

GLOBALIZATION DOES NOT REQUIRE AMALGAMATION

Most people seem to regard it as self-evident that every city-region needs a single municipal government. But if, as most people understand intuitively, large-scale private-sector monopolies are inefficient and inattentive to the needs of consumers, why assume that large-scale public-sector monopolies would be efficient and attentive to the needs of citizens? It is true that some public services — water supply, for instance — usually can be provided more efficiently on a large scale. But nothing prevents small municipalities from pooling their resources for specific purposes, and there are many examples, within Canada and throughout the world, of their doing so.

La plupart des gens acceptent comme allant de soi que chaque ville-région n'ait qu'un seul gouvernement municipal. Mais, si les grands monopoles du secteur privé ne sont pas efficaces et servent mal les besoins des consommateurs comme la plupart des gens le savent instinctivement, pourquoi penser que de tels monopoles dans le secteur public seraient plus efficaces et soucieux des besoins des citoyens ? Il est certes vrai que certains services publics, comme l'approvisionnement en eau, peuvent en règle générale être offerts de façon plus efficiente sur une grande échelle. Ceci étant admis, rien n'empêche de petites municipalités de mettre en commun leurs ressources pour répondre à des besoins bien précis. Cette façon de procéder a déjà cours dans de nombreuses régions au Canada et ailleurs dans le monde.

Andrew Sancton

Does globalization require that we restructure municipal government within our city-regions? Though many people in Canada seem to think so, the answer to this question is in fact far from obvious — even if we acknowledge that globalization increases the importance of city-regions within the world's economy, and that investors are increasingly likely to compare the attributes of city-regions in different countries as they make their investment decisions. Nevertheless, armed with what they seem to regard as self-evident truth, some Canadians go on to make claims about the need for systems of municipal government to adapt to this increasingly competitive environment. Such claims have been especially evident in Canada



in recent years and have affected provincial policy-makers in virtually all provinces.

Many Canadian politicians and commentators simply assume that municipal governments should represent city-regions in global competition. In a political sense, it is of course true that the mayor of Montreal, for example, represents his city (and even the suburban area formally beyond the territory of his jurisdiction) to the outside world. It is also true that Montreal has many municipally-employed economic development officers, the preservation of whose jobs compels them to present themselves as local champions.

In fact, anyone who thinks seriously about Montreal's competitive position in the world economy realizes that whatever the mayor and his economic-development officials do pales in importance when compared to such factors as access to customers and

suppliers, political stability, labour-force skills, corporate and personal income-tax levels, and proximity to good ski hills. These are key factors about which municipal government can do very little, if anything.

On the other hand, it is true that systems of municipal government can determine levels of some forms of taxes and can play a major role in nurturing the quality of urban life. For some investors, these factors will be very important. Determining how municipalities can best be structured so as to optimize a city-region's competitive position is therefore a crucially important issue.

Many Canadians seem to consider it dysfunctional, almost as a matter of definition, for many municipalities to exist within a single city-region. For some, such a state of affairs seems obviously inefficient: Local taxes will be higher than they need to be given the level of services; the problem can be solved by municipal amalgamation. We shall return to this reasoning later.

Others see a different kind of problem. Ontario's Liberal opposition leader, Dalton McGuinty, has been quoted recently as saying that the Ottawa-Carleton region can only compete in the global marketplace as one city: "We have to develop a critical mass here in Eastern Ontario so we can weigh in and be seen to be competitive ... If we are going to have some sort of impact, if we're going to put a dent on the global economy, we need to have a large enough critical mass and the only way to that is with one city."

Unless one assumes that investors and entrepreneurs need populous municipalities (not just populous city-regions) in which to grow their businesses, such reasoning simply does not make sense. No one who has studied the competitiveness of global cities has ever suggested that city-regions with fewer municipal governments representing larger populations are better off than those with more governments representing smaller populations.

For the last decade, the United States has been universally acknowledged to be both driving and leading the globalization process. In fact, global competition usually means competing with Americans. Whatever our judgments about American city-regions, somewhere within their grimy inner cities or their suburban industrial parks can be found the territorial source of American global competitiveness. But most American city-regions comprise scores of municipalities. Is the Chicago city-region uncompetitive because it contains more than four hundred separate governments? Simply to ask the question demonstrates the absurdity of Mr. McGuinty's position.

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Despite their recent economic success, Americans are concerned about the need to establish regional institutions for their cities. They realize that centre-cities and suburbs cannot continue on as though the other does not exist. Some American experts have recognized for a long time that, when it comes to regional governance, Canada has had much to teach the United States. In the 1950s and 1960s the Municipality of Metropolitan Toronto showed how an upper-tier metropolitan government could use the wealth of the central city to build much-needed suburban infrastructure. In the 1970s and 1980s the Montreal Urban Community demonstrated how the well-off residents of suburban municipalities could be forced to share the high costs of policing the central city. Since the late 1960s, the Greater Vancouver Regional District has been a North American model for developing innovative forms of intermunicipal cooperation.

In short, in the past few decades Canadians have had little to learn from Americans about the municipal governance of city-regions. In recent years, however, things have changed. In Ontario and Quebec there has been constant pressure to make upper-tier municipal institutions more accountable through direct election. Where this has happened — notably in Metropolitan Toronto and in Ottawa-Carleton — battles between the tiers were exacerbated. Each level fought for supremacy. In 1998 the Municipality of Metropolitan Toronto was no more, replaced by a newly-amalgamated city of Toronto. The same could well happen in Ottawa. Montreal is now experiencing its own version of the same debate.

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municipal amalgamations and the relative merits of one-tier or two-tier systems. This is because their politicians have acknowledged that structural change is simply not possible, except in the most unusual of circumstances. Unlike Canadian provinces, state legislatures will not or cannot act without local approval — which is not forthcoming because either white suburbanites or African-American central city residents, or both, see their political strength threatened by any plan to change municipal boundaries or to establish a new level of government.

Such structural deadlock has prompted other forms of action, usually involving public-private partnerships that bring suburban and central-city interests together. Success stories are numerous — and have been well documented — but they have rarely been duplicated in Canada. Instead we continue our endless debates about municipal structures.

In his recent plea to create one municipality for the island of Montreal, the city's mayor pointed to Boston as a model, apparently in complete ignorance that his municipality was already twice as populous as that governed by the mayor of Boston. Montreal and other Canadian cities do indeed have much to learn from economic development in Boston's suburbs and from the rebuilding of its downtown infrastructure. But, as long as we are consumed by our structural debates, such learning is unlikely.

The private sector in Canada and elsewhere usually calls for less government. The Ontario government has responded in part to such pleas by reducing the number of governments and the number of politicians. That there should be confusion between *less* government and *fewer* governments is a shameful commentary on our political, if not our general, literacy.

Reducing the number of municipalities has nothing to do with reducing the size of government. Reducing the number of local politicians can only have one result: insuring that a higher proportion of local councillors are full-time politicians. If such people are not well paid, the inevitable result will be that municipalities will be governed by people who are either retired, supported financially by someone else, independently wealthy, or unable to obtain more lucrative employment.

Is there a relationship between the level of municipal expenditures and the number of municipal governments within a city-region? This is a matter for empirical investigation. Studies conducted mainly in the United States fail to produce evidence that the existence of fewer municipalities reduces spending.

Granted, we are already hearing from Ontario's recently amalgamated municipalities that there have been massive savings. In most cases, however, including the newly-amalgamated city of Toronto, few, if any, collective agreements have been negotiated between the new municipality and the new union locals. As a result, we do not yet know whether pay scales will be raised to those that were the highest within the pre-existing municipalities,

thereby cancelling out the savings that do result from amalgamation. Common service levels — for fire protection, for example — have yet to be fully determined. Until we know all the outcomes of the amalgamation process, it is irresponsible for anyone to make claims about the savings or, for that matter, the additional costs resulting from any particular amalgamation.

What about the argument that amalgamations save money by eliminating overlap and duplication? Just as the merging of Air Canada and Canadian Airlines could save money, so too can the merging of various groups of municipalities. But in contemplating the cre-



GARNOTTE: LE DEVOIR

ation of an airline monopoly, we all know the potential future problems: higher fares, lower service levels; lack of choice. Why do so many policy-makers not foresee the same problems with gigantic municipal service-providers? Why do those who favour competition in the private sector attempt to stamp it out when they confront issues relating to municipal organization?

Those who observe innovation in the private sector are quick to praise an environment in which small, specialized companies are constantly emerging to develop new ways of meeting customers' needs. Just because many are in competition with each other and because each hires its own executive team does not mean there is wasteful overlap and duplication. Having many municipalities in a metropolitan area means that potential investors and residents can choose from among a mix of different service levels and tax rates. In such a system, people are much more likely to get what they want. Advocates of gigantic municipal mergers seem totally to ignore this kind of allocative efficiency.

No one disputes that some municipal functions — water-supply systems, for example — are generally more efficient when they service larger numbers of urban residents. It makes no sense for each municipality in the same metropolitan area to establish its own separate water-supply system. But this does not mean they all need to merge into one. There are numerous alternatives: Larger municipalities with access to water can sell to smaller ones and/or to those without access to water; a local special-purpose body for water can be established; water can be provided by a centrally-regulated private company or by an agency of the central government.

If more formal arrangements are preferred, an obvious alternative to amalgamation is that an upper-tier metropolitan government be established to provide water and other services that benefit from economies of scale. As we have seen, Ontario and Quebec have been world leaders in establishing such multi-purpose upper-tier authorities (although it is significant that because a pre-existing network of intermunicipal contractual arrangements is relatively efficient the Montreal Urban Community has never become involved in water supply). In Ontario, however, the two-tier systems remain under intense pressure because they are seen as a particularly obvious example of “too much government.” So far — as we have seen in Toronto — the preferred remedy is to abolish their constituent municipalities.

Bucking the trend in Ontario, Quebec's government apparently aims to establish a powerful directly-elect-

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ed upper-tier authority for almost all of Montreal's census metropolitan area. Since virtually none of the affected municipalities favour such an arrangement, and since the political base of the current government is in the outer suburbs which are most opposed, the politics of this issue will be fascinating to observe over the next few months. The government seems to have decided against forced municipal amalgamations in the Montreal area, apparently because the ramifications for linguistic arrangements in almost any such amalgamation are too complicated and politically explosive. In fact, the linguistic factor, rather than any great difference in theories of governance, may explain why Quebec is opting for a quite different solution for Montreal than Ontario chose for Toronto.

Of course, the Quebec government might well claim that it is simply following Tony Blair's policy for local-government restructuring in London. Britain's Labour government is in the process of re-establishing an upper-tier authority that had been dismantled by Margaret Thatcher. There are three crucial differences between Montreal and London, however:

- 1 Unlike Montreal, London has no strong central-city municipality. The old city of London covers a tiny territory and is little more than an antique relic.

- 1 The new arrangements for London have already been approved by referendum, while there are no such referendum plans for metropolitan Montreal.

- 1 The political head of the new authority is to be directly elected in London (and to be called “the mayor of London”) while the equivalent position in Montreal is likely to be indirectly elected by members

of the metropolitan council, thereby assuring that the new position's political legitimacy is unlikely to rival that of Quebec's premier.

While the Quebec government struggles to establish a new level of metropolitan government, a quite different kind of institution is emerging within the Greater Toronto Area (GTA). The Greater Toronto Services Board (GTSB) came into existence with relatively little fanfare on 1 January 1999. Its functions are to advise on coordinated infrastructure development and to manage commuter transit. It is governed by a 40-person board, comprising at least one representative from each of the constituent municipalities of the regions of Halton, Peel, York, and Durham, and 11 from the new city of Toronto. The chair of Hamilton-Wentworth region is a member for commuter-transit purposes. There is a system of weighted voting so as to promote representation by population.

It is far too early to judge whether or not the GTSB will have any impact on improving the quality of life in the Toronto city-region. An early worry is that the GTSB will be consumed by structural issues. It now appears that the Ontario government expects the

GTSB itself to sort out the difficulties caused by superimposing it onto existing two-tier systems within Halton, Peel, York, and Durham. Everyone acknowledges that a three-tier system of municipal government within the suburban GTA is simply not viable.

Toronto clearly will be more competitive in the global economy if the GTSB helps insure that investments in new roads, transit facilities, and sewer and water-supply systems are accomplished efficiently and rationally, where and when they are needed. But this task certainly does not require a single municipality for four million people. It probably does not require a directly-elected metropolitan government. If we are really interested in global competitiveness, our provincial and municipal leaders should be paying more attention to public-private cooperation and to encouraging the development of intermunicipal agencies such as the GTSB. They should be paying less attention to merging municipalities and establishing new levels of directly-elected metropolitan councils.

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MUNDELL ON GOLD

The total amount of gold mined since the days of Nefertiti is about 3.5 billion ounces (120,000 tons). One billion ounces is in the central banks, more than another billion ounces is in jewelry, and the rest is in speculative hoards. This last holding is why Alan Greenspan says he looks at gold whenever he gets a chance. I look at three things for signs of inflation in the economy: I look at the money supply, I look at interest rates, and I look at gold... The stock of gold in the world is going to maintain itself as a viable reserve asset for a long time to come.

But I do not think that we will see the time when either of those two great economic powers, the United States and the European Union, will ever again fix their respective currencies to gold as they have in the past. More likely, gold will be used at some point, maybe in 10 or 15 years when it has been banalized among central bankers, and they are not so timid to speak about its use as an asset that can circulate between central banks. Not necessarily at a fixed price, but a market price.

The more countries start to think about gold as an index, as a warning signal of inflation, the more the monetary authority will try to keep the price of gold from rising. Imagine that tomorrow the price of gold rises from \$350 to \$400. Don't you think that immediately the Fed will see that as a signal of an increase in inflationary expectations and the need to tighten? Europe has already done that. There are long periods when it appears that Europeans have been stabilizing gold whenever the dollar has been depreciating against gold. This will be a major factor in moderating the exchange rate fluctuations between these two great blocks. This is vital to Europe, because nothing could make Europe more uncomfortable than to have big fluctuations in the Dollar-Euro exchange rate. Looking at gold would be one way to circumscribe these fluctuations.

Robert Mundell, "Could gold make a comeback?", 1997