

## The economic dimension of metropolitan government: recent reform proposals in Toronto, Canada

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**Abstract:** The purpose of this paper is concerned with the changing role of urban governments in local economic development, the growing importance of metropolitan regions in the globalised economy discussing the economic dimension of metropolitan government reform and focusing on the case of Toronto. Toronto is not a national capital, it is a provincial capital, which in a federal system carries some of the characteristics of a national capital; and also Toronto is now Canada's undisputed national metropolis, and so displays some of the economic characteristics of a capital city. In this context there is need on the one hand for large-scale units that can be global players, and on the other, for small units that can be flexible and responsive. This conclusion leads to reorganization proposals for a two-tier system in which the upper-tier body is very large in area but light in functions, and the lower-tier units are fashioned along the lines of 'reinvented government'. In the case of Toronto, such a structure was envisaged but not implemented, but in view of the substantive work of the Great Toronto Area task force it may well be only a matter of time before such a plan is revisited.

**Key words:** metropolitan government reform, economic base, Toronto

*"The economic dimensions of urban institutional change are particularly significant, since it is economic forces that are the source of many of the fundamental challenges" (Stillwell, 1999)*

### 1. Introduction

The topic of the Prague conference brings together three themes in the study of urban government: the changing role of urban government in local economic development: the growing importance of city regions in the global economy; and the distinctive needs and circumstances of capital cities. The primary purpose of this paper is to contribute to the first two of these themes by discussing the economic dimension of metropolitan government reform, focusing on the case of Toronto. The third theme is not entirely neglected, however, since although Toronto is not a national capital it is a provincial capital, which in a federal system carries some of the characteristics of a national capital; and also Toronto is now Canada's undisputed national metropolis, and so displays some of the economic characteristics of a capital city.

There is an abundance of literature on the first two themes and the need for response and change on the part of urban governments with regard to new economic challenges, but there is relatively little on how these challenges actually translate into proposals for

governmental restructuring in metropolitan areas. Developments in Toronto, however, provide an opportunity to contribute in this regard. In 1995 the Government of Ontario created a task force on the future of the Toronto region, and in 1996 the task force published its report (Greater Toronto Area Task Force, 1996), in which some prominence is given to the links between 'economic challenge' on the one hand and 'good governance' on the other. The report provides some useful insights regarding the governing of metropolitan government in today's economic climate, and it forms the basis for much of this paper. I begin with some general points concerning the new metropolitan economy and its challenges; then I discuss the task force and its report; and finally I offer some general conclusions that can be drawn from the report.

## **2. The changing economic structure and context of metropolitan areas**

In an earlier paper (Barlow, 1993) I argued that the economic context of cities had begun to change in ways that would affect governance, and create a new case for metropolitan government. In particular I referred to globalization, economic restructuring, and the international scope of inter-city competition. In a subsequent paper (Barlow, 1997) I added the suggestion that new patterns of metropolitan growth were also becoming an important factor in relation to governance. Between the late-1980s and the end of the 1990s, there emerged an abundance of literature on these and other changes in the economic structure and context of metropolitan areas. Here I will be brief, and simply highlight some main points that are relevant to governance.

1) *New patterns of metropolitan development are occurring.* The two-tier model of metropolitan government was developed with reference to a mono-centric metropolitan structure, characterized by extensive urban growth around a central core and by a radial pattern of transport and communication. In recent years, however, a new form of metropolitan development has emerged. Metropolitan areas are becoming structured around several nodes of economic concentration, among which there is a multi-centered pattern of transport and communication needs, and around which there is an amorphous pattern of growth over great distances (see for example Garreau, 1991; Sudjic, 1993; Rybczynski, 1995).

2) *Metropolitan regions are increasing in importance as economic units.* The emergence of a global economy is reducing the importance of international boundaries and national economies, and in relative terms regions and regional economies are becoming more important. City-regions and metropolitan regions are part of this trend – (see for example Ohmae, 1995; Pierce, Johnson, and Hall, 1993).

3) *The nature of inter-city economic competition is changing.* Competition for economic activity has always been a factor in urban growth and development, but the scale and spatial context of competition have been transformed by globalization and by the economic integration of groups of states. Cities now compete internationally, in relation to a global economy and in relation to the enlarged economic spaces created by transnational integration – (see for example Fry, Radebaugh, and Soldatos 1989).

4) *The employment structure of metropolitan areas is changing.* Key sectors of the global economy are information-based and key processes are the communication and analysis of information. As a result there is a 'new metropolitan economy' characterizing successful cities in the global economy, which is becoming less labor intensive and more knowledge intensive. Demand for unskilled and clerical workers is decreasing while demand for more knowledge-based professional and analytical workers is increasing. Thus, paralleling changes in the 'work of nations' (Reich, 1994), there are changes in the 'work of cities' (Clarke and Gaille, 1998).

5) *Quality of life is increasing in importance as a location factor.* Many of the key activities in the global economy are not susceptible to traditional location factors, such as transport costs, labor costs, or proximity to materials, and increasingly there is a notion that for many firms there are certain operations and activities that can be located 'virtually anywhere'. In these circumstances, 'quality of life' factors are of great importance, and this leads to consideration of such matters as amenities, public safety, and environment.

Many of the changes are related to globalization of course, and some of the early studies on the impact of globalization on cities implied that urban governments could do no more than react to, or adapt to, international corporate decisions and strategies. Later studies, however, argued that cities have some capacity to "to mediate and direct their own destinies" (Judd and Parkinson, 1990, p. 2), and it is in this regard that there is a significant role for urban government. As a result, urban governments have developed a stronger economic orientation and they have become more directly involved in local economic development. At the same time, their role in planning and in providing infrastructure and public services has become more directed towards improving economic competitiveness. And it is in this climate of concern for economic competitiveness that there has been a renewal of the debate on metropolitan government.

### **3. The Greater Toronto Area task force**

#### **Background**

For much of the period since World War II Toronto has been viewed around the world as a model for metropolitan government. In 1954 a two-tier structure of government was created, by establishing an area-wide municipality (Metro Toronto) and retaining the existing local governments as the lower tier. Subsequently, as new issues emerged the system was reviewed a number of times and further reorganizations and adjustments occurred: for example in 1967 the lower tier units were restructured and reduced in number, and in 1988 Metro Toronto's council became a directly elected body. One thing that did not change, however, was the area and boundary of Metro. As urban growth extended beyond the boundary, the provincial government, rather than enlarging Metro Toronto, chose to establish four 'parallel' two-tier structures in the surrounding area.

Metro Toronto itself flourished, and was a major factor in the emergence of a livable city, a city that works, and a city which effectively deals with area-wide problems and

issues. Its achievements in fields such as education, public transport, and planning were widely acclaimed. With the exception of London, it was probably the most written about metropolitan government and most widely cited model for reorganization and reform. Indeed, it has been described as “a jewel in the crown among metro authorities around the world” (Sharpe, 1995).

The issue of Metro Toronto’s boundary in relation to the larger extent of urban growth was highlighted in the late-1970s, when a review commission recommended the creation of an agency to coordinate some of the activities of Metro and its neighboring upper-tier regional municipalities. Nothing was done immediately, but eventually in 1988 the provincial government created the Office of the Greater Toronto Area, primarily to coordinate planning across the metropolitan region. Essentially this was a provincial agency, staffed by provincial officials, serving to coordinate the work of several provincial departments and the upper-tier municipalities. One result was that it served to introduce and nurture the idea of the Greater Toronto Area (GTA) as a regional entity.

By the early-1990s this idea of a large metropolitan region had become sufficiently established to cause the provincial government to set up a task force in response to growing concerns about the region’s future and the need for an appropriate government structure. The task force reported in 1996, and its report very much reflects current debate on metropolitan government, and it serves as an excellent example of how reform is now driven primarily by economic needs.

#### **The review area**

The area reviewed by the task force covered 7200 sq. km., more than ten times the size of Metro Toronto, and contained a population of approximately 4.5 million. Its governmental structure consisted of 5 two-tier structures, containing a total of 30 lower-tier municipalities. The area accounted for about 40 percent of Ontario’s population, and approximately 20 percent of Canada’s economy. The task force considered that the geographical extent of the area was sufficient to include a region in terms of commuting (“the web of commuting patterns that help delineate an economic region”), cohesiveness (“the sense of relationship and common citizenship that transcends local boundaries”), and anticipated development (“areas of future urban development that need to be taken into account in the planning and management of growth”). According to the task force “Greater Toronto is no longer merely a geographic area, but a powerful, single economy, an interdependent planning unit, and an emergent political jurisdiction” (p. 25).

#### **The challenge**

The task force acknowledged the successes and achievements of Metro Toronto, and the fact that in today’s economic context Toronto is widely held to be a successful city and an attractive location for business. This highly positive feature of Toronto was confirmed by several ratings and surveys. According to one survey it was the fourth best urban region in North America; according to another it was the fourth best city in the world in terms of quality of life; *Fortune* magazine rated it the eighth best city in the world in which to do business and the safest metropolitan area in North America; and in a survey of

American-based international location consulting firms it was described as North America's most livable international city.

So why is there concern about the future? It stems from new challenges arising in connection with the global economy. While some of the traditional issues of metropolitan government reform, such as boundary anomalies and fragmentation problems, are still of some concern in Toronto, there are new ones. Two quotations from the task force report serve to indicate what they are: today's main challenge is for the GTA "to reinvent itself into a city-region that is economically and socially sustainable in today's global context" (p. 34); and there is a critical need for the area to be a "place where people and businesses that can choose to be anywhere, will choose to be" (p. 34). Underlying these statements is the notion that a city's economic future is very much dependent on its place in the global economy and on its success in attracting the increasingly footloose elements of that economy.

In this regard, the report argues that Toronto is faced with a number of serious problems, all of which have a bearing on governance.

- An inequitable tax base within the region
- Outdated infrastructure
- Inefficient urban development patterns
- Outdated municipal legislation
- Fragmented economic development efforts
- Inadequate government structure

### **The GTA economy**

The task force recognized the need to base recommendations on a thorough understanding of the area's economy. It commissioned a detailed study by a leading consulting group (Boston Consulting Group, 1995), which outlined the new economic context of metropolitan regions in general and evaluated Toronto's position in that regard. The study drew largely from literature on several topics well-documented in the social sciences: the national economic importance of cities, the distinctions between basic and non-basic economic activities in cities; the concept of city-region; the interdependence of city and suburbs; and the growing international importance of city-regions (for example, Castells, 1989; Jacobs, 1984; Sassen, 1994; Savitch, 1993). The consultants also conducted interviews with firms and governments, and carried out a benchmarking study involving other North American city regions.

The study argued that while Toronto had recovered from the recession that occurred in the 1980s, its rate of economic growth was slower than that of other North American cities, its employment growth was less than overall economic growth and was unable to absorb workforce growth, and there was some out-migration of firms from the GTA to other cities and regions. This, I suggest, reflects general trends regarding the economic situation of cities in relation to the global economy, specifically the following.

*Economic restructuring due to transnational economic integration.* When neighboring countries embark on the process of economic integration, a single economic space is

created, which becomes a new geographical framework for business location decisions. This leads to spatial restructuring within each of the countries, as some cities lose their locational advantages and others gain. According to the Toronto study, a major factor in the area's sluggish growth after the 1980s' recession has been spatial restructuring resulting from the Canada-United States Free Trade Agreement.

*The shift from labor intensive sectors to knowledge intensive sectors of the so-called new metropolitan economy.* The Toronto study suggests that this is the main reason why employment growth is lagging behind overall economic growth.

*The increasing geographical scope of promotional efforts of urban and regional governments.* This is a major factor in the out-migration of firms from Toronto. The study found that numerous American states have offices in Toronto engaged in attracting firms away from the area.

### **Key sectors of the GTA economy, and their needs**

The task force report notes that, compared to other North American cities, Toronto's economic base is well-balanced between manufacturing industry and the services sector, and suggests that this can be considered a source of diversity and stability and as a factor of competitive advantage when seeking to attract new businesses. In manufacturing the main sector is the automobile industry (with an annual growth rate of approximately 11 percent), in which Toronto ranks second in North America (behind Detroit); and in services a key component is corporate headquarters offices, in which Toronto ranks third (behind New York and Chicago). Both these sectors have come to prominence at least in part due to external factors. The importance of the automobile industry is explained in relation to the traditional concentration of American branch plants in Ontario and in connection with the Canada – United States Auto Pact which in the 1950s established an integrated North American space for automobile production. The importance of the corporate headquarters function derives largely from the relative decline of Montreal as Canada's national metropolis, particularly since the mid-1970s. The continuing success of both these sectors depends on a number of factors, some of which can be determined by institutions of metropolitan governance.

Most of the large automobile manufacturers have factories in or near Toronto and, together with a variety of automobile parts suppliers, they constitute a large and intricate industrial complex. The task force found that there are some serious concerns regarding the future of the industry. The largest assembly plants are approaching the end of the normal life-cycle for such operations and will soon need refurbishing for new models, and at the same time major investment decisions regarding the North American industry as a whole are expected in the next few years. The report argues that Toronto could well lose out to other cities, particularly in the southern United States, because of high labor costs, a high tax burden, a more stringent regulatory environment, excessive bureaucracy and red tape in connection with planning and building permits, and increasing highway congestion that adversely affects the movement of supplies and components within the region. At least some of these factors are within the control of urban governments, and one that is very closely related to metropolitan government is the problem of highway congestion. The automobile assembly industry is the prototype of post-Fordist production and it is a good

example of an industry that relies on 'just-in-time' deliveries. This creates a need for good transport infrastructure within the metropolitan region, and it is a requirement that involves one of the main functions of metropolitan government institutions and agencies.

In the services sector, technological change is making it easier for firms to move some of their operations, such as call-centers and clerical functions, away from large cities to lower-cost locations. In the case of Toronto several large firms have moved such operations out of the region, notably to the Atlantic Provinces (mainly Nova Scotia and New Brunswick). However, there are other operations, requiring proximity to clients, competitors, or related services, and requiring highly skilled professions, that continue to be anchored in the central core of the GTA. The report argues that in order to sustain this key sector of the GTA economy, the chief requirement is "to maintain a high quality, high density, downtown office core, where there is a critical mass of ancillary services" (p. 57). This has implications for planning and transport provision at the metropolitan scale, and there are broad area-wide ramifications involving quality of life factors in relation to those who work in the central core but live in other parts of the region.

### **What governments can do**

The report recognizes that there are severe limits to what urban governments can do with regard to economic development, since so much is determined by general economic trends and by the global restructuring strategies of individual firms, and much of the tax and regulatory environment is determined by higher levels of government. However, reflecting current academic wisdom, it argues that they can be proactive rather than simply reactive, and suggests that there is considerable scope for action. The report highlights five ways in which urban governments can 'lever' economic growth in the GTA.

*Investing in infrastructure.* For example, highway infrastructure needs to be improved in order to allow transport-dependent clusters to compete on time as well as on cost and quality and to allow shipments within the automobile cluster to cross the GTA in under 90 minutes.

*Investing in human capital.* For example, it is necessary to maintain a high quality public school system throughout the GTA in order to nurture a well-educated and trained workforce, a key factor in economic competitiveness.

*Sustaining quality of life.* For example, the vitality, attractiveness, and safety of the downtown core needs to be maintained.

*Attracting and retaining investment.* For example, there is need for a focused approach, based on existing key sectors rather than new ones.

*Organizing economic development for competitiveness.* For example, there is a need to coordinate and strategically direct the multiplicity of efforts on the part of public and private institutions.

## Recommendations and proposals for governmental restructuring

In its consideration of government structure, the report argues that the two-tier system has served Toronto well, and that it should continue to be the model for reform. However, a new two-tier structure is needed to meet today's economic challenges, and the task force envisaged a larger but 'lighter' metropolitan tier and a lower tier consisting of strengthened municipalities. Its report points to duplication of services, overlapping jurisdictions, complexity and confusion, and inefficiency as the main weaknesses of the existing structure, and suggests that once again it has become necessary to consider the question of how responsibilities should be allocated to levels of government and to special-purpose bodies. This echoes the metropolitan government debate of earlier times, but in addressing the question the report reflects the changed nature of the debate by recognizing three needs.

- the need for a significant provincial role in metropolitan governance
- the need to consider whether some services might be better provided in the private sector
- the need for municipalities to be more flexible in service delivery

The first of these, I suggest, indicates the 'capital city' nature of the Toronto situation. The provincial government is in effect central government, and Toronto is the province's primate city and its seat of government. These circumstances create a situation in which it is arguably desirable for central government to be more directly in urban governance. The second and third of these needs relate to the 1990s' issue of reinventing government at the local level by creating and developing 'enabling authorities' and 'entrepreneurial municipalities'.

The report argues that a regional government is needed mainly to coordinate the following: planning, investment in infrastructure, economic development, and environmental protection. While coordination could conceivably be enhanced through inter-municipal agreements or by expanding Metro Toronto, the task force felt the best option was to replace the five existing regional governments with a new Greater Toronto authority having a more limited functional scope. The notion of a 'more streamlined' metropolitan authority perhaps parallels recent developments in London, vis-a-vis the new Greater London Authority compared to the old Greater London Council. The creation of such a body would open up possibilities for strengthening municipalities by expanding their functional role; indeed, the report argues that the GTC should have responsibility only for services that are crucial to economic competitiveness, or which require planning and coordination on a regional basis, or which cannot be provided adequately by municipalities.

In its concern for the regional role in economic development the task force drew attention to the existing fragmented nature of government efforts in this regard; "federal, provincial, and municipal governments are tripping over one another in their separate efforts to boost economic competitiveness" and "often, governments end up competing against one another" (66-67). It found, for example, that there were approximately 700 widely dispersed provincial government programmes related to economic development in the GTA, and that 25 of the 30 municipal governments had all-encompassing economic



development efforts, and that “the lack of coordination in business attraction results in subscale operations that provide little opportunity to develop specialized marketing expertise” (67). One interesting suggestion in the report is that in a two-tier structure, business attraction and promotion efforts are best carried out at the regional level, while business retention efforts are best left to municipalities.

Research undertaken for the task force produced some useful data on the GTA’s fragmented economic development efforts in terms of budgets and staffing, and the report argues that when compared to ‘best-practice’ North American cities the consequences put Toronto at a serious competitive disadvantage. For example, when firms are short-listing potential sites for new development they need comparative data relatively quickly and this is not easily obtained in the GTA. Best-practice cities point to the need for a public-private partnership institution to market and promote the region, to monitor changes and trends in the region’s economy, and to be a repository for regional economic data and research.

Economic development and economic competitiveness concerns are also the driving factor in the report’s recommendations regarding the regional role in planning and infrastructure and environmental protection. For example, with regard to planning it emphasizes the need to maintain the viability of the high-density core in connection with the corporate office sector; with regard to infrastructure, a main priority is transportation infrastructure in connection with the ‘just-in-time’ needs of the automobile industry complex; and with regard to environmental protection the goal is to sustain Toronto’s quality-of-life competitive advantage.

Concerning the lower tier, the report recommends retaining the existing 30 municipalities. The task force envisaged municipalities that would be stronger in a number of respects: they would have an expanded service role; they would be able to focus more on policies and standards with regard to service provision rather than on operations; they would become more cost effective; and they would have more autonomy. The expanded role would derive mainly from the addition of responsibilities transferred from Metro Toronto and the other upper-tier governments, largely in connection with people-related services such as public health and social services. The ability to focus on policies and standards in service provision would be enhanced by allowing municipal governments engage in ‘steering’ rather than ‘rowing’, terms used in the literature on reinventing government (Osborne and Gaebler, 1992), leaving some of the latter to contracting out or other forms of privatization. Greater autonomy would be achieved by the introduction of a new Municipal Act by the provincial government. This would be more permissive with regard to such matters as contracting out and developing public-private partnerships, and would give municipalities “more flexibility and freedom to operate in, and adapt to, the changing economic environment” (157).

#### **4. Generalizations drawn from the GTA task force report**

It is important to note that the main proposals for government restructuring were not implemented. While the provincial government accepted and carried out many of the recommendations regarding economic development issues, it took an entirely unexpected course of action on government reorganization. It amalgamated the lower-tier units of

Metro Toronto to form an enlarged City of Toronto, now often referred to as megacity, and abolished Metro. As a result the GTA now contains one single-tier government and four two-tier systems. Also a Greater Toronto Services Board has been created, to act as a coordinating body. It should be pointed out that this restructure was not based on any review or report, but seems rather to have been a matter of political expedience, somewhat similar to the abolition of the Greater London Council in 1986.

Although the two-tier system recommended by the task force was not implemented, its report can still be regarded as an important document. It puts the question of how metropolitan areas can best be governed in the context of current needs with regard to economic development and competitiveness. It contains much that can be used elsewhere and it illustrates a number of generalizations, some of which are as follows.

1) Factors that determine a city's economic competitiveness today are not necessarily the same as in the past. This applies on a general level (eg: the growing importance of quality of life factors) and in specific geographical contexts (eg: changing spatial frameworks as neighboring countries integrate their economies).

2) Economic development efforts need to take into account the fact that economic growth and employment growth are not always as closely related as in the past, and that much of the employment growth that does accompany economic growth contributes to polarization in the employment structure of a metropolitan area.

3) Two key weaknesses of fragmented government in relation to economic development are fragmented planning and fragmented efforts with regard to promoting development.

4) The various parts of a metropolitan area constitute a shared economy. A city and its suburbs continue to be interdependent, and this interdependence now exists over a wide area, in effect the concept of city-region writ large. Also, in spite of the fact that the central core may be just one of several economic nodes, its vitality is critical to the economic prospects of the region as a whole.

5) In seeking to attract and retain business firms, urban governments should focus on existing strengths (established sectors rather than new ones) and on clusters (firms that are part of a cluster rather than firms that stand alone).

6) The cornerstones of a city's economic competitiveness are infrastructure (transport and communications), human capital (education and health), quality of life (safety and amenities), and effective government (strategic metro coupled with flexible local). The first three of these suggest directions and priorities for action on the part of urban government, while the fourth suggests an organizational structure for urban government.

## **5. Conclusion**

In the 1980s there was a marked retreat from metropolitan government, as in several countries metropolitan authorities were either weakened or abolished. However, during the

1990s the idea of metropolitan government regained strength, largely in connection with concerns related to economic development and competitiveness. As in the past 'rationality' points to the two-tier model as the basis of reform, although it needs to be recognized that 'politics' is giving new life to the consolidation model.

Given the continuing conceptual appeal of the two-tier model, two fundamental questions remain the same as before. What should be the territorial extent of metropolitan government? And what is the appropriate functional scope of each of the two levels of government? What has changed is the context in which these questions are being asked, and it is a context in which economic considerations predominate. In this new context there is need on the one hand for large-scale units that can be global players, and on the other, for small units that can be flexible and responsive. This leads to reorganization proposals for a two-tier system in which the upper-tier body is very large in area but light in functions, and the lower-tier units are fashioned along the lines of 'reinvented government'. In the case of Toronto, such a structure was envisaged but not implemented, but in view of the substantive work of the GTA task force it may well be only a matter of time before such a plan is revisited.

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## EKONOMICKÁ DIMENZE METROPOLITNÍ SAMOSPRÁVY: NOVÉ REFORMNÍ NÁVRHY V TORONTU, KANADA

### Résumé

Příspěvek diskutuje měnící se roli městských samospráv ve vztahu k lokálnímu ekonomickému rozvoji a k rostoucímu významu metropolitních regionů v globalizované ekonomice a hodnotí ekonomickou dimenzi reformy metropolitní samosprávy v případě Toronta. Toronto není hlavní město státu, ale má ve federálním systému Kanady určité charakteristiky hlavního města a je nyní rozhodně národní metropolí země. V tomto kontextu národní metropole je potřeba vytvořit územní samosprávné jednotky velkého měřítka, které jsou schopné hrát roli globálních hráčů. Na straně druhé je však rovněž zapotřebí vytvořit menší jednotky, které jsou schopné fungovat flexibilně a citlivě na místní úrovni. Tento závěr vede k návrhům reorganizace směřujícím k zavedení systému dvou úrovní, ve kterém na vyšší řádovostní úrovni je velká jednotka s malým počtem funkcí a na nižší úrovni jsou jednotky přizpůsobené zásadám „posílené samosprávy“. V případě Toronta se taková struktura připravovala, ale nebyla zavedena. Avšak dle výsledků práce speciálního týmu regionu Velkého Toronta lze očekávat, že je pouze otázkou času než toto řešení bude opět vybráno jako hlavní struktura potřebné reformy místních samospráv.