on the provinces' municipal financial databases.

Note: [a] Net of user fees and other (weighted) revenue sources.

References

Aedes, A., and E. Glaeser. 1995, "Trade and Circuses: Explaining Urban Giants." *Quarterly Journal of Economics,* 110 (1): 195-228.

Bird, Richard M., and Enid Slack. 1981. "Can property taxes be reformed? Reflections on the Ontario experience." Canadian Public Administration/Administration Publique du Canada. 24:469-85. November.

Bird, Richard M., and Thomas Tsiopoulus. 1997. "User Charges for Public Services: Potential and Problems." *Canadian Tax Journal*, 45(1).

Bird, Richard M., and Almos Tassonyi. 2001. "Constraints on Provincial and Municipal Borrowing in Canada: Markets, Rules, and Norms." *Canadian Public Administration.* 44(1): 84-109.

Bird, Richard M., and Thomas A. Wilson. 2003. "A Tax Strategy for Ontario." Paper prepared for the Panel on the Role of Government in Ontario.

Bird, Richard M., and Enid Slack, eds. 2004. *International Handbook on Land and Property Taxes.* Edward Elgar.

———. 2004. "Fiscal Aspects of Metropolitan Governance." *ITP Paper # 0401*. Toronto: International Tax Program. January.

Bish, Robert L. 2003. "Property Taxes on Business and Industrial Property in British Columbia: Comparisons and Business Climate Observations." Working Paper #11. Local Government Institute School of Public Administration, University of Victoria. October 23.

Boothe, Paul. 2003. *Paying for Cities: The Search for Sustainable Municipal Revenues.* Edmonton: University of Alberta, Institute for Public Economics.

Brueckner, Jan K. 2003. "Transport Subsidies, System Choice, and Urban Sprawl." Working Paper 1090, CESIfo, Munich, Germany.

Canada. 2005. "The Budget Plan 2005." Department of Finance Canada. Ottawa.

Chernick, Howard, and Olesya Tkacheva. 2002. "The Commuter Tax and the Fiscal Cost of Commuters in New York City." *State Tax Notes* 25(6): 451-56.

Chernick, Howard. 2002. "The Effect of Commuters on the Fiscal Costs of the District of Columbia." December, mimeograph.

Dahlby, Bev, and Dagmar Dyck. 2002. "Alberta and the Provincialization of the Canadian Fiscal System." In B.Dahlby, *Alberta's Fiscal Frontiers: The O'Brien Years and Beyond*. Edmonton: University of Alberta Institute for Public Economics.

Davies, James B., France St-Hilaire and John Whalley (1984), "Some Calculations of Lifetime Tax Incidence." *American Economic Review*, 74(4): 633-49.

Dewees, Donald N. 2002. "Pricing Municipal Services: The Economics of User Fees." *Canadian Tax Journal.* 50(2): 586-599.

Doumani, Robert G. 2002. "Municipal Revenue Sources: Ontario's Experience with User and Licence Fees." *Canadian Tax Journal*. 50(2): 600-605.

Erard, Brian. 1997. "A Critical Review of the Empirical Research on Canadian Tax Compliance," Working Paper 97-6. Report of the Technical Committee on Business Taxation. Ottawa: Department of Finance.

Feldstein, Martin, and Marian Vaillant Wrobel. 1998. "Can State Taxes Redistribute Income?" *Journal of Public Economics*, vol. 68, no. 3, June 1998: 369-96.

Fortin, M., Enid Slack and Harry Kitchen. 2001. "Financing Water Infrastructure." A study commissioned by the Walkerton Inquiry.

Haughwout, Andrew, Robert Inman, Steven Craig, and Thomas Luce. 2000. "Local Revenue Hills: A General Equilibrium Specification with Evidence from Four US Cities." NBER Working Paper no. 7603. Cambridge: NBER, March.

Hemson Consulting. 2003. "Toronto Office Buildings, Analysis of Municipal Revenue and Costs." Toronto: Canadian Institute of Public and Private Real Estate Companies. Toronto. October.

Hobson, Paul, David Cameron, and Wade Locke. 2005. "A Question of Balance- An assessment of the State of Local Government in Nova Scotia." A Discussion Paper Prepared for the union of Nova Scotia Municipalities.

Inman, Robert P. 2005. "Financing Cities." NBER Working Paper 11203.

Kitchen, Harry M., and Enid Slack. 1993. "Business Property Taxation." Government and Competitiveness Project Discussion Paper no. 93-24. Kingston, Ont.: Queen's University School of Policy Studies: 24-30.

Kitchen, Harry M., and Enid Slack. 2003. "New Finance Options for Municipal Governments." *Canadian Tax Journal*. 51(6): 2215-2275.

Kitchen, Harry M. 2004. "Financing City Services: A Prescription for the Future." *The AIMS Urban Futures Series, Paper* #3. Halifax: The Atlantic Institute for Market Studies. September.

Kneebone, Ronald, and Kenneth McKenzie. 2003. "Removing the Shackles." In Boothe, Paul. 2003. *Paying for Cities: The Search for Sustainable Municipal Revenues.* Edmonton: University of Alberta, Institute for Public Economics.

KPMG. 1995. "Study of Consumption of Tax Supported City Services." Report prepared for the City of Vancouver.

Krugman, Paul. 1991. "Increasing returns and Economic Geography." *Journal of Political Economy*. 99:483-499.

Mallett, Ted, and Minali Prem. 2003. "Paying Down the Property Tax Overdraft: A Progress Report on Municipal Taxation Practices in 66 Ontario Municipalities, 2000 to 2002." Canadian Federation of Independent Business. August.

McMillan, Melville L. 2003. "Municipal Relations with the Federal and Provincial Governments: A Fiscal Perspective." Paper prepared for Municipal-Federal Provincial Relations: New Structures/New Connections, a conference sponsored by Queen's University, School of Policy Studies, Institute of Intergovernmental Relations, May 9-10.

McMillan, Melville L. 2003. "What Have We Learned." In Boothe, Paul. 2003. *Paying for Cities: The Search for Sustainable Municipal Revenues.* Edmonton: University of Alberta, Institute for Public Economics.

Ontario. 1993. "Fair Taxation in a Changing World." Ontario Fair Tax Commission. Toronto: University of Toronto Press.

Rosen, Harvey S., Paul Boothe, Bev Dahlby and Roger S. Smith. 1998. *Public Finance in Canada*. McGraw-Hill Ryerson, Toronto.

Slack, Enid. 2000. "Understanding the Evolution of Property Tax Policy." — A paper prepared for 2001 — A Property Tax Odyssey. 34th Annual National Workshop, Canadian Property Tax Association Inc. The Chateau Laurier, Ottawa, Ontario October.

Slack, Enid. 2002. "Property Tax Reform in Ontario: What Have We Learned?" *Canadian Tax Journal*. 50(2):576-585.

Slack, Enid. 2003. "Are Ontario Cities at a Competitive Disadvantage Compared to U.S. Cities? A Comparison of Responsibilities and Revenues in Selected Cities." A Report prepared for the Institute for Competitiveness & Prosperity. Toronto: ICP. June.

Tassonyi, Almos. 1993. "Shared Tax Bases and Local Public Expenditure Decisions." *Canadian Tax Journal* 41(5):941-957.

——— 1993. "The Benefits Rationale and the Services Provided by Local Government." The Fair Tax Commission. Toronto: Queen's Printer for Ontario.

TD Bank Financial Group. 2004. "Mind the Gap: Finding the Money to Upgrade Canada's Aging Infrastructure." Toronto: TD Bank Financial Group.

Tiebout, Charles M. 1956. "A Pure Theory of Local Expenditures." *Journal of Political Economy* 64: 416-424. October.

Vander Ploeg, Casey. 2004. "Straight Talk: Property Taxes in Western Canada's Big Six." *Western Cities Project Report #33*. Canada West Foundation. October.

Recent C.D. Howe Institute Publications

February 2006	Baker, Michael, Jonathan Gruber and Kevin Milligan. *What Can We Learn from Quebec's Universal Childcare Program?* C.D. Howe Institute e-brief.
January 2006	Chen, Duanjie and Jack M. Mintz. *Ranking the Parties' Tax-Cut Promises*. C.D. Howe Institute e-brief.
January 2006	Harris, Richard G., Stephen T. Easton and Nicolas Schmitt. *Brains on the Move: Essays on Human Capital Mobility in a Globalizing World and Implications for the Canadian Economy*. Policy Study 42.
January 2006	Laidler, David and William Robson. *Two Economies, One Exchange Rate: How the Bank of Canada Should React to the High Canadian Dollar.* C.D. Howe Institute e-brief.
January 2006	Robson, William B.P. *Out of Control: Reining in Soaring Federal Spending is a Critical Task for the Next Parliament*. C.D. Howe Institute e-brief.
December 2005	Poschmann, Finn and Stephen Tapp. *Squeezing Gaps Shut: Responsible Reforms to Federal-Provincial Fiscal Relations.* C.D. Howe Institute Commentary 225.
December 2005	Quigley, Neil and Margaret Sanderson. *Going Mobile — Slowly: How Wireline Telephone Regulation Slows Cellular Network Development.* C.D. Howe Institute Commentary 222.
December 2005	Barichello, Richard. *Agricultural Trade Disputes Between Canada and the United States: Costly but Diminishing.* C.D. Howe Institute Commentary 224.
December 2005	Oreopoulos, Philip. *Stay in School: New Lessons on the Benefits of Raising the Legal School-Leaving Age.* C.D. Howe Institute Commentary 223.
December 2005	Goldfarb, Danielle. *Canada at the WTO Negotiations: All Defence, No Offence.* C.D. Howe Institute e-brief.
November 2005	Chant, John. *How We Pay Professors and Why It Matters.* C.D. Howe Institute Commentary 221.
October 2005	Laidler, David. *Redirecting Rae: Some Proposals for Postsecondary Education in Ontario.* C.D. Howe Institute Backgrounder 92.
October 2005	Collins, Kirk A. and James B. Davies. *Carrots & Sticks: The Effect of Recent Spending and Tax Changes on the Incentive to Attend University*. C.D. Howe Institute Commentary 220.
October 2005	Auld, Doug. *Selling Postsecondary Education: The Role of Private Vocational and Career Colleges.* C.D. Howe Institute Commentary 219.
October 2005	Milligan, Kevin. *Making It Pay to Work: Improving the Work Incentives in Canada's Public Pension System.* C.D. Howe Institute Commentary 218.
October 2005	Coulombe, Serge and Jean François Tremblay. *Public Investment Skills: Are Canadian Governments Doing Enough?* C.D. Howe Institute Commentary 217.
September 2005	Mintz, Jack. M. with Duanjie Chen, Yvan Guillemette and Finn Poschmann. *The 2005 Tax Competitiveness Report: Unleashing the Canadian Tiger*. C.D. Howe Institute Commentary 216.
August 2005	Guillemette, Yvan. *School Class Size: Smaller Isn't Better*. C.D. Howe Institute Commentary 215.
August 2005	Goldfarb, Danielle. *U.S. Bilateral Free Trade Accords: Why Canada Should Be Cautious About Going the Same Route*. C.D. Howe Institute Commentary 214.
August 2005	Kelleher, Maria, Janet Robins and John Dixie. *Taking Out the Trash: How To Allocate the Costs Fairly*. C.D. Howe Institute Commentary 213.
August 2005	Goldfarb, Danielle. *The Canada-Mexico Conundrum: Finding Common Ground.* C.D. Howe Institute Backgrounder 91.
June 2005	Robson, William B.P. *Reading the Currency Compass: Keeping Monetary Policy on Course Through a Choppy Exchange Rate.* C.D. Howe Institute e-brief.
June 2005	Sikorski, Radek. *Cleaning Up the UN in an Age of U.S. Hegemony*. C.D. Howe Institute Commentary 212.
May 2005	Harris, Richard. *Canada's R&D Deficit — And How To Fix It.* C.D. Howe Institute Commentary 211.
May 2005	Goldfarb, Danielle and William Robson. *Canadian Workers Need the Tools to Do the Job And Keep Pace in the Global Investment Race.* C.D. Howe Institute e-brief.
April 2005	Chen, Duanjie and Jack M. Mintz. *Federal Corporate Tax Cuts Would Lift Canada's Standard of Living.* C.D. Howe Institute e-brief.

C.D. Howe Institute
67 Yonge Street Suite 300
Toronto, Ontario
M5E 1J8