POLICY BRIEF

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OECD Territorial Review of Montreal

Introduction

The metropolitan region of Montreal (Metropolitan Montreal) is Canada's second most populous area after Toronto, and is home to almost 3.5 million people. With its low costs, high quality of life, and wide range of industrial, cultural, educational, and social strengths, Montreal has a vibrant and dynamic economy, but its diversity and complexity can lead to institutional isolation and fragmented decision-making.

If Montreal wants to pursue its expansion on foreign markets and continue to register economic growth and employment, it has to increase productivity, reinforce existing regional clusters through policies that support innovation and attract high-skilled talents. Implementing a co-ordinated economic plan for the whole metropolitan region will be central to achieving better competitiveness.

Recent institutional reforms, such as the "amalgamation" of municipalities in Montreal and Longueuil or the creation of a Metropolitan Community, have started to address problems such as urban sprawl, fiscal disparities, inadequate public services or lack of regional co-ordination. Consolidating local and metropolitan governance should be a short term priority as uncertainty surrounding the present framework will ultimately undermine business confidence.

Streamlining institutional structures and fiscal resources will however not be enough. The main challenge facing Montreal in the next few years is not just to elaborate a comprehensive economic strategy for the whole metropolitan region, but to implement it successfully. This Policy Brief looks at some of these challenges and the possible solutions put forward in a new *OECD Territorial Review of Montreal*. ■

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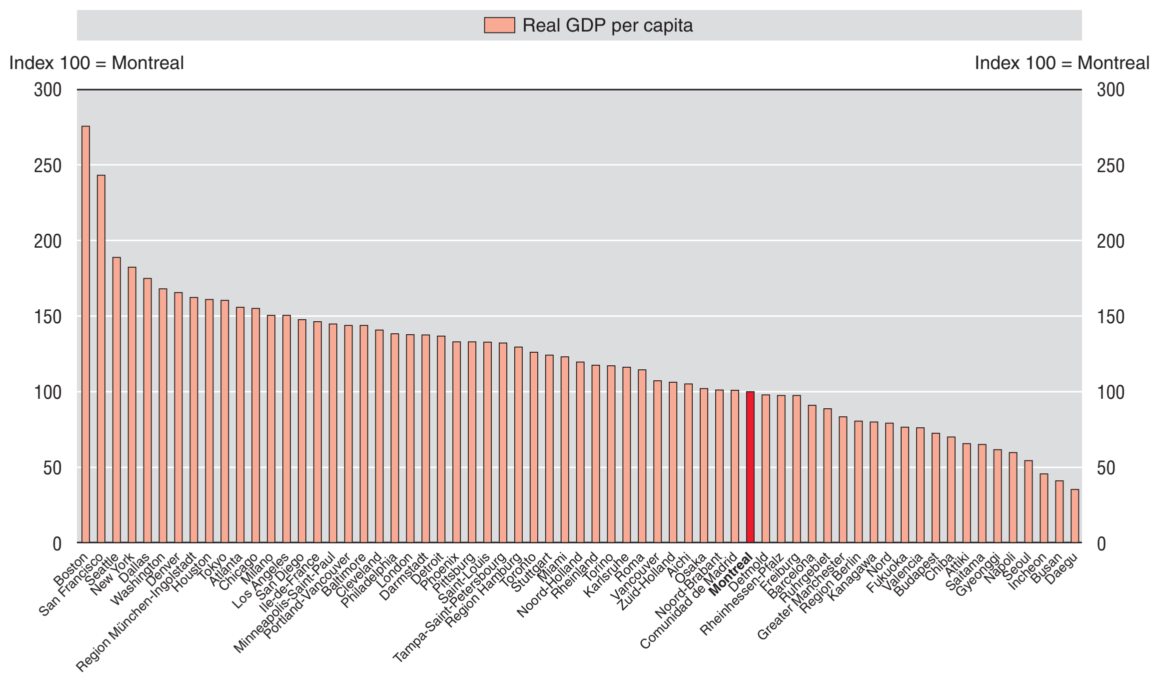
What are Montreal's potential and challenges?

Despite the economic turbulence of the early 1990s, Montreal has maintained its position as one of the leading contributors to Canada's economy, accounting for 9.8% of the country's gross domestic product (GDP) in 2002. During the period 1997-2002, its GDP grew at an average annual rate of 3.8%. Within the context of increasing international integration – in particular, the North American Free Trade Agreement (NAFTA) – Metropolitan Montreal has strengthened its position in leading sectors of the knowledge-based economy and benefited from increasing foreign trade and investment. This positive performance has resulted in a high rate of job creation: Montreal's employment rate has increased steadily since reaching a low of 55.1% in 1993 and stood at 61.7% in 2002.

Montreal's economy appears to be on a track of increased growth. Further progress is still required to lower unemployment and poverty, both of which are higher than the Canadian average – Montreal's unemployment rate in 2002 was 8.4%, compared with 7.4% in Toronto and a national average of 7.7%. Moreover, Montreal's economic performance remains lacking when viewed internationally. Out of a selection of 65 OECD metropolitan regions of more than two million inhabitants, Metropolitan Montreal was ranked 44th with regards to real GDP per capita for 2001 (Figure 1). On average, nearly two thirds of the difference between Montreal and the comparison regions is explained by lower average productivity. In fact, Montreal's main comparative advantage lies in the large size of its labour force while its major weakness is a low level of productivity.

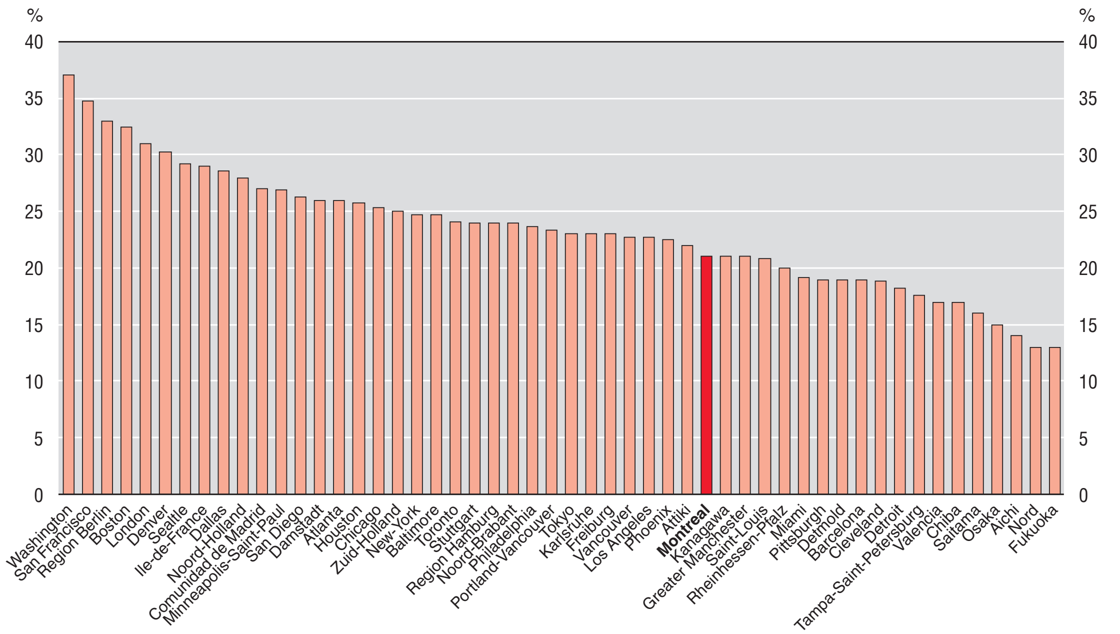
One of the main reasons for Montreal's lower productivity is its relatively lower level of educational attainment, with only 21% of the population having pursued higher education (Figure 2). Like other Canadian metropolitan regions, Montreal has been catching up with the US since the 1960s. However, at the national level, Montreal still lags behind Toronto (where 24% of the population have pursued higher education) and Vancouver (23%), and the educational attainment gap with the rest of Canada has not started to decrease. Low productivity is also related to insufficient investment in equipment and research and development (R&D), especially within small and medium-sized

Figure 1. **Competitiveness ranking among selected OECD metropolitan regions, 2000**



Source: OECD Territorial Database.

Figure 2. **Percentage of population with higher education attainment, 2001**



Source: OECD Territorial Database.

enterprises which constitute an important share of the regional fabric.

High participation in the labour market is a key factor in Montreal's competitiveness, but the region's elderly population is expected to increase considerably over the next few decades, leading to a decrease in the activity rate. In light of the lower educational attainment and ageing population, Montreal could increase migration inflows in order to maintain a high activity rate. Currently, international immigration accounts for over half of the population growth in the area. Yet, immigrants represent only 18% of the area's total population compared to 42% in Toronto and 35% in Vancouver. The percentage of immigrants with a university degree (33%) is significantly lower than in the metropolitan regions of Toronto (49%) and Vancouver (47%). Targeting high skilled immigrants should be part of the strategy to upgrade the skill profile of Montreal's workforce and thus its productivity.

Over the last decade, Montreal's economy has benefited from a dramatic increase in international exports. To a certain extent, Montreal has benefited from a favourable exchange rate that has boosted its export competitiveness and hidden its productivity deficit. Strengthening its export potential should focus on three objectives. The first is to take better advantage of the US market to which Montreal has gained substantial access by targeting export niches where US demand and Montreal's advantages are higher (airplanes, airplane parts, train parts, other equipment and telecommunication material). The second objective is to diversify Montreal's export markets by increasing international trade outside the U.S. (to which 84.8% of Quebec province's international exports are destined). Third, Montreal should strengthen its export position in high-technology intensive products, which have higher value-added. ■

What have reforms achieved so far?

A comprehensive economic development strategy for the whole metropolitan region is required to face the above-mentioned challenges. An appropriate metropolitan governance framework is crucial in this respect. To respond to the territorial fragmentation and lack of regional co-ordination that characterises most metropolitan regions, the province of Quebec has undergone one of the most radical institutional reforms in OECD countries in recent years. This reform was supported by two main pillars: the creation of a new metropolitan authority, the Montreal Metropolitan Community (CMM) in 2000, covering the functional area of Montreal including the urban fringe; and a municipal reorganisation of the metropolitan region that resulted in the amalgamation of 28 cities in Montreal and seven cities in Longueuil in 2002.

The CMM was the first answer to the fact that Montreal's functional area was expanding beyond administrative borders. Whereas municipalities or provincial agencies have executive powers, the CMM is a co-ordinating, planning and financing body for metropolitan-wide strategic functions, including spatial planning, economic development, social housing, public transport and infrastructure, environment and culture. Its metropolitan-wide view enables policy coherence across municipal borders and helps to channel investments where they are considered most beneficial for the region as a whole. It receives some tax revenue from municipalities' contributions and provincial grants, but has no taxing power. The CMM is an interesting example of a metro-wide organisational body, trying to overcome fragmentation and to harmonise functional with administrative areas. Contrary to a single-purpose metropolitan agency, the CMM can follow an integrated and multi-sectoral strategy for the metropolitan region. ■

How to consolidate the new metropolitan body?

A main obstacle for the newly created metropolitan body to effectively implement its mandate is linked with the metropolitan region's institutional structure. Good metropolitan governance in Montreal is likely to be hindered due to unclear delineation of competencies and the lack of harmonisation of territories covered by the different existing institutional structures. Examples include the maintaining of five administrative regions, partially or completely, included in the CMM territory, as well as the RCMs (Regional Counties Municipalities) — fourteen supra-municipal structures that are, entirely or partially, included within the CMM territory. When they are partially included in the CMM area, their competences are difficult to combine with those of the CMM.

The metropolitan region also needs a unified global structure to handle metropolitan scale functions. But at present, the provincial Transport Metropolitan Agency (AMT) still holds responsibility for managing public transport, although it listed as one of the CMM's competencies. It would be more efficient if one metropolitan entity were to be solely responsible for public transport planning and co-ordination.

The CMM is also responsible for elaborating an economic development strategy for the whole metropolitan region. But it finds it difficult to ensure coherence and co-ordination with other sub-national entities concerned with the economic development strategy for their respective areas within the CMM. Streamlining sub-metropolitan institutional structures and clarifying competencies will certainly help meet this challenge. Appropriate incentives could contribute to ensuring the co-ordination with local authorities. A Metropolitan Development Fund could be used for this purpose through conditional and performance mechanisms.

The question of metropolitan fiscal resources should also be assessed in view of the CMM's increasing responsibilities. The endorsed property tax sharing program will provide the CMM with solid financial resources in the future as the municipalities have agreed to a sharing mechanism that takes into account a specific proportion of both the property tax base growth and property wealth of each municipality. If the CMM absorbs the AMT, it would also be useful to transfer the provincial gasoline tax supplement – presently going to the province to fund metropolitan public transport – directly to it. Strengthening the CMM's role as a financing body for metropolitan-wide infrastructure may require additional fiscal resources. Moreover, in the long run, establishing the CMM as a regional service provider would require reviewing its funding mechanism, including the possibility of levying a metropolitan tax.

Finally, a key challenge for the CMM is to strengthen its legitimacy with regard to the metropolitan population. If the CMM is to increase its financing responsibility, and potentially become a regional service provider, better popular legitimacy and forms of representation could be reconsidered. Strengthening the new metropolitan body also requires building a metropolitan communication strategy. Broader and closer collaboration between the CMM and non-public actors (civil society, chambers of commerce, etc.) could also be facilitated through the mutual participation of their respective bodies. ■

What next for the municipalities?

The second pillar of the reform, the amalgamation of municipalities in Montreal and Longueuil, was pursued on three grounds. First, the reorganisation of public services and use of economies of scale should reduce public per capita expenditures. A real effect on cost is likely to depend both on the quality of the new public administration and on the technical properties of public industries. Second, amalgamation should reduce the fiscal burden of the old town of Montreal and fiscal disparities among urban municipalities. As tax rates are gradually approaching the same level across the amalgamated municipalities, fiscal equity is expected to increase with a new city-wide budget. Third, it should allow for greater policy co-ordination within the entire urban areas of Montreal and Longueuil. This advantage should however remain limited in the case of Montreal since several services had already been managed at the Montreal Island level since the 1970s.

Amalgamation has roughly turned former municipalities into *arrondissements* (boroughs) with limited responsibilities. Due to their purely executive role, some citizens have raised the issue of amalgamation's democratic cost owing to the increased distance of decision-making. The boroughs do have a certain amount of autonomy. The *law 170* that led to their creation gave them competence to decide on the level of services while respecting a minimum standard. However, the effective implementation of such provisions requires the pursuit of local administration reform.

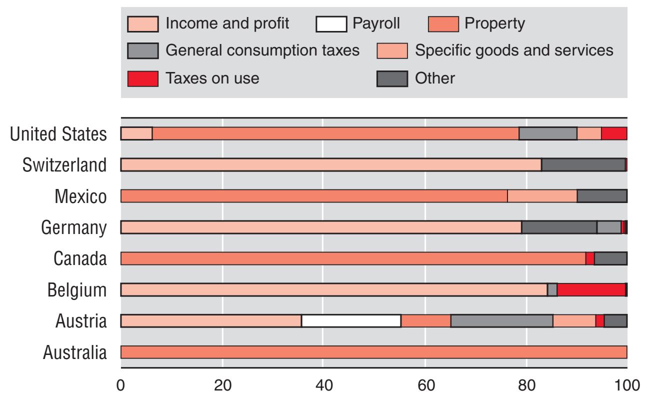
Potential "disamalgamation", currently on the political agenda, could again change the picture. If former municipalities reacquire some of their former prerogatives, mainly in the fiscal field, there could be a risk of facing large fiscal disparities as was the case before the amalgamation. Therefore, it is important to provide some equalisation measures taking into account the existing fiscal disparities among the different sectors of the amalgamated cities. Moreover, if some items continue to be administered at the level of the amalgamated towns, it would be preferable to avoid creating new supra-local structures, considering the over-complicated institutional mosaic of the metropolitan area. The existing metropolitan level could take over such responsibilities as it would have the additional advantage of reducing fiscal disparities and fiscal spillovers not only within the amalgamated cities, but within all of the municipalities of the metropolitan region. ■

How to strengthen urban finance?

Although the reform led to a more equal distribution of financial resources across the metropolitan area, questions pertaining to long term, local fiscal sustainability remain unanswered. Limited municipal resources have to be set within a framework in which the province has taken over most financially significant responsibilities, such as education, health and social welfare. However, Quebec municipalities have a lower share of total government spending (13.7%) than the Canadian average (17.3%) and this ratio is tending to shrink further. Also, intergovernmental grants, both provincial and federal, have been reduced in the last few years. Fiscal agreements have somewhat streamlined provincial-local fiscal relations but hardly relieved the financial pressure on local governments.

In fact, the strong reliance on property tax, 76 % of total local revenue, has been advanced as the main cause of the fiscal incapacity of Quebec's municipalities to meet their growing needs. Canadian cities are more dependent on this type of taxation than the municipal level in almost any other federal OECD country (Figure 3). The property tax has key advantages as a sub-national tax – it is immobile and cyclically stable. However, during the second half of the 1990s, property tax revenues grew at a much slower pace than the economy. Moreover, in the last 15 years, Montreal has not increased tax rates for fear of deterring economic development and diverting firms and people to other places. Because of the balanced budget requirement for municipalities, the cit-

Figure 3. **Local tax structure in federal countries, 1999**
% of total local tax income



Source: OECD Revenue Statistics (2002).

ies of Metropolitan Montreal note that some important investments have been postponed, particularly in the field of public transport and infrastructure endeavours. A combination of different taxes could have the advantage of securing against cyclical shocks while providing a more responsive revenue system and better rewarding local policymakers' efforts for local economic development initiatives. Any reassignment of local taxes would have to take into account the recent reallocation in municipal responsibilities and be closely linked with the ongoing decentralisation project. ■

How to improve intergovernmental relations?

Relations between the local, supra-municipal and higher levels of government certainly need to evolve considering the new actors that have appeared with the recent institutional reform. Sectoral projects and agreements have often proved useful and flexible but rarely take into account multi-sectoral aspects and sometimes lack a co-ordinated, long term view of urban and metropolitan issues.

More formalised relations such as intergovernmental contracts lead to increased commitment by actors and greater integration of the projects. In this respect, the "City Contract" signed by the government of Quebec and the city of Montreal at the beginning of 2003 is a promising first step. The "City Contract" is considered as financial support for Montreal in areas such as social housing, culture and public transport. It has a single envelope of CAD 1.4 billion for a five-year period. Once the overall objectives are jointly defined, the city will be autonomous in operational and financial execution. The contract could become even more valuable if clearly defined objectives and outcome indicators are set.

Given the metropolitan-wide impact of many policy areas, a city contract extended to the metropolitan level could foster policy coherence and provide efficient public services not only for the city but for the entire Greater Montreal functional area. The tripartite agreement implemented in some western Canadian cities could serve as the basis of this metropolitan contract, which would take into account Quebec specificities. Any type of contract, either at the municipal or the metropolitan level, should be duly funded and binding (for new governments as well). Such contracts could consider involving civil society and the private sector. ■

How to develop a regional innovation system?

At present a large number of federal, provincial, metropolitan and municipal agencies are involved in the economic development of the metropolitan region of Montreal, as well as chambers of commerce and non-governmental organisations. A major challenge is how to co-ordinate the efforts of the different institutions. Two aspects of the economy should be addressed: the vertical/sectoral strengths and weaknesses, and the horizontal/factor-related strengths and weaknesses.

From a vertical perspective, Montreal's economy is based on strong specialisation in a number of clusters that generate important external economies for local firms. An assessment of the relative situation of the different clusters indicates three different categories: established competitive clusters (such as aerospace and biotech), emerging clusters (such as culture industries or fashion design), and more diffuse clusters (such as IT industries). Their development will depend on the quality of inter-firm relations, support for innovation and the availability of high-skilled workers. Currently, there are a number of disconnected cluster-based initiatives in the Montreal region, most often devoted to the promotion of zone- or firm-specific incentives and subsidies. As Montreal moves forward towards defining a metropolitan strategy, identifying clusters, setting priorities and strengthening networking aspects will become crucial.

Cluster actions alone, however, are not enough. Horizontal factors that cut across multiple sectors provide a basis for sustained regional competitiveness. Montreal has dense research and education infrastructures, yet the institutional framework to support the continuous upgrading of these assets and to ensure close links between knowledge "production" and the firms that benefit from it is somehow disjointed. Weaknesses in initiatives or policy coherence could be illustrated in four selected fields: the role of educational institutions in linking knowledge producers and users; entrepreneurship and firm creation in maintaining dynamism in the economy; access to finance to ensure that innovations can be commercialised; and a clear and unified marketing "message" to promote the metropolitan area as a quality location for investment.

In ***education***, different programmes within universities encourage either links between firms and research initiatives or between students and firms. At the same time, the network of CEGEPs (General and Vocational Colleges) does not forge close relationships with local businesses, particularly SMEs.

A multitude of governmental and non-governmental actors are involved in the delivery of programmes to foster ***entrepreneurship***, which tends to pose significant problems of co-ordination. More problematic in the case of Montreal is the lack of strong entrepreneurship policies directed specifically at the main clusters, the sectors that drive the economy in which specialised skills and thus, innovative capacity are densest.

Access to appropriate ***capital***, particularly to venture capital, was identified as being a hindrance to economic development in the region. This gap in private sector capital is in part met by a pool of public sector investment, mainly through subsidies to private capital. In this respect, the issue of whether the role taken by the public sector in providing finance crowds out private sector risk capital becomes important. In general, the government's approach remains strongly biased towards tax subsidies with little focus on building collaborative networks and sectoral relationships that might promote more incremental innovation and learning.

All economic activities benefit from association with a quality ***location***: an area that possesses attributes attractive and/or necessary to investors and skilled workers. Nonetheless, rather than promote regional attributes, marketing and investment promotion initiatives in Greater Montreal still remain municipal and/or sectoral. An important element of the cluster strategy should involve presenting clusters as regional assets that benefit from a supportive regional environment rather than as belonging to a particular municipality or locality. ■

How to co-ordinate economic development initiatives?

Implementing a clear and coherent strategy for the economic development of the whole metropolitan region requires a collaborative framework. Networking in key sectors is crucial to build and maintain the relations from which clusters draw their competitive advantage. At the same time, more general networking efforts across the wider innovation system would provide an important input to the existing clusters, but also support the several emerging and more diffuse clusters in the Montreal economy. The Metropolitan Community of Montreal (CMM) is the organisation responsible for region-wide planning, coordination and financing for a range of socio-economic development functions, and thus obviously needs to play a leading role in co-ordinating the development of a regional economic strategy. However, given the multiple actors presently entitled to implement economic development strategies – sometimes with overlapping mandates – better co-ordination devices at the operational level remain to be developed. ■

For further information

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For further reading

- OECD (2004), OECD Territorial Reviews: Montreal, OECD Publications, Paris. Also available in French under the title Examens territoriaux de l'OCDE : Montréal.
- OECD (2002), *OECD Territorial Reviews: Canada,* OECD Publications, Paris.Also available in French under the title *Examens territoriaux de l'OCDE : Canada*. *www.oecd.org/bookshop*.

Additional Information: More information about the work of the OECD Territorial Reviews and Governance Division, including information about other publications, can be found on the Department's Web site at: *www.oecd.org/gov/territorialgovernance*.

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