

**WHO
DOES
WHAT**
SERIES



The Municipal Role In **ECONOMIC DEVELOPMENT**

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

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Executive Summary

Ensuring a growing and vibrant economy is a priority for all orders of government, including municipalities. Changes in the economy, including the rise of globalization and the emergence of new disruptive technologies, have altered government approaches to economic development policy. Alongside tax incentives intended to encourage business to relocate to their community, municipalities also favour cluster strategies to strengthen the competitiveness of cities and city-regions through collaboration across governments, the private sector, universities, and civil society organizations.

The three papers in this report – written by academics and practitioners – examine the role of municipalities in economic development through the perspectives of large cities, small and mid-sized cities, and with respect to innovation policy in particular. They identify where municipalities currently face constraints, how other orders of government can support municipalities, and where intergovernmental cooperation is needed.

Municipalities

Leann Hackman-Carty argues that municipalities are best suited to be local champions for economic development initiatives. She notes that Canada often suffers in comparison with the United States because no order of government takes the lead in coordinating and leading the response to an investment opportunity. Municipalities, Hackman-Carty contends, should be empowered to pursue the best economic development opportunities and to coordinate with other orders of government for necessary support.

All three authors mention fiscal capacity as an obstacle. Shauna Brail points out that attracting investment to a community requires investments in transit, housing, arts and culture, and more. She and Charles Conteh both argue that municipalities require greater financial resources to invest in the infrastructure and services that underpin successful economic development and innovation policy.

Provincial governments

Hackman-Carty observes that provincial governments play a significant, if supportive role in economic development by investing in transit, transportation, education, and health care. Brail further notes the importance of provinces in supporting services that make cities attractive places to invest.

Conteh considers the positive example of New Brunswick, which has decentralized responsibility for economic development to the regional and municipal levels, and could offer a model for other provinces. Brail argues for the importance of incentivizing regional governance, particularly in Ontario, to ensure that economic development policy is undertaken at the appropriate scale.

Federal government

Brail and Conteh both contend that the federal government and federal development agencies have increasingly partnered with municipalities on economic development policy. Brail suggests deepening this work, and cautions against provinces standing in the way of direct federal-municipal partnerships.

Hackman-Carty writes that the federal government supports economic development through establishing international trade agreements, promoting foreign direct investment, administering immigration programs, and protecting intellectual property.

Intergovernmental cooperation

All three authors argue that economic development is necessarily an intergovernmental exercise because of the number of policy areas it touches. Brail notes that the provincial areas of responsibility (such as health care) and federal responsibilities (such as rail and airports) are essential to attract investment and spur innovation. As a result, she recommends an intergovernmental task force that studies, consults, and advises on the best approaches to institutionalizing formal intergovernmental networks focused on supporting innovation-oriented economic development.

Conteh states that economic development policy today is increasingly tied to inter-jurisdictional partnerships centred on ambitious, enterprising, and assertive municipalities. Building on this intergovernmental cooperation, he argues, requires federal and provincial governments to work with small and mid-sized municipalities that may not have the capacity to assert themselves proactively.

About the Who Does What Series

Canadian municipalities play increasingly important roles in addressing the policy challenges that are at the centre of political debate, including addressing climate change, increasing housing affordability, reforming policing, and confronting public health crises. The growing prominence of municipalities, however, has also led to overlapping responsibilities with provinces and the federal government. Such “entanglement” between orders of government has the potential to result in poor coordination and opaque accountability. At the same time, combining the strengths and capabilities of different orders of government – whether in setting policy, convening, funding, or delivering services – can sometimes lead to more effective action.

The Who Does What series gathers academics and practitioners to examine the role municipalities should play in key policy areas, the reforms required to ensure municipalities can deliver on their responsibilities, and the collaboration required among governments to meet the country’s challenges. It is produced by the Institute on Municipal Finance and Governance and the Urban Policy Lab.



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Who Does What: The Municipal Role in Economic Development

Backgrounder: Municipalities and Housing Policy

By Gabriel Eidelman, Tomas Hachard, and Jason Adade

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Economic development is a top priority for municipal leaders in cities large and small.¹ Local governments engage in many forms of economic development policy to spur economic growth and improve the standard of living of residents.

Traditionally, local economic development policy involved designing programs or regulatory frameworks to attract capital investment, incentivize businesses to relocate to local communities, and create employment opportunities. Due to globalization and the emergence of new disruptive technologies, modern economic development policy now also includes supports for entrepreneurs, business retention and expansion (BR+E) strategies, and workforce development programs, as well as cluster strategies to strengthen the competitiveness of cities and city-regions through collaboration across governments, the private sector, universities, and civil society organizations.

This backgrounder provides a brief overview of:

- how economic development is conducted at the local level across the Canada;
- the legal and fiscal constraints municipalities face;
- examples of intergovernmental collaboration and coordination.

How municipalities work independently within legal and fiscal constraints

The Canadian Constitution states that both the federal and provincial governments “are committed to furthering economic development to reduce disparity in opportunities” (Sec. 36.1), but does not explicitly outline a clear division of responsibilities or executive powers related to economic development policy.² Municipalities therefore operate within a broad set of legislative constraints, such as intellectual property and employment laws, that transcend conventional notions of cities as mere “creatures of the provinces.”

For example, as local economies become more reliant on innovation and knowledge-based industries, local economic development professionals must be familiar with federal intellectual property and patent law. Similarly, the proliferation of non-standard employment arrangements (the “gig” economy), as well as the ever-increasing mobility of business functions across the globe, has spurred reviews and reforms of provincial industry and employment standards.

As a result, local governments typically assume a supportive, rather than regulatory, role in economic development policy. A local government may partner with local universities or chambers of commerce, for instance, to support innovation through the creation of local business incubators to help start-ups with training and support programs. Or it may assist businesses in identifying suitable sites for their activities. But generally, local governments have limited ability to alter existing regulations to substantially reduce business operating costs or incentivize major investments in research and development.

Municipalities often wish to provide financial incentives to businesses to secure investment. Yet only some provinces, including New Brunswick, Québec, Ontario, Saskatchewan, Alberta, and British Columbia, allow municipalities to offer property tax incentives for economic development, and often only within certain limits.³

For instance, in Alberta, local governments have access to a community revitalization levy, which allows municipalities to borrow against future property tax revenues to help pay for infrastructure required to spur new development in a specific area. But the levy must be used to support new roads, wastewater systems, and other hard infrastructure that may attract private investment to a designated district.⁴

Similarly, Ontario’s *Planning Act* allows municipalities to designate an area, or the entire municipality, as a community

improvement project area (CIPA). It can then implement a community improvement plan with grants and or loans that can be calculated on a tax increment basis if the municipality chooses.⁵ In Toronto, for example, the entire city is recognized as a CIPA, which enables the City to implement its Imagination, Manufacturing, Innovation, and Technology (IMIT) program citywide. The program supports building construction and building expansions in targeted sectors through a 60 percent grant connected to the increase in the municipal taxes attributable to the eligible development over 10 years.⁶

In Québec, non-residential property owners who invest in their properties can have a certain percentage of their property tax increases reimbursed over five years. This reimbursement applies to properties in certain sectors, such as manufacturing or film and video production.⁷ In British Columbia, municipalities are permitted to completely exempt non-residential property from municipality property taxes under certain conditions.⁸ And most recently, in Ontario, municipalities lobbied for and gained permission to create a small business property tax class to protect and preserve retail on main streets.⁹

Municipalities also work directly with business organizations through Business Improvement Areas (BIAs), or

Local governments typically assume a supportive, rather than regulatory, role in economic development policy.

Business Improvement Districts. BIAs are formal associations of local businesses sanctioned by municipal governments to impose a mandatory, additional tax on local property owners in a designated neighbourhood to pay for economic development initiatives

that supplement public services offered by the City (including business recruitment, crime prevention, and improvements to public space and accessibility).¹⁰ Toronto was the first city in the world to create a BIA, in 1970; there are now more than 500 BIAs across the country.¹¹

Economic development policy is also pursued through regional governance structures involving municipal governments, as Shauna Brail shows in her essay. In Vancouver, economic development is now a function of Metro Vancouver (a regional government made up of 21 municipalities) to minimize competition among municipalities that could harm the overall competitiveness of the city-region.¹² Similarly, in New Brunswick, recently announced governance reforms included an expansion of the mandate of its 12 regional service commissions to include economic development, along with other policy areas.¹³ This extends a trend in New Brunswick towards the

decentralization of economic development responsibilities, as noted by Charles Conteh.

Municipal collaboration with other orders of government

In practice, no single government has the legal or fiscal capacity to lead economic development initiatives unilaterally. The scope of economic development activity necessitates collaboration across all orders of government as well as, increasingly, businesses, academic institutions, and not-for-profit organizations.

It is common for municipalities to prepare strategic economic development plans, either through their own internal departments or through local special-purpose bodies such as the Vancouver Economic Commission, Economic Development Winnipeg Inc., or the Edmonton Economic Development Corporation (now known as Explore Edmonton Co.). Implementing these plans, however, requires the support of provincial and federal governments.

For example, the City of Calgary's economic development strategy calls upon the Government of Alberta to provide funding to support the city's talent accelerator.¹⁴

Moreover, as Brail and Leann Hackman-Carty both point out in their papers, attractive business environments include high-quality transit and transportation services and a skilled labour force, and are affected by policies on intellectual property and immigration set by the provinces and the federal government, as well as initiatives led by provincial and federal departments of economic development and innovation.

In Nova Scotia, for example, local economic development programs outside Halifax are coordinated by eight Regional Enterprise Networks, which bring together neighbouring municipalities and, in some cases First Nations, through intermunicipal services corporations established under the provincial *Municipal Government Act*, with funding matched by the Province.¹⁵ For its part, Halifax is served by a public-private economic development agency known as the Halifax Partnership, which works closely with the Province's business development agency, Nova Scotia Business Inc., as well as its federal counterpart, Invest in Canada.¹⁶

The federal government also plays a significant role in economic development through its seven region-specific development agencies. As Conteh explains, these regional agencies fund economic development programs in partnership with provincial and local governments and work to establish local networks for business growth

and innovation. For example, the City of Toronto funded its Toronto Main Street Recovery and Rebuild program using \$18 million in grants from the Federal Economic Development Agency for Southern Ontario (better known as FedDev Ontario).¹⁷ Similar programs have since been expanded across Ontario, in partnership with the Economic Developers Council of Ontario (EDCO) and the Canadian Urban Institute (CUI).¹⁸

Finally, economic development imperatives have also spurred the creation of intergovernmental bodies such as Montréal International and Toronto Global, which have institutionalized tri-government collaboration to attract foreign investment to city-regions. Montréal International was created in 1996 to build Greater Montréal's international reputation, and attract entrepreneurs, talent, and international students to the region. It continues to be funded by all three orders of government. Similarly, Toronto Global works with provincial and federal partners to attract

global companies interested in expanding to the Toronto region. The region's bid to host Amazon's second international headquarters, for example, included support from the Prime Minister of Canada, the Premier of Ontario, mayors from

more than 10 local and regional municipalities, as well as university leaders.¹⁹

Conclusion

Municipalities have a significant interest in the economic vibrancy of their communities. While limited, their tools to spur innovation and economic development include, in some cases, financial incentives, as well as the ability to create Business Improvement Areas. Beyond that, municipal economic development policy involves collaboration with the private sector on development strategies, with other municipalities on regional plans, and with provinces and the federal government on investment in projects as well as on policy areas such as transit, transportation, and skills development, that are increasingly seen as essential components of an attractive business environment.

In practice, no single government has the legal or fiscal capacity to lead economic development initiatives unilaterally.

Municipalities Should Be Local Champions for Economic Development

By Leann Hackman-Carty

Leann Hackman-Carty is CEO of Economic Developers Alberta

Economic development is about more than creating jobs and increasing commercial and industrial tax revenue. When implemented correctly, economic development improves the economic well-being and quality of life for a community through efforts that include

- retaining businesses and providing resources to help them expand;
- securing new investment;
- preparing residents for new careers connecting them to businesses in need of skilled workers;
- developing economic resilience;
- facilitating relationships among stakeholders.

Much of an economic developer's work can take months or years to come to fruition, but the benefits to a community are worth it. And while most economic development work happens at the local level, long-term success requires partnerships across all orders of government, particularly to obtain resources and support for a program or initiative.

This article aims to clarify how such partnerships should work by identifying where local, provincial/territorial, and federal governments should operate to foster a more sustainable, economically competitive nation.

Go back to first principles

Canadian governments do not regularly ask and answer a fundamental question when it comes to economic development: "What is the core role of each order of government?" As a result, more and more taxpayer money is invested in maintaining government departments, instead of rationalizing core services, reducing red tape and duplication, and funding sustainable, productive grassroots economic development efforts.

It would be wise to go back to first principles. In Canada, all three orders of government have clear constitutional or mandated responsibilities that affect economic development. Box 1 identifies these roles and responsibilities, while limiting

duplication of efforts. It is important to note, Box 1 reflects what *should* be done, not necessarily what *is* being done.

Of the three orders of government, municipalities have the greatest opportunity and ability to promote economic development. They should be the local champions, with provincial and federal governments complementing their work. They know what their community wants and needs. They have the closest relationship with the end customer. They are also acutely aware of the need to bring in additional resources to support their ongoing business expansion and investment attraction activities. (See Charles Conteh's essay for examples of municipally led economic development policies in small and mid-sized cities.)

Ensure that resources are available

Municipalities have the fewest resources of all three orders of government and must spend time and energy convincing their provincial and federal counterparts to provide more accessible funding and investments in local priorities. Not all communities need an innovation accelerator. Not all communities need foreign trade zones or airports. However, all communities need strategic, sustainable economic development.

Provincial and federal governments have a key role to play in economic development by, among other things, promoting foreign direct investment, providing

infrastructure, advancing innovation, and helping develop entrepreneurs. They should not, however, lead or provide hands-on economic development services, unless there is no local champion able or willing to assume this role.

Not all communities need an innovation accelerator. Not all communities need foreign trade zones or airports. However, all communities need strategic, sustainable economic development.

Canadians would be better served if municipalities had more sustainable, adequate funding to identify and champion economic development opportunities locally, with the option of bringing in other orders of government when required. Not only would that arrangement allow municipalities to better fund essential local infrastructure and priorities, but it would also allow them to serve businesses in their communities who want to employ people, pay taxes, and improve the quality of life in our communities.

While this sounds easy to do, it is not. Let's be honest. Some government departments and programs have been established purely as a political exercise to reward or influence future voters, not because the programs are needed. If you look at federal and provincial government department listings in any given region, you will see a lot of economic development-related services, and no doubt duplication as

Box 1: Government roles and responsibilities in economic development

Municipal government

- Serving as local champion and the first point of contact with:
 - business owners planning to expand their ventures
 - local entrepreneurs intending to establish a business
 - educational institutions and others looking to develop the local workforce
 - residents concerned with existing or new developments
 - potential investors who want to learn more about the community
- Triaging the investment process by bringing together key stakeholders to understand immediate and long-term investor needs and requirements
- Fast-tracking the development process and permitting applications
- Providing marketing assistance from the local economic development office
- Identifying settlement services for new employees and employers (for example, by hosting job fairs or providing interim space)
- Deferring off-site levies for developers
- Providing business access to provincial/territorial or federal funding for a feasibility study or research project
- Facilitating local government procurement opportunities for businesses operating in their jurisdiction
- Establishing foreign trade tariff-free zones
- Offering research and development tax incentives

Provincial/territorial government

- Advancing regional land use planning
- Investing in transportation, transit, and infrastructure
- Enhancing rural economic development, including support for regional economic development alliances
- Operating international trade offices to promote provincial trade, tourism, and investment opportunities
- Managing and advancing non-renewable and renewable natural resource development
- Promoting resilience through mandating community disaster preparedness and recovery strategies
- Facilitating provincial/territorial government procurement opportunities for businesses operating in their jurisdiction
- Providing predictable, sustainable investments in provincial health and education systems

Federal government

- Establishing international trade agreements, rules, and regulations
- Operating foreign trade offices abroad
- Promoting foreign direct investments that do not injure national security
- Establishing competitive tariffs and tax credits for products, services, and research and development
- Supporting workforce and entrepreneur development programs
- Funding provincial/territorial health, education, and regional economic diversification programs
- Establishing and monitoring national safety standards, certifications, and regulations
- Implementing a competitive tax regime for business and investment
- Administering immigration programs
- Creating a national disaster recovery framework that encourages and supports investments in community economic resilience
- Supporting Indigenous economic development programs and services
- Protecting intellectual property
- Facilitating federal government procurement opportunities for Canadian businesses
- Investing in a national transportation network to facilitate the smooth, safe movement of goods and services

well. Over time, various departments have grown, morphed, and been tweaked by various political parties in power. Unfortunately, the result is the inefficient use of limited taxpayer dollars and confusion about who is ultimately responsible for getting economic development opportunities across the finish line.

Wanted: Local champions

If we are to become a more competitive country, region, and/or community, we must ask hard questions about who does what and who takes the lead on economic development and make tough decisions based on the answers to those questions. A recent personal example illustrates where I think we need to go as a country.

A few months ago, I had the opportunity to pitch a significant investment opportunity to a community in Canada and in the United States. As someone who has spent my entire life in the economic development field in some capacity, I was astounded at the drastic difference between the two responses.

In the Canadian example, while all three orders of government regularly talk about economic diversification and innovation, none of them stepped up to champion this significant diversification and investment opportunity. Nobody felt responsible to take the lead, or truly understand the investor. The investor took note.

On the other hand, the American community immediately appointed a local champion to bring together stakeholders who could potentially be involved with the investment. This champion quarterbacked the opportunity by coordinating an initial meeting between the interested investor and all relevant government, non-profit, and private-sector stakeholders. The goals for the initial meeting were to hear the investor's story once, identify the types of support and incentives the broader community could provide, and propose a comprehensive response aimed at securing the investment. It should be no surprise which community received the investment.

The difference between these two responses is clear. The American economic development group was *customer* focused. The Canadian group was *organizationally* focused. That explains why our American counterparts continue to realize much greater success when it comes to fostering community investment, economic recovery, and resiliency.

Unfortunately, Canada continues to invest limited taxpayer dollars in building government-centric economic development departments, instead of designing customer-centric programs for investors, businesses, and entrepreneurs. The latter are the real innovators, job creators, and economic engines of growth in our communities.

Conclusion

I am a firm believer that real economic development happens in our homes, garages, basements, schools, and coffee shops. We need to streamline our finite public resources to accelerate innovation and entrepreneurialism in our communities. We need to learn from other communities about how to best serve our customers. We

need to understand how to engage the levers at our disposal to accelerate business ideas to position them for widespread commercialization and expansion. This means we may have to do things differently. It means we must allow our local communities to set local priorities. Finally, it means

our provincial/territorial and federal governments must rethink their specific roles in economic development.

Ultimately, all Canadians want to live in a more prosperous, resilient community, region, and country. Achieving that outcome will require a drastic realignment of economic development resources and responsibilities. However, successful realignment in this area could unleash great potential across this nation in entrepreneurship, innovation, economic diversification, foreign direct investment, productivity, and competitiveness. (See Shauna Brail's essay for more on innovation.)

Isn't this potential gain worth the pain it will take to get there? Only time will tell if the political and administrative will is there. If it is not, we will continue to lose to nations that understand what it takes to do economic development successfully. If it is, our country, communities, businesses, and taxpayers will be the clear winners in the end.

The American economic development group was customer focused. The Canadian group was organizationally focused. That explains why our American counterparts continue to realize much greater success when it comes to fostering community investment, economic recovery, and resiliency.

Innovation: Improve Intergovernmental Cooperation to Support Municipal Leadership

By Shauna Brail

Shauna Brail is an Associate Professor at the Institute for Management & Innovation, University of Toronto Mississauga

The connection between economic development and innovation is both recognized and fraught with challenges. On the one hand, innovation is understood to be a driver of investment, industrial development, and job growth.²⁰ At the same time, innovation contributes to negative externalities when left unchecked.²¹ Cities, as the economic engines of Canada, are both the beneficiaries of innovation-led economic development and the arbiters of innovation gone awry. This paper highlights the connection between urban economic development and innovation in cities, underscores key challenges faced by municipal governments, and underlines the importance of intergovernmental cooperation for innovation policy.

Economic development, innovation, and cities

There is a longstanding association between economic development and innovation. Researchers theorize that the clustering or concentration of knowledge-intensive industries drives economic growth.²² Importantly, an entire innovation ecosystem – comprising firms, associations, institutions, governments, and people – underlies successful examples of economic development and innovation.²³

Together, these elements create an environment in which the whole is greater than the sum of the individual parts. Concentration of innovative activity, for instance, leads to additional investment, firm creation and growth, jobs, and economic prosperity. As Sharon Zukin writes, “building a city’s ‘innovation complex’ requires material structures of buildings and land, social structures to train a workforce, and financial mechanisms to integrate public- and private-sector capital investment and direct it toward tech production.”²⁴ While the enduring impacts of COVID-19 on cities remain uncertain, especially with respect to the location of work, there are strong signals that cities will continue to be pre-eminent sites of concentration and innovation.²⁵ Cities are central to the economic growth of regions precisely because of the role they play in driving processes of innovation, technological change, and adaptation.²⁶ Canadian city-regions are home to many examples of innovation-led industry clusters:

- Montréal is known for pharmaceuticals and artificial intelligence;
- Ottawa has a history in communication technologies;
- the Toronto region hosts automotive, life sciences, and fintech clusters;
- Edmonton has grown its innovation-oriented efforts with respect to agriculture and energy;
- Vancouver has established strengths in video games, interactive media, and clean tech.

While recognizing that innovation can lead to economic opportunity, it is also important to acknowledge that tech-led growth can have significant implications for urban life – including placing pressure on housing markets, wages, and access to urban amenities.

Concentration of innovative activity, for instance, leads to additional investment, firm creation and growth, jobs, and economic prosperity.

Commercial real estate firm CBRE reports annually on Canadian cities relative to top centres for technology talent across North America and notes that the “relatively small share of the total workforce (employed in tech) has an outsized impact on real estate markets and the economy.”²⁷ One academic study found

that in San Francisco, house prices increased by a premium of 7.1 percent over 2 years when located adjacent to an arriving tech company’s office space.²⁸

Municipal governance challenges

The opportunities and challenges noted above point to two key elements of municipal innovation policy: firm attraction and land use planning. In Canada, provincial governments have authority over the powers and revenue sources of municipal governments, meaning these two elements are, by necessity, intergovernmental in nature.

Attracting and retaining innovative sectors, firms, and jobs

Financial incentives are a traditional type of economic development tool used by local, regional, and sometimes national governments to lure or retain desirable firms or sectors. In Canada, municipalities need provincial permission to offer property tax incentives, including reductions and exemptions. Some provinces – including Alberta, British Columbia, New Brunswick, Québec, Saskatchewan, and Ontario – allow these incentives to varying degrees.²⁹

While seemingly enticing, a growing body of evidence suggests that financial incentives do not make sense as an economic development tool.³⁰ This is especially true of large firms, for which incentives may become a form of unneeded public subsidy, who tend to not achieve full job creation

targets, and may encourage intraregional competition. Additionally, incentives can encourage firms to move, chasing one subsidy to the next, thereby reducing the prospect of long-term local economic benefits. Finally, incentives do not always lead to the promised results. In 2018, an incentive package worth US \$2.85 billion was offered by the State of Wisconsin to advanced manufacturing firm Foxconn in exchange for a commitment to invest \$10 billion and create 13,000 jobs near Milwaukee. Neither outcome materialized.³¹

Counter to the use of financial incentives, many cities now recognize that a city that is enjoyable to live in is also a desirable place for innovative firms to locate. Therefore, some economic development strategies focus on what are broadly referred to as “urban amenities.” These include infrastructure and services that municipalities are largely responsible for, such as parks, libraries, public transit, road networks, walking and cycling paths, and public Wifi networks.

Amenities under the purview of other orders of government can also help attract and retain innovation-oriented investments, firms, and people when concentrated in cities. These include specialized health care services (provincial), educational institutions (provincial), and international airports as well as rail and highway connectivity (federal). As a result, this form of attracting and retaining firms requires significant intergovernmental coordination.

The onus often falls on municipalities to successfully advocate for funds to support the development of urban amenities with provincial and national governments. We see this challenge arise frequently with respect to transit funding, for instance. For example, Ottawa’s LRT was funded by a mix of federal, provincial, and municipal supports. This type of coordination relies on the development of strong relationships, communication, and an ability for different levels of government to align, despite potential political differences.

The question of the scale at which economic development policy is implemented also affects whether and how cities and city-regions support innovation. As Zack Taylor³² suggests, there is a gradual move in several large city-regions (including Montréal, Winnipeg, Edmonton, and Vancouver), supported by provincial governments, to encourage formal economic development plans and coordinated actions at a regional scale that covers several municipalities (see Charles Conteh’s essay for more information).

However, in light of the lack of formal regional governance mechanisms in Ontario, arm’s-length economic

development agencies have been developed to play a quasi-governing role at the regional level. As an example, Toronto Global, funded by federal, provincial, and municipal governments in the Toronto region, was established in 2017 as part of the national Innovation Agenda. Toronto Global was formed with the intention of promoting “the region to international investors, [and] leveraging the unique attributes and skilled workforce of the different municipalities in the Toronto Region to attract global investments that drive innovation.”³³ In different circumstances, a regional economic organization with governance powers and authority could be conceivable instead.

Land use planning and real estate

Canadian cities’ authority over land use planning also positions them to create official plans and enact policies that satisfy the needs of innovation-oriented activities. This may take the form of zoning land for science and technology parks in suburban campus-like environments, or creating

central mixed-use districts where firms and amenities are interspersed with other innovation ecosystem elements, as well as residential uses.

Nevertheless, tensions arise in complex processes that involve federal, provincial, and

municipal governments. For instance, innovation and land use planning are connected by efforts to build “smart city” districts.³⁴ From an economic development perspective, smart city plans pose challenges for municipal governments (among others). Smart city plans may be alluring because of the prospect of successfully experimenting with new technologies while building new housing, offices, and/or mixed-use areas.

However, conflicts arise when multiple government and corporate partners have diverging goals and pressures, as was the experience with the Sidewalk Labs proposal in Toronto.³⁵ At several steps during the process, the provincial government intervened, including by replacing all provincial appointees on the Waterfront Toronto Board, and then by deeming a proposal to use municipal tax increment financing unsuitable³⁶ before the city even had an opportunity to weigh in officially.

A growing innovation economy poses other challenges for cities, too. One area of concern is the impact of a burgeoning tech sector (in which highly skilled labourers receive relatively high wages) on housing supply and affordability.³⁷ Though cities experience housing challenges directly, their ability to support housing goals relies on provincial and federal funding and supports.

Counter to the use of financial incentives, many cities now recognize that a city that is enjoyable to live in is also a desirable place for innovative firms to locate.

What role should Canadian municipalities play?

Canada's urban-centred knowledge-based economy creates opportunities for growth and prosperity alongside challenges that municipalities are not authorized to manage or capable of addressing entirely on their own. Governance, especially with respect to innovation, needs to be dynamic and collaborative. Contemporary governance in Canada relies increasingly on intergovernmental coordination, compromise, and collaboration. Similarly, there is a need to improve the ability of municipal governments to lead innovation-oriented economic development alongside provincial and national governments. This essay suggests three areas for continued improvement: revenues, regional governments, and relationships.

Revenues

Economic development efforts focused on innovation come with a cost – these include direct costs such as expert leadership and indirect costs such as supports for amenities that help attract and retain innovation, including housing, parks, and public transit. Beyond the property tax, municipalities have access to limited fiscal resources.

Innovation-oriented economic development is an intergovernmental challenge, but too much reliance on other orders of government can limit the ability of municipalities to be an effective partner. By allowing municipalities to implement additional revenue sources, including new taxes and tolls, other orders of government (notably provincial governments) would allow municipalities to lead on innovation – and city-building efforts more generally – without needing to rely on provincial and federal support.³⁸

Regional governments

The nature of urban development in Canada is that growth is not contained in individual municipalities. Rather, it is distributed across metropolitan areas that comprise multiple municipalities. Economic development efforts, and those focused on innovation-oriented initiatives, are often regional – such as Toronto Global's efforts to attract Amazon's HQ2 or the Toronto Region Board of Trade's Economic Blueprint Institute's COVID-19 recovery tracker.

In the absence of regional governments in Ontario that cover entire economic regions, municipalities rely either on informal collaborative associations and/or on intra-metropolitan bodies. Given the region-wide roots and impacts of innovation, formal regional governance for the GTA and other parts of Ontario is warranted. Ideally, and given the balance of power in provincial-municipal relationships, other provinces will continue to enable regional economic

development governance in the service of promoting place-based innovation goals and plans.

Relationships

Innovation ecosystems flourish in part as a result of the deep networks and relationships that underlie their development and evolution. Greater intergovernmental coordination is needed to leverage the resources necessary to compete on a global stage while also supporting regional and national prosperity.

Municipal and federal governments should work together directly, as the federal government has fiscal resources and authority that align with municipalities' innovation goals. For instance, the federal government is responsible for immigration policy while Canada's three largest census metropolitan areas (CMAs) are the recipients of more than half of all recent immigrants.³⁹ National policies that enable, for example, international students trained at Canadian universities to remain in Canada following graduation, help provide a pool of highly skilled labour that can feed into start-ups, scale-ups, and established tech firms, which are concentrated in city-regions.

Recent federal governments have identified ways to directly support municipalities' economic development

initiatives related to innovation (such as Canada's Smart Cities Challenge and Canada's Innovation Superclusters Initiative⁴⁰). Provincial governments should not hold veto power over formal, direct federal-municipal initiatives. Rather than workarounds, municipalities need

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institutionally embedded and formal opportunities for direct federal-municipal relationships.

At the same time, provincial governments play a central role in fostering urban innovation. The distribution of authority and interest on many matters related to supporting innovation touches all three orders of government. By investing in innovation-oriented economic development, reforming employment and labour standards, making planning frameworks more flexible to accommodate innovation, and participating in large-scale (or large-impact) tri-government initiatives, provincial governments can contribute to municipalities' ability to grow their innovation economies.

Conclusion

Strong intergovernmental networks support vibrant, local innovation economies at the municipal level. Building upon these networks requires further formalizing them. An intergovernmental task force that studies, consults, and advises on the best approaches to institutionalizing formal intergovernmental networks focused on supporting innovation-oriented economic development would be an appropriate next step.

Build Intergovernmental Partnerships to Empower Small and Mid-Sized Municipalities

By Charles Conteh

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The growing complexity of economic development in an age of greater knowledge intensity and the emergence of new innovation policy approaches focused on local and regional economic clusters have catapulted city-regions into the frontlines of Canada's effort to navigate technologically driven economic change.⁴¹ Municipalities have been assuming greater policy responsibility and demanding attendant policy autonomy and discretion in several issue areas, including the governance of local or regional economic development.⁴²

This paper examines the blossoming policy agency of Canadian municipalities in economic development, with a focus on the role of small (population of less than 100,000) and medium-sized (population 100,000–600,000) city-regions. Over the past decade, these regions worldwide have emerged as dynamic centres exhibiting unprecedented potential for economic reinvention in an age of breakneck industrial restructuring.⁴³

The undercurrents driving the policy agency of small and mid-sized city-regions in Canada

Three important trends underpin the changing role of small and mid-sized cities in economic development.

Municipalities step up

First, municipalities are increasingly eager (and pushed) to play a more assertive role. For instance, Ontario's Niagara Region, made up of an "upper-tier" regional municipality and 12 lower-tier municipalities, has been witnessing policy and institutional change in the past decade towards greater control over the trajectory of its economic development.⁴⁴

This trend can be traced to increasing political and economic pressures from the private sector, other community groups, and postsecondary institutions for a more locally driven and ambitious economic development strategy. For instance, the Ontario's Niagara Regional Municipality developed a more assertive and autonomous growth strategy for the region based on pressure from the Greater Niagara Chamber of Commerce (GNCC), the region's largest umbrella association of businesses, as well as the South Niagara Chambers of Commerce (SNCC) and the Niagara

Industrial Association (NIA).⁴⁵ Relentless advocacy and pressures from these organizations were accompanied by demands from other local actors in the region's nascent innovation ecosystem, including its two major postsecondary institutions, Brock University and Niagara College.

The Niagara example mirrors similar political and policy developments in other Canadian small and mid-sized cities.⁴⁶ Within this context, small and mid-sized city-regions across the country have emerged as ambitious and enterprising jurisdictions in their own right, with governance systems involving networks of government, business, community, and civic actors.⁴⁷

Provincial decentralization

Second, provincial governments across the country are increasingly recognizing the strategic significance of cities.⁴⁸ With the rush to prioritize regionally embedded innovation clusters, local government actors across the country are now considered by their provincial counterparts as essential jurisdictional pillars in the governance arrangements of their

respective knowledge economies. For instance, in New Brunswick, since the turn of the millennium, the provincial government has increasingly recognized the role of major cities like Moncton, Saint John, and Fredericton

in the province's budding knowledge economy.⁴⁹ These developments culminated in a series of small but significant de facto moves to recognize and decentralize authority to Moncton and other cities in the province to carry out functions entailing greater responsibility and policy discretion in promoting economic development.⁵⁰

Cities now act as critical loci of the market governance in the province of New Brunswick's focus on building a knowledge-driven economy. The notion of innovation clusters in the province, and the need to foster these networks, requires equipping these cities with a greater coordinating authority to provide more active and strategic leadership. In Moncton, for instance, the municipality's Economic Development Office has been exercising growing authority and discretion in the planning, organization, coordination, and execution of initiatives to identify and address critical economic challenges and opportunities such as changing demographics and increasing employment opportunities in knowledge-based industries and the creative economy.⁵¹

Over the last decade, Greater Moncton, consisting of the municipalities of Dieppe, Moncton, and Riverview, has adopted a "tri-community" vision consisting of an integrated regional approach to economic development

Provincial governments across the country are increasingly recognizing the strategic significance of cities.

through strategic alliances with a wide range of public and non-governmental actors. Greater Moncton has asserted and carved out for itself authority in the planning, organization, coordination, and execution of economic development initiatives through a Service Level Agreement (SLA) between the three municipalities and the 3+ Corporation, a regional economic development organization funded by the three Greater Moncton municipalities, the provincial and federal governments, and businesses in the private sector.

These examples in New Brunswick show that the provincial government has willingly acquiesced to municipalities' assertions of greater policy responsibility and program discretion in economic development. This acquiescence has evolved into an active delegation of authority, as illustrated by the New Brunswick government's recently announced local governance reform, which includes making the Regional Service Commissions (RSCs) responsible for economic development.⁵² It is important to note that the province's reform initiative is largely in response to a significant number of RSCs' having already "voluntarily increased their level of collaboration and embarked on initiatives related to economic development, tourism and community development."⁵³

Repositioning of federal development agencies

The third trend is the strategic repositioning of the federal government's regional development agencies (RDAs) – key organizational channels through which Ottawa delivers funds and administers programs to promote economic development and innovation across the country.

For instance, the Federal Economic Development Agency for Southern Ontario (FedDev) has reconfigured two of its three core funding streams – Community Economic Development and Diversification, and the Regional Innovation Ecosystem – to engage more closely with municipalities as drivers of their socioeconomic destinies.⁵⁴ In Niagara, FedDev provided \$843,000 in 2013 to support the Niagara Regional Municipality's championing of a business incubation facility – BioLinc – housed at Brock University, focusing on growing the region's biosciences industry cluster. BioLinc eventually grew beyond the biosciences industry cluster into a broader focus on emerging knowledge-intensive sectors and took on a new name: Brock LINC (Learning, Innovation, Networking, and Collaboration). FedDev also allocated more funding to support this expanded mandate, which the Niagara Region and its local partners matched to build and operate the \$19-million Rankin Family Pavilion at the centre of Brock's campus.

The partnership above illustrates how FedDev has worked with the Niagara Region in pursuit of its vision of nurturing knowledge-intensive industries in emerging sectors such as biosciences, digital technologies, and precision agriculture. More broadly, the Niagara example shows how FedDev's new approach, especially its Regional Innovation

Ecosystem program, aligns with the emergence of regional networks to support business growth and innovation in their municipalities.⁵⁵

FedDev's new program focus emphasizes co-production network arrangements that empower municipalities to exercise substantial policy agency and leadership. Funding under FedDev's Regional Innovation Ecosystem stream, for instance, focuses on creating and developing local networks that support business growth and innovation in regional economies. Municipalities work with local innovation stakeholders to grow and sustain strategic clusters and consortia to promote greater business productivity, foster global competitiveness, and attract investment and talent.

Two suggestions for improving Canadian federalism

Canada's context of economic development policy (like a wide range of other policy domains) is characterized by a labyrinth of regionally embedded interjurisdictional partnerships centred on ambitious, enterprising, and assertive municipalities.⁵⁶ This situation calls for two suggestions for improving and refining the institutional infrastructure of Canadian federalism. They entail developing robust processes for intergovernmental coordination, granting municipalities appropriate institutional authority, and providing small and medium-sized (and large) municipalities with new funding sources.

First, all orders of government should develop frameworks that give central importance to "place" as both a geographical and institutional construct. One source of insight is Neil Bradford's overview of Canada's collaborative policy experience with tri-level urban development agreements that have been deployed in Canada over the past four decades.⁵⁷ They provide a range of examples of what Bradford describes as "place-based federalism" and offer guidance for harnessing the strategic position of cities as frontlines of public policy development and implementation in the Canadian federation.

Building on Bradford's construct of "place-based federalism," this discussion offers the concept of multilevel governance (MLG) as a framework for thinking about policy alignment across orders of government that give central importance to "place" as both a geographical and institutional construct. The literature on MLG has focused attention on the institutional, structural, and procedural mechanisms of collaboration among orders of government in multi-tiered jurisdictions.⁵⁸

Scholars classify MLG frameworks in two ways.⁵⁹ Type 1 is organized according to the principle of subsidiarity, whereby each of the various activities of government is carried out at the lowest level possible. Type 2 calls for many intersecting, task-specific institutional arrangements that allow for joint action to maximize coordination and efficiency across orders of government.

In Canada, federal and provincial governments seem willing to harness Type 2 MLG by partnering with municipalities. To continue in this spirit, they should move from ad hoc, spontaneous arrangements to a more systematic and deliberate harnessing of multilevel institutional joint action through mechanisms that formally recognize cities' growing policy roles and how they can more effectively provide the vital services their respective communities depend on.

While larger municipalities command the political clout and resources to assert and negotiate policy agency, not all small and mid-sized cities can carve out such policy spaces with upper-tier governments. A systematic approach to policy coordination across orders of government would include extending policy agency to all small and mid-sized cities rather than just those that have been asserting their right to pursue economic development and innovation.

Second, small and mid-sized municipalities need adequate fiscal resources.⁶⁰ This requires redesigning the current tax regime to accurately reflect the new policy responsibilities and the policy autonomy and discretion of municipalities, without discounting the funding provided by the federal

RDAs such as that of FedDev. The RDAs' mandate is to serve as organizational channels for advancing the federal government's innovation policy goals by working with municipalities, communities, the private sector, research centres, and other non-profit entities. RDAs can continue to play a vital supporting role. However, a reconfiguration of the tax regime will enable small and mid-sized municipalities to plan and fund their economic development goals and shape their socioeconomic destiny without relying on upper-tier agencies. Just and fair funding arrangements will ensure that municipalities benefit from the economic growth they help create.

The urgency of these suggestions are underscored by the fact that over the past three decades, industrial restructuring and breakneck changes in technology and global markets have upended traditional top-down models of economic development. City-regions have been catapulted to the frontlines of these technological and economic changes. Increasingly, innovation is a local affair. Its currents are generated by actors in cities and regions, the hotbeds of knowledge generation, dissemination, and commercialization.

The outcomes of innovation are determined by a city-region's capacity to navigate these turbulences. They are

also specific to each city-region's institutional and cultural configuration and its particular regional innovation system. City-regions need the policy agency, institutional authority, and financial resources to provide active leadership in coordinating economic development actors and cultivating dense local networks to mobilize ideas and resources for expediting innovation.

Conclusion

The suggestions above reflect the growing number of interjurisdictional partnerships prevalent in Canada and thus offer recommendations for buttressing them further. But what if the country is also to further consider Type 1 MLG options, whereby Canada as a multitiered system gives municipalities clearer sanctioning and coordinating capacity as well as institutional autonomy for public policy ventures falling within their territorial domain? It would mean

ensuring that the de jure, constitutional decision-making authority of municipalities in each policy domain is formally and effectively aligned with their de facto responsibilities.

Canada's *Constitution Act* of 1867, which sets the legal foundation of federalism, divides the

powers of government between the provinces and the federal government. This traditional and fossilized construct of federalism, emphasizing the division of powers between the federal and provincial governments, no longer offers sufficient or meaningful guidance for dealing with the growing complexity of public policy.

Moreover, the acquiescence of provincial governments to small and mid-sized city-regions' greater policy agency does not always provide a secure and legitimate environment for the latter to undertake long-term, ambitious economic development programs, since they are subject to the ideological mood swings of ever-changing provincial governments. To assign appropriate constitutional recognition with specific policy jurisdiction to municipalities means recognizing them as entities that are at the frontlines of the economic, social, and ecological urgencies and opportunities of our time.

These considerations point to the pressing need to move past the anachronistic constitutional fiction that renders municipalities "creatures" of the provinces in Canada, when in reality they have been asserting and exercising increasing policy responsibility for the past few decades.

A systematic approach to policy coordination across orders of government would include extending policy agency to all small and mid-sized cities rather than just those that have been asserting their right to pursue economic development and innovation.

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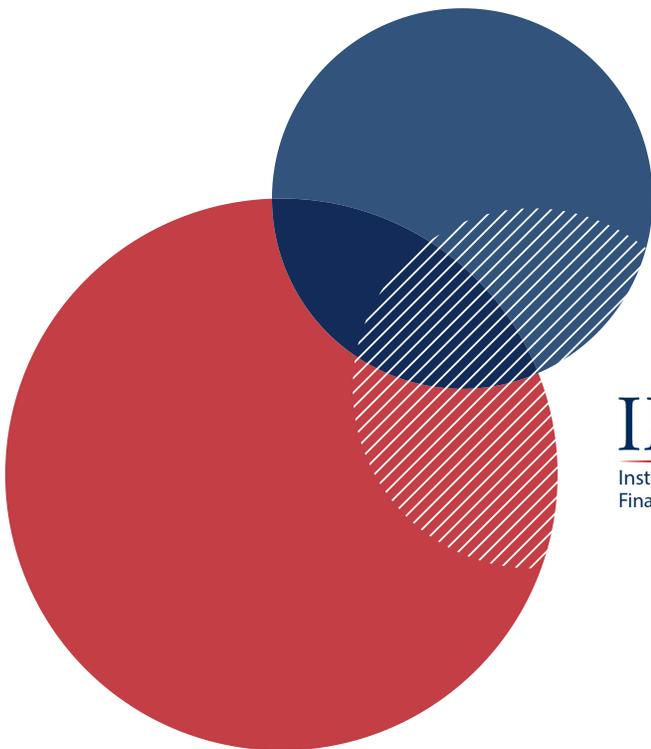
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