

Speech by John Sewell

Transparency International Inc. Symposium

“Corruption – is Canada in trouble?”

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Schulich School of Business, Room W136, York University

Luncheon speech, 12.45 pm.

“Toronto the Good?”

1. Thanks for having me.
2. It was in the 1890s that Toronto began to have a reputation for its moral tone. According to the eminent historian John Careless, the tone was one of evangelical righteousness and the city had a pride in its many churches and its church-going activities. Temperance was on the rise and Torontonians were earnest about their observance of Sunday. Hence the nickname “Toronto the Good”.

Of course, moral tone is often subverted and in this case while the moral tone was set by the Methodist ministers, the subversion came from leading Methodists like Hart Massey, as described in a delightful book **The Revenge of the Methodist Bicycle Company**. The threat to sedate Sundays came from the streetcar company which wanted to run on Sundays and was willing to pay city councillors well for their approval. And while that scandal swirled around Sunday streetcars, the real threat to Sunday came from the bicycle which was manufactured by CCM, the Canadian Cycle Manufacturing company. The bicycle became very popular as a way in which young courting couples could escape into the countryside to enjoy the delights of nature, something they were

prone to do on Sundays. The irony was that CCM's largest shareholders were the leading businessmen who were also prominent in the Methodist Church.

Nevertheless, the term "Toronto the Good" gained as much popularity as the former nickname, "Muddy York". It was not entirely displaced during the First World War by the supply to British Empire troops of Toronto-packed pork, which gave Toronto the nickname "Hogtown". Today, as dislike for Toronto is a unifying factor for Canada from coast to coast, one is as likely to hear Toronto cast as "Hogtown" as "Toronto the Good".

But Toronto has not been particularly good. The Second World War ended and a development boom began which lasted for several decades. The development industry needed approvals from city hall for rezonings, water and sewage services, and roads, and developers played a large part in setting the agenda for local government in the Toronto area. On the outskirts, where farm land was being turned into city, many suburban politicians received substantial election funds from the development industry and some even were shown to have received favours such as prime building lots at a low price. Councillors in municipalities which attracted large sprawling subdivisions found that developers were lined up to treat them well, whether by providing financial support in election campaigns, or just general entertainment during the rest of the year. In the city of Toronto where redevelopment was usual fare, the development industry seemed to work out a business arrangement with many leading politicians – in return for buying insurance products or other financial services from companies owned by councillors, developers found the approval process met their needs. This practice never seemed to be considered serious corruption, just a normal part of city hall business.

That came to an end in the early 1970s when Alderman Ben Grys was found to be selling two houses owned by his wife to a developer for about 30 per cent more than surrounding owners received. In return, he drove the rezoning through the City Hall process. I was the person who revealed this corrupt practice, and the mayor and senior councilors thought that I was the person who should resign for besmirching the name of a colleague. But the public caught on, and the Grys affair led to a relative calming of such activities at Toronto City Hall during the 1970s and 1980s.

But the last 5 years have been a different story altogether. We have almost become "Toronto the Ungood" as the city fell into despond.

3. Allegations of corruption have arisen in two areas - city Hall and the Toronto police force. I'll deal with each separately.

The most well-known recent incident of bad behaviour at Toronto City Hall is the MFP scandal. City Council signed a contract with MFP Financial Services for the purchase and leasing of computers for a price it thought to be about \$43 million. The actual cost to the city was more like \$110 million. Why had Council not been aware of documents which would lead to such a substantial increase in cost? There were many allegations, but it proved very difficult for anyone to get a handle on what had occurred. Finally, in early 2002, Councillor David Miller proposed that a public inquiry be undertaken by council under the provisions of the Municipal Act. Miller's quest for support for this motion started with great uncertainty but within a four week period he had a clear majority on council for the motion, and by the time it was through city council in early 2002, the vote was unanimous. The inquiry began in 2003 under Madame Justice Bellamy and

the public learned of very close relationships between the salesman for MFP, Dash Domi, and several elected and staff members at City Hall. Various senior staff and at least one councillor, Tom Jakobek, attended sports events courtesy of Mr. Domi and MFP. Mr. Domi himself could remember little of what actually occurred and some of the things Tom Jakobek remembered turned out to be fabrications deliberately set out to trap investigators.

It is now known that Mr. Domi withdrew 27 1000 dollar bills from his bank, shortly thereafter he telephoned a key lobbyist for MFP, Jeff Lyons, and a few minutes later Tom Jakobek. He then visited City Hall for about 15 minutes and the next day Mr. Jakobek deposited about \$21,000 in his bank account. Whether the withdrawal by Mr. Domi and the deposits by Mr. Jakobek are directly linked is still unclear since Mr. Jakobek has challenged the inquiry on its ability to continue investigating these matters, and has suggested instead that the Toronto Police should be investigating them.

By anyone's standard of measure we would have to conclude whatever the facts of the MFP scandal, this is an instance of corruption at City Hall. We can expect that Madame Justice Bellamy will give us the details of exactly what happened and how, although it may take a few more months. The judge has also been mandated to look into several other contracts awarded by City Hall during its last three terms.

A less well known instance of corruption surrounds the leasing of Union Station, one of the key heritage buildings in Toronto because of the role it played as the locus for sending soldiers off to war, and receiving immigrants, particularly in the 1940s and 50s. Its Great Hall is a truly memorable place. City Council had

tried for many years to gain ownership of the building and when it finally did in 2001 it decided to seek a public/private partnership for its refurbishment.

Two bids were received: one from the Union Pearson Group, led by a company controlled by Larry Tanenbaum, owner of the Maple Leafs Hockey team, the Raptors Baseball team, the Air Canada Centre. The other bidder was LP Heritage, a company from Chicago that was responsible for the redevelopment of Grand Central Station in New York City.

To ensure that there was no undue pressure on councillors, city council decided that an evaluation of the bids and a recommendation of the winner would be done by a selection committee consisting of three City Hall staff, a consultant, and two representatives of the federal government. In mid 2002, the selection committee recommended the Union Pearson Group. Councillor Rob Ford requested to see the tally sheets of the selection committee. As he reviewed them on the floor of Council and noticed some irregularities, the tally sheets were snatched from his hand by staff. That provided a small glimpse of some as yet undiscovered problem. A proposal that both bids be made public was defeated and the relentless process to give the Union Pearson Group a 100 year lease on Union Station was underway. Allegations were raised about a conflict of interest on the part of Mayor Mel Lastman whose son, lawyer Dale Lastman, was a business colleague of Larry Tanenbaum, but the mayor pushed those allegations aside - until January 2003 when he said that because of a corporate reorganization in December 2002 he in fact had had a conflict of interest for the previous five weeks.

But then a pesky citizen raised another problem. Lawrence David is a Toronto businessman in the oyster trade. He thought opening an oyster bar in Union Station would be as successful as the oyster bar in Grand Central Station in New York. But his request to city staff for information about opportunities was not answered in a way that was satisfactory to him. He began to pay close attention to the bidding process and he concluded that something was very wrong. He filed an application under the Freedom of Information Act to see the score sheets of the selection committee, the very documents that had been snatched from Rob Ford's hands. In January 2003, the director of the Freedom of Information section at City Hall advised him that contrary to law and practice, the score sheets had been destroyed. A political fire storm then began, only allayed when in February Council appointed Coulter Osborne, former judge and the Provincial Integrity Commissioner, to look into the bidding process for Union Station.

Coulter Osborne's report emerged in May 2003 and told a most extraordinary story. It said that in May 2002 the selection committee had voted on the proposals from Union Pearson and LP Heritage and by a very clear margin had decided that the LP Heritage bid was superior, both in design and in financial return to the city. But the very next day questions were raised about the proposals, particularly about the financial viability of LP Heritage, even though LP Heritage had been financially prequalified by city staff. Some five weeks later, in June the selection committee held another vote and this time Union Pearson won. Union Pearson was victorious in this vote for only one reason - Paula Dill, the Commissioner of Urban Development Services, and a member of the Selection Committee, awarded LP Heritage a vote of zero on the three categories relating to finances. Osborne called these three votes "patently unreasonable", but they were enough to allow Union Pearson to win the bid.

The information about these two votes had never been reported to council, nor that the second round of voting contained this purloined evaluation.

These revelations in May 2003 were followed by even more unusual activities. The director of the Freedom of Information section – the person who revealed that the botched ballots had been destroyed, a person who had held this position for more than a decade - was fired for not being a team player. City Council pretended that none of these nefarious events meant very much and voted to confirm the 100 year lease of Union Station with the Union Pearson group, and to continue to refuse to make the bids public. By chance the arrangement with Union Pearson appears now on the brink of collapse and City Council is expected to vote next week to cease its negotiations with Union Pearson and cancel the whole bidding process.

4. The second area where corruption has raised its head in Toronto is in the police force. Four members of the police force have been charged with criminal offences relating to a shake-down of entertainment clubs in the downtown. One of those charged is Rick McIntosh, who at the time of the charges was president of the Toronto Police Association. Another of those charged is also a director of the TPA.

At the same time, other officers have been charged in respect to other activities. These follow on charges laid three years ago against members of the Toronto Police Drug Squad and a subsequent investigation by a retired judge, George Ferguson, looking at problems within the police department and what can be done about them.

But there are other problems. Police were asked to look into an illegal election payment made to a local candidate by the well-known lobbyist Jeff Lyons who was on the Toronto Police Services Board. (Mr. Lyons is getting more and more well known, given his role in the MFP scandal.) The police finally did the investigation, found that indeed the payment had been made, but refused to press charges because, as they concluded, it was only a "technical violation." My interpretation – it was technical in that going through a red light is technical but we don't really care.

The police were asked to investigate allegations of wrongful election spending by Mayor Mel Lastman and councillor Case Ootes and although there was considerable prodding, they refused to do so. No wonder Tom Jakobek thinks his safest course of action is to ask for the police to investigate whether or not he accepted a bribe.

Norm Gardner, chair of the Toronto Police Services Board, was forced to set aside last summer when it was discovered that he had accepted a hand-gun from a Toronto area gun manufacturer – he claimed he had simply forgot to pay for it, and did so only after the matter became public. As that issue was coming to the surface, it was learned that Gardner has also taken about 5000 rounds of ammunition from police stores, without payment, and for this activity he has been suspended.

Alan Heisey has been the new chair of the Board in place since November. He is a politically moderate person, and the first thing that happened was that someone released a memo about an event that occurred several years earlier. The scurrilous memo had been filed by a staff person, and the chief had simply



passed it on to Norm Gardner, chair of the Board. A judge investigated the matter, exonerated Heisey, but said the incident was clearly done to embarrass Heisey. It is not known who released the document.

In short, there are various examples of improper behaviour within the Toronto police force and the Board.

6. Why have these allegations of corruption arisen during the last five or six years in Toronto? I believe there are two different explanations.

In regard to the police, the problems stem from very poor management by the chief and senior officers, as well as by the board. Evidence of bad management is seen most clearly in a large organization when employee groups realize they are badly managed and respond by becoming militant, then strong, then belligerent. Weak managers find they can't deal with employee groups, and their representatives take advantage of the situation to become stronger, making demands management can't refuse. Often a few entrepreneurial individuals in the organization see the opportunity to enhance their own personal positions, and since internal controls are loose they find themselves unfettered by normal social constraints. That's when the wrong-doing occurs. In almost every case the wrong-doing is by a few (the 'bad apples') since most people operate according to high moral codes whatever the degree of disorganization.

That's the general scenario for bad management in any large organization, and it describes the situation at the Toronto police force. The Toronto Police Association has in recent years become very belligerent. They tried to establish the True Blue Operation, where they would sell sticker to place on

your car say you support police – implying that you would get protection and those without the stickers would not. The Police Association has been open about the fact it put a private detective on Judy Sgro, then a member of the Police Board, to intimidate her. To pressure the chief it took a vote of non-confidence in the chief, and received an 80 per cent mandate. It has pushed the Board a round on salary issues. It has illegally endorsed candidates for political office. Only the recent criminal charges against the president and another director hold out any hope it will be brought in line.

The chief and his senior managers are incapable of bringing direction to the force. Of course there are only a few bad apples – there are never more – but they represent the failure of managers to do their jobs well. That's the problem, and that's what needs fixing. Bringing in outsiders to shine a brighter light on the wrong-doing through public or internal inquiries is not the answer. Yes, it is interesting to know all the smelly details of how the money gets passed around and who does favours for who, but most often that process delays the changes required to make the organization effective, namely good management.

7. In regard to corruption at City Hall, there is a different explanation. In 1997 the provincial government forcibly amalgamated the seven municipalities in Toronto into one. This legislation was strongly opposed by people in Toronto in a March 1997 referendum by a vote of 76.5 percent of the many who voted. The provincial government advanced a number of reasons as to why amalgamation was a good idea - such as it will reduce the number of politicians and save money - but at the end of the day amalgamation has proven to be a tactic that was used mostly to disable local government in Toronto. Since amalgamation, local government has been in a tizzy. Councillors are overworked. Citizens feel

unrepresented. Lobbyists have been working at a feverish pitch. Staff have a free hand. The traditional mechanisms of local democracy have been destroyed. The confusion and upset have played into the hands of those who wish to take advantage of the situation, and they have seized the opportunities. That's what the corruption is about – it's a result of the forced amalgamation which was meant to damage local decision-making and it did.

8. All of which leads to two lessons that can be learned from what has happened recently in Toronto. First, good management helps to suffocate corrupt tendencies, and bad management often provides a breeding ground. Second, reorganizations which do not build on the traditional of local democracy but try to replace them provide a marvelous opportunity for corrupt practices to emerge.

Which means two changes must occur in Toronto. Good managers must be hired for the Toronto police service, and local democracy must be returned to Toronto politics.

The sobriquet Toronto the Good can only be used today in an ironic tone. I for one would be happy to see the needed changes made sooner rather than later.

Let me close with a small quote from the events of the early 1890's in Toronto. An inquiry was held into the pressure exerted by the streetcar company to get a decision allowing it to operate on Sundays. The inquiry officer had Alderman William Hall on the stand. 'What share of the swag did you get?' he asked. Alderman Hall replied with the perfect defense for the politician who has been caught out. "I forget," he said. "It was not swag; it was a business transaction."

Thank you.