April 2004 Discussion Paper

Accelerating investment for the future prosperity of metropolitan regions: The case of Montreal

Dear Colleagues,

At our February meeting in Toronto, I invited you all to Montreal to discuss the economic growth of Canada's big cities.

We all agree that the revenues from property taxes available to Canadian municipalities are not growing fast enough. Therefore, we must continue working with the federal and provincial governments to find a solution for diversifying municipal revenue sources.

The righteousness of our approach is not in doubt. However, I am also convinced that we must take a more active role in the promotion of economic growth.

With this in mind, I invite you to read this discussion paper. It states the importance of investing steadily in productivity, innovation, the labour force, culture and infrastructure to accelerate the economic growth of our metropolitan regions, provinces and Canada as a whole. More specifically, I suggest that we begin a national effort to improve strategic municipal infrastructure.

In so doing, we would create new wealth that could then be shared through newly diversified revenue sources to which we would agree with our governments.

This is an ambitious project and I look forward to discussing it with you at the National Forum on the Economic Growth of Big Cities in Canada, to be held in Montreal on June 9-11, 2004.

Gérald TREMBLAY
Mayor of Montreal and Chairman of the Montreal Metropolitan Community

In the last few years, municipal associations like the Union des municipalités du Québec and the Federation of Canadian Municipalities initiated talks aimed at establishing new financial agreements with upper levels of government. Many big cities have also suggested a new revenue-sharing model. Following a January 2004 meeting held in Toronto, Canada's ten largest cities issued such a proposal, and Winnipeg came out with its 'New Deal' project in April 2004.

Canadian cities wish to reduce their heavy reliance on property taxes so they can invest more in their citizens' quality of life. They would also like to share in the revenues generated by their communities, which is how many cities in the U.S. operate.

For this to happen, it is vital to articulate a global vision for the development of metropolitan regions and propose a plan for creating new wealth.

To this end, on February 19, 2004, we suggested, at the FCM Big City Mayors' Caucus, to host a National Forum on the Economic Growth of Big Cities in Canada. Scheduled for June 9-11, 2004, in Montreal. This forum will be an opportunity to develop our common position before the upcoming consultations of the Harcourt Committee, whose mandate is to advise the prime minister of Canada on courses of action to support the development of cities.

The forum has two primary aims: first, demonstrate that Canadian city regions are vital to the creation of wealth and, second, find innovative solutions for accelerating this wealth creation through an ambitious economic strategy. This strategy must include a public investment program with stable, long-term funding supported by the federal and provincial governments and municipalities.

The idea behind this new partnership is that city regions, as economic engines of the country, can create new collective wealth that will, in return, generate the revenues needed for ongoing community improvements.

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Rather than further increasing the burden of taxpayers, we wish to demonstrate how we can help produce new wealth and thereby become a partner in growth. This new prosperity would in return attract investment and new jobs, both of which are necessary if the population is to enjoy an enviable standard of living.

The Montreal Metropolitan Community's economic development plan is founded on the aforementioned principles. Its proposed strategy is to identify, organize and activate the region's competitive industrial clusters, introduce measures to develop skilled labour – namely through an increase in immigration, stimulate the metropolitan innovation system, accelerate infrastructure investments and develop a strategy for international promotion.

The purpose of this document is to fuel the discussion in light of the upcoming National Forum on the Economic Growth of Big Cities in Canada. It reiterates the notion that city regions are now major players in the creation of the wealth of nations. It gives, as an example, the ambitious goal for growth set by the Montreal Metropolitan Community and the factors required to successfully achieve it. Two phases of the proposed vision are explained in greater detail: the creation of a new partnership to accelerate public investment and sharing the revenues of this new growth so that they may be reinvested in our communities.

1. City regions: Front-line players generating the new wealth of nations

"With their skilled workers, institutions of higher learning and the capital needed for investment, city regions will continue to drive Canada's transition to the new economy. It is in metropolitan regions that knowledge and creativity converge. These regions offer nearby resources and easy access to global trade networks. They provide the necessary conditions for their constituents to innovate and compete."

Canada's metropolitan regions now represent and produce the bulk of our national wealth. As a result, the nation's economic growth and standard of living both depend on the success of our city regions.

With their skilled workers, institutions of higher learning and the capital needed for investment, city regions will continue to drive Canada's transition to the new economy. It is in metropolitan regions that knowledge and creativity converge. These regions offer nearby resources and easy access to global trade networks. They provide the necessary conditions for their constituents to innovate and compete.

Globalization also means that cities must increasingly redefine their relations with governments and other regions in their province, in Canada and in the world.

Consequently, the economic development strategies implemented by metropolitan regions will determine the future growth of the national economy.

The challenge ahead is to develop a new partnership of elected officials from all levels of government that will create a successful strategy needed to accelerate economic growth and increase the prosperity of our citizens.

It is high time to recognize that the role and responsibilities of city regions have changed and the interdependence of policies means that governments must now become true partners in the long-term cultural, social and economic development of municipalities.

2. The Montreal metropolitan region: An ambitious growth objective

With its 3.43 million inhabitants, the Montreal metropolitan region is Canada's second most populous area, after Toronto. With its low costs, high quality of life and wide range of industrial, cultural, educational and social strengths, Montreal enjoys a diversified, modern and vibrant economy. However, its performance fails to live up to this potential. As of March 2004, Montreal's unemployment rate was still 8.7% versus Toronto's 7.6%.

The Montreal metropolitan region is at a crossroads. It lags well behind its North American counterparts (26 out of 26) and selected OECD regions (44 out of 65) in terms of real GDP per capita. The metropolitan region must prepare a development strategy that will enable it to create new wealth for itself and, consequently, for every region in Quebec and Canada. The time has come to take action.

The Montreal Metropolitan Community is proposing a strategy that will enable the Montreal metropolitan region to rise to 6th place in the ranking of North American regions by the year 2025.

Montreal Metropolitan Community

The Montreal Metropolitan Community (MMC) is a planning, coordinating and funding body serving 63 municipalities, a population of 3.4 million inhabitants, and an area measuring nearly 4,360 km^2. The MMC has jurisdiction in the following fields:

- regional planning
- economic development
- social housing
- facilities, infrastructure, services and activities of metropolitan importance
- metropolitan transport (public transit and the arterial road network)
- waste management
- air quality and wastewater treatment

"This is, without question, an ambitious goal. However, do we really have a choice? The alternative is to continue watching Montreal decline in relation to other North American regions. Since this is obviously not an option, we must work diligently to generate growth and create new wealth that will be better shared."

Table 1

GDP per capita in the 26 largest metropolitan regions (Current US dollars)

	Metropolitan region[1]	2003e	2008p	2025p
1	Boston	51,405	62,542	121,826
2	San Francisco	50,564	61,519	119,833
3	Denver	49,348	60,039	116,950
4	New York	49,006	59,623	116,140
5	Washington	46,508	56,584	110,221
6	**Montreal (targeted rank in 2025)**		**55,000**	**108,000**
6	Dallas	44,909	54,639	106,431
7	Minneapolis	44,599	54,262	105,696
8	San Diego	43,856	53,357	103,935
9	Seattle	43,600	53,046	103,328
10	Atlanta	43,456	52,871	102,988
11	Houston	42,834	52,114	101,513
12	Los Angeles	42,390	51,574	100,461
13	Chicago	42,267	51,424	100,168
14	Philadelphia	41,275	50,217	97,818
15	Phoenix	39,942	48,595	94,659
16	Portland	38,347	46,656	90,880
17	Tampa	37,450	45,564	88,754
18	Pittsburgh	37,082	45,116	87,881
19	Cleveland	36,796	44,768	87,204
20	St. Louis	36,358	44,235	86,165
21	Detroit	36,207	44,052	85,808
22	Toronto	36,002	43,802	85,322
23	Miami	33,123	40,299	78,498
24	Ottawa	32,370	39,383	76,715
25	Vancouver	29,833	36,297	70,703
26	**Montreal (current rank)**	**29,139**	**35,452**	**69,057**

1. Metropolitan statistical areas (MSA) and consolidated metropolitan statistical areas (CMSA) in the United States.

e. estimated. p. projected (at an annual growth rate of 4%).

Source: MMC

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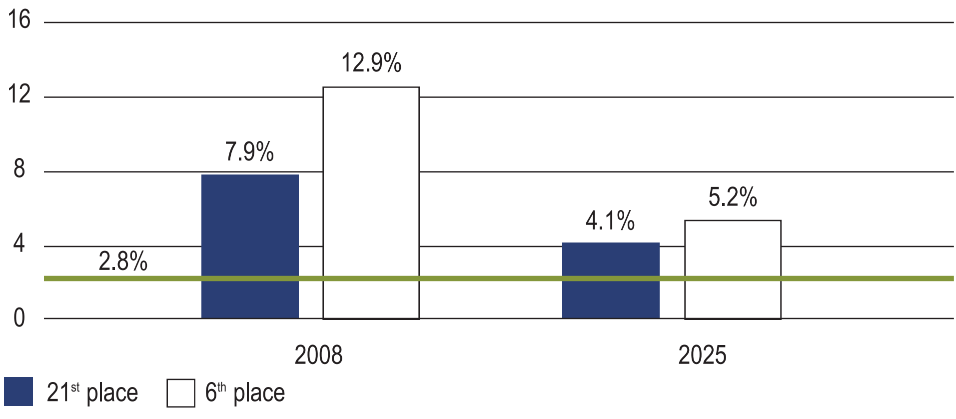
Figure 1

Average annual growth in real GDP required to reach 21st and 6th place



Source: MMC

"To join the ranks of metropolitan regions like Boston, San Francisco, Denver, New York and Washington, Montreal must increase its real GDP by an average of 5.2% per year, until the year 2025. To put this goal into perspective, according to the Conference Board of Canada, Montreal's economy has the potential to grow 2.8% per year between 2002 and 2020. Although ambitious, this goal is attainable if we commit the proper resources."

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Basically, we must surpass our projected growth rate by more than 2% each year, for the next twenty years. In so doing, we would accelerate economic growth, improve our citizens' standard of living and ensure that the metropolitan region fully assumes its role as an economic engine of the country.

Furthermore, as the government of Quebec recently highlighted in *Shine Among the Best*, a document outlining its vision and action priorities, a more dynamic economy would mean significantly higher government revenues. In fact, a 1% jump in GDP represents an additional $400 million in the government's own-source revenues. Therefore, if the Montreal Metropolitan Community, which accounts for 50% of Quebec's economy, reaches its goal of generating an extra 2% in growth, the government of Quebec would receive an annual windfall of $400 million in new own-source revenues. The government of Canada would receive the same amount.

However, to attain this goal, we must first address the problem of productivity. The current demographic context means employment is probably limited, so the true source of economic growth in the next twenty years will be higher productivity. As the OECD noted in its territorial review of Montreal: “If Montreal wants to make inroads into foreign markets and continue to increase local and regional economic growth and employment, it must increase productivity, reinforce existing regional clusters through policies that support innovation, and attract high-skilled talents.”

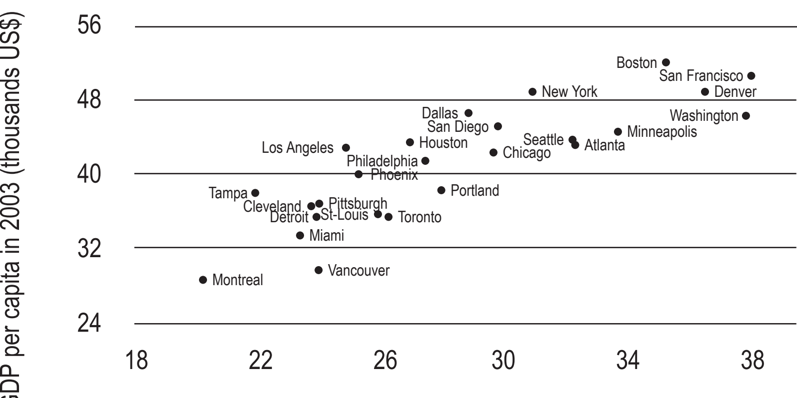
The lacklustre productivity of the Montreal economy can be traced to poor performance in two key areas: education and production factors. The higher a metropolitan region’s productivity, the better is its standard of living. The most productive metropolitan regions in North America, like Boston and San Francisco, are, in fact, those that offer the best standard of living. To rise in the ranking of North American prosperity, Montreal must absolutely increase its productivity.

Educated regions succeed

In the long term, all metropolitan regions must strive for excellence, personified in North America by the metropolitan regions of Boston, San Francisco, Denver and Washington. These regions have the highest standard of living in the continent. Furthermore, their populations are the best educated of any North American metropolitan regions, with the highest percentage of inhabitants aged 25 and more with university degrees (see Figure 2).

Figure 2

Standard of living and education: North American CMAs



Percentage of population aged 25 and older with university degrees in 2000

Source: MMC

The Montreal metropolitan region could start by emulating the metropolitan regions closest to it, such as those in the Midwest - Cleveland, Detroit, Pittsburgh and St. Louis -, which are, like Montreal, former industrial centres that have been forced to reinvent themselves. These metropolitan regions are among the ten with the lowest GDP per capita in North America and all are dogged by a history of low schooling levels. Their elderly populations (people aged 65 and older) are the most poorly educated in the continent. They are all trying to catch up in terms of higher education attainment. The percentage of young adults, ages 25 to 34 years, with university degrees puts them in the middle of the ranking of major North American metropolitan regions. Montreal would do well to follow the lead of Pittsburgh, where schooling levels have risen most rapidly. Pittsburgh also experienced one of the highest increases in standard of living during the 1990s: its GDP per capita grew by 4.8% from 1991 to 2003 in current dollars.

To reach 6th place, Montreal must boost productivity (or GDP per job) by an average of 4.5% per year. By way of comparison, in the past ten years, productivity grew only 1% per year. This is yet another challenging goal. That said, there are many reasons why Montreal should accelerate its productivity faster than what has been forecast. Past investments in information technology should maintain productivity growth. In addition, decreasing population growth should result in a greater use of physical capital. The labour shortage will encourage innovation. Most importantly, however, the factors traditionally associated with the low productivity of Montreal and other Canadian cities are disappearing. The stock of human capital is nearing the average of U.S. cities. Montreal's efforts to raise education levels should start showing results. According to some studies, the average education level of the labour force should rise by 0.7% each year in Canada between now and 2011, while it will rise by only 0.2% in the United States. Moreover, high technology, a sector more productive than the rest of the economy, increased during the 1990s as the Montreal metropolitan region made a name for itself in regional jets, fibre-optic networks, information services and pharmaceutical research. In short, as its workers become increasingly educated and information technologies are used with physical capital to stimulate productivity, Montreal will continue to push its economy closer to the levels enjoyed by other North American cities.

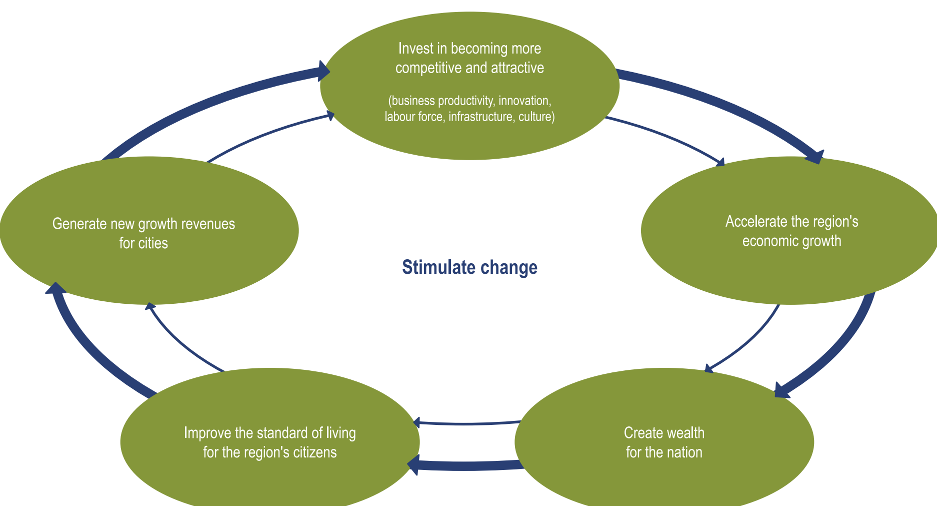
3. Investing to accelerate economic growth

It is increasingly obvious that the regions who successfully accelerate economic growth are those that use effective strategies for economic development and improved attractiveness. These strategies are based on five success factors.

"To begin with, successful regions are those in which all the players in the economy increase investment, either individually or in partnerships, to improve business productivity, innovation, labour force schooling levels and infrastructure."

Figure 3

Success factors of a prosperous metropolitan region



To begin with, successful regions are those in which all the players in the economy increase investment, either individually or in partnerships, to improve business productivity, innovation, labour force schooling levels and infrastructure.

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Without such investment, it is impossible to accelerate the region’s economic growth enough to surpass current forecasts.

This economic acceleration generates new revenues, new wealth for the nation as a whole, and an improved standard of living for citizens.

New national growth revenues are then shared with cities, the economic engines of the country, who reinvest these revenues in their communities.

This cause and effect model thus contains the factors for successfully stimulating change in the minds of all players in the economy.

The model’s starting point is investment in all factors of productivity. In the case of municipalities, the most urgent need is increased infrastructure investment.

The economic development strategies of metropolitan regions will create new wealth only if measures are taken to stimulate the economy. If we want vibrant, attractive metropolitan regions, we must have quality services, distinctive facilities and effective municipal infrastructure when it comes to roads, water and sewer systems and public transit.

Although these services, facilities and infrastructure have a formative effect on our economic development, they do require major investment. In the Montreal metropolitan region, we must invest over $9 billion in the next fifteen years to rebuild our crumbling municipal water mains, sewers and roads. For its part, public transit is expected to require an investment of some $5 billion in the next ten years.

Faced with these urgent needs, Montreal must set up a 15-year infrastructure investment program by the year 2005 that includes three components: (1) the modernization of municipal infrastructure; (2) the consolidation of the metropolitan public transit network; and (3) the deployment of measures to make the region more attractive.

As a result, Canadian municipalities must strike a new partnership with their governments. In the past few years, we have examined the revenue-sharing mechanisms between provincial governments and their municipalities. This is one part of the equation. Now it is time to launch a new investment program aimed at creating wealth. If this first step is successful, then we can discuss sharing new growth revenues.

Such an infrastructure program could be financed by the federal government, by provincial governments and by municipalities. The federal government’s share could be funded primarily by the federal fuel excise tax. As for the Quebec government, the new tax announced in the last budget regarding vehicles with a four-litre engine or more could be reserved for rebuilding infrastructure. The municipal contribution could come from property taxes.

Table 2

Infrastructure investment program to accelerate the economic growth of cities

Partners	Revenue sources	Contributions	
		Current programs	Proposed program
Federal	Fuel excise tax	33 %	
	Other sources to be determined		
Provincial	Vehicle registration fees	33 %	
	Other sources to be determined		
Municipal	Property taxes	33 %	15 %

"Infrastructure programs have considerable economic impact and have always been successful. Furthermore, experience has shown that such programs must be carried out over long periods of time and their tripartite funding must be stable, recurrent and predictable."

This tripartite government investment in infrastructure is akin to private industry investing in machinery and facilities to significantly improve business productivity and, at the same time, create new wealth.

The goal is the same: invest in physical capital, increase productivity, generate new revenues, create jobs, share the profits of growth and then reinvest.

Increasing infrastructure spending means improving business productivity which, in turn, helps generate new growth. Now, more than ever, the country as a whole must turn its attention to rebuilding public infrastructure.

Infrastructure programs have considerable economic impact and have always been successful. Furthermore, experience has shown that such programs must be carried out over long periods of time and their tripartite funding must be stable, recurrent and predictable.

In the Montreal region, an investment program worth $600 million per year of construction would raise Quebec's domestic product by $395 million and create 7,000 jobs. Together, the federal and provincial governments would share new revenues of nearly $60 million ($27 million for the federal government and $32 million for Quebec). Although these revenues are obviously an outcome of the temporary effects of the program, they would be generated throughout the period of investment. At the same time, the economy would receive a boost because businesses would also contribute to new growth.

Boosting investment in public capital has a direct effect on the competitiveness of Canadian businesses. According to Statistics Canada, a $1.00 increase in the net capital stock generates, on average, approximately $0.17 of 'cost saving' producer benefits per year for the business sector.

When this happens, businesses then reinvest an equivalent amount in technologically advanced machinery and facilities to help them make innovations in their production process. With the higher value of the Canadian dollar, businesses will invest more easily because they will save on the cost of machinery since most of it is imported.

Finally, infrastructure projects generate significant externalities, which affect both the quality of life of citizens and innovation. In fact, infrastructure programs usually include a component entitled "testing of new technologies."

4. Sharing the revenues of new growth

"Diversifying the revenue sources of municipalities would compensate for the fact that municipal tax bases react very slowly to economic growth. And Canada's cities would enjoy a revenue structure as diversified as that found in American cities."

Investment in our infrastructure, plus investment in innovation and the labour force, will accelerate regional economic development. For the Montreal metropolitan region, the bet is that GDP would increase even more, leading to new growth revenues that could be shared without increasing the fiscal burden of taxpayers.

With access to revenue sources that grow with the economy, city regions will be able to gradually reduce their dependence on property taxes. While property taxes offer stability, they do not enable cities to take advantage of revenues generated by economic activity. A good example of this is how own-source government revenues evolved from 1995 to 2002. During this period, local administrations saw own-source revenues increase by a paltry 16.9% compared to 40.6% and 35.7% for the federal and provincial governments, respectively. The situation in Quebec is even more alarming: during the same time frame, the Quebec government's own-source revenues increased by 41.4%, compared to only 12.5% for local administrations.

Diversifying the revenue sources of municipalities would compensate for the fact that municipal tax bases react very slowly to economic growth. And Canada's cities would enjoy a revenue structure as diversified as that found in American cities.

The most promising sources of growth revenue are basically corporate income tax, personal income tax, payroll taxes, the Quebec sales tax (QST) and the federal goods and services tax (GST).

Table 3

Estimated Quebec government revenues collected from various sources in the area of the Montreal Metropolitan Community in 2002, 2010 and 2020

	2002	2010 million $	2020
Corporate income tax	122	163	227
Personal income tax	945	1,300	1,856
Payroll tax	613	846	1,218
Sales tax (QST) within the area	312	450	661
Sales tax (QST collected outside QC)	580	835	1,228

Sources: MMC, COB, AMT and SAAQ

It is vital to continue talks with the federal and provincial governments to reach an agreement on the best way to share these new revenues so that we may reinvest in our infrastructure, facilities and services to make Canadian metropolitan regions more competitive, more attractive and more liveable.

The Federation of Canadian Municipalities and the Union des municipalités du Québec have already started talks with the federal and Quebec governments, respectively, to determine which revenue sources could be shared with municipalities and how such revenues would be used. Our vision adds a new twist to these efforts: the notion of immediately accelerating the economic development of cities to create new wealth that could then be shared.

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5. Reinvesting to acquire the means of our ambitions

The model would not be complete without reinvesting growth revenues to create a virtuous circle of prosperity.

We are no longer interested in an approach based on demands; rather, we seek a new partnership where governments, municipalities, businesses and civil society all take on the responsibility of investing to create new wealth and reinvesting to create even more wealth. Investing in prosperity means financing the continuous improvement of our citizens' standard of living.

Each partner in the acceleration of national economic growth must be results-oriented. Metropolitan regions have to create wealth by setting ambitious goals. Businesses must increase productivity. Governments have to maintain balanced budgets without increasing the fiscal burden of taxpayers. By accelerating economic growth, reinvestment should reduce the GDP's relative share of public debt. By increasing government revenues, reinvestment could even increase governments' ability to pay down the debt. As for citizens, they will be the greatest beneficiaries of this new prosperity.

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GV22 BC22

The National Forum on the Economic Growth of Big Cities in Canada will be held in Montreal on June 9-11, 2004. It will bring together the mayors of Canada's 22 largest cities, as well as citizens and business representatives, to discuss possible courses of action for accelerating the economic growth of the country.

FCM Big City Mayors' Caucus

1. Mississauga, Her Worship Mayor Hazel McCallion
2. Ottawa, His Worship Mayor Bob Chiarelli
3. Windsor, His Worship Mayor Eddie Francis
4. Toronto, His Worship Mayor David Miller
5. Gatineau, His Worship Mayor Yves Ducharme
6. Montréal, His Worship Mayor Gérald Tremblay
7. Laval, His Worship Mayor Gilles Vaillancourt
8. Québec, His Worship Mayor Jean-Paul L'Allier
9. Longueuil, His Worship Mayor Jacques Olivier
10. Halifax, His Worship Mayor Peter J. Kelly
11. St. John's, His Worship Mayor Andy Wells
12. Vancouver, His Worship Mayor Larry Campbell
13. Surrey, His Worship Mayor Doug W. McCallum
14. Calgary, His Worship Mayor David Bronconnier
15. Edmonton, His Worship Mayor Bill Smith
16. Regina, His Worship Mayor Pat Fiacco
17. Saskatoon, His Worship Mayor Don Atchison
18. Winnipeg, His Worship Mayor Glen Murray
19. Brampton, Her Worship Mayor Susan Fennell
20. Hamilton, His Worship Mayor Larry Di Ianni
21. Kitchener, His Worship Mayor Carl Zehr
22. London, Her Worship Mayor Anne Marie DeCicco

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This is why future partnership agreements with metropolitan regions must include specific goals and the means for attaining these goals. In addition, there should be mechanisms in place for evaluating the performance of every such agreement.

We owe it to our citizens to succeed. The population must be able to monitor the progress of our actions and see what we have accomplished, together.

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